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BANK OF SLOVENIA

EUROSYSTEM

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A WORD FROM THE GOVERNOR

There were two significant anniversaries in 2016: on the one hand, the 25th anniversary of Slovenia's departure from dinar currency area and adoption of the tolar, and on the other hand, approach of the 10th anniversary of Slovenia giving up its own currency in favour of joining the euro area. During recent years of combating the consequences of the crisis, the fate of the euro has largely depended on non-standard monetary policy measures. These were again more important for the functioning of the euro area than the so-called *standard* measures in 2016. The euro area Member States varied in their acceptance of these measures and the austerity policy. Political polarisation and Euroscepticism, and even doubts about the benefits of the single currency developed side-by-side with current developments of the political climate. The direct and indirect effects on Slovenia of the non-standard monetary policy measures can be assessed as beneficial, and as having contributed to the long-term performance of the Slovenian economy.

A new cycle of growth has been evident for three consecutive years now, gaining further strength in 2016. The economic sentiment indicators are very good, and forecasts point to further improvements in its dynamics. Annual growth in employment exceeded 2%, while unemployment fell to around 8%. Domestic final consumption began to increase, and was the main engine of growth for the first time since 2008. The pace of export growth increased slightly, while towards the end of the year, the pace of import growth accelerated further still. Investment remained weak, on-account of continued contraction in government investment. Residential construction began to increase sharply, and a significant increase in infrastructure investment is forecast for the upcoming period. Despite the renewed growth in domestic demand, trade surplus and overall current account surplus remain very large, having widened further in 2016. In light of the above, and considering current government policies, the general government deficit is now within a manageable range. On the other hand, the balance of payments position does not support the frequent self-recrimination of spending more than we produce.

Work continued on deepening the integration processes, which have moved from the monetary union also to the banking union. The first pillar of the banking union, the Single Supervisory Mechanism, is already an integral part of our operations. I should like to emphasise once again that the Single Supervisory Mechanism, which tends to be equated solely with supervision by the European Central Bank, does not entail a lighter workload for the Bank of Slovenia. The introduction and tightening of uniform standards of supervision has increased the amount of work, with supervisors from the ECB working alongside our own supervisors. The latest endeavours of the Single Supervisory Mechanism extend into the organised and targeted elimination of the non-performing investments of banks in euro area countries. We can take pride in knowing that Slovenia's approach has become one of the models of good practice. Last year we undertook key actions in connection with the creation of the second pillar of the banking union, namely bank resolution, which aim to reduce the role of the state and increas the role of creditors through new resolution instruments. We also overhauled the deposit guarantee arrangements, as preparation for joining the potential third pillar of the banking union. With the establishment of the Central Credit Register, we made a significant contribution to credit risk management.

There were no events in 2016 that could have threatened the stability of the banking system. This is also expected to be the case in 2017.

The endeavours of the Bank of Slovenia reflect the work of all of its staff. Their performance depends significantly on reaffirming public understanding of the role and importance of the central bank.

Governor of the Bank of Slovenia
Boštjan Jazbec

1 INTRODUCTION

The Bank of Slovenia is the central bank of the Republic of Slovenia and shares responsibility with the Eurosystem[1] 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, which it realises through the implementation of the tasks set out in its annual financial plan.

The Bank of Slovenia[2] is under exclusive state ownership, with autonomy in terms of finances and governance; it independently disposes of its assets as a legal entity under public law.

1.1 Tasks of the Bank of Slovenia

The Bank of Slovenia performs a range of tasks as the central bank of the Republic of Slovenia and a member of the Eurosystem and the European System of Central Banks (ESCB).

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

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

[1] ECB, ESCB and Eurosystem: https://www.ecb.europa.eu/ecb/orga/escb/html/index.en.html
[2] Established by the Bank of Slovenia Act, which entered into force on 25 June 1991.

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. The objective of the ECB's main decision-making body, namely the Governing Council, is to maintain inflation close to but below the 2% mark over the medium term.

As a member of the Governing Council of the ECB, the Governor of the Bank of Slovenia actively participates in the formulation of euro area monetary policy. The Bank of Slovenia performs tasks in the area of monetary policy in accordance with the decisions of the Eurosystem's decision-making bodies.

The Bank of Slovenia provides loans to banks and purchases securities within the framework of Eurosystem monetary policy operations, manages the accounts of banks via which payments are transacted, and ensures that the banks are meeting their reserve requirements. The Bank of Slovenia is responsible for the general liquidity of the banking system.

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 the legal tender of Slovenia. It makes decisions regarding the issuance of banknotes and coins into circulation and their withdrawal from circulation, and supplies cash throughout Slovenia.

The Bank of Slovenia organises the supply of cash throughout Slovenia.

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

With the establishment of the Single Supervisory Mechanism (SSM) in 2014, the ECB assumed responsibility for the oversight of significant European banks, including three Slovenian banks. Operational supervision is conducted via joint supervisory teams (JSTs), the members of which are national supervisors, including the Bank of Slovenia. The Bank of Slovenia conducts direct supervision over the banks officially classed as less significant institutions.

The Bank of Slovenia co-designs, 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 attends to macroprudential supervision and addresses identified risks by means of macroprudential instruments.

With the aim of maintaining financial stability the Bank of Slovenia also acts as a lender of last resort, i.e. in exchange for eligible collateral it lends to a solvent bank or savings bank in liquidity difficulties.

1.1.5 Central Credit Register

The Bank of Slovenia manages the Central Credit Register, the central national database of the debts of individuals and business entities. The Bank of Slovenia helps to carry out tasks in the areas of monetary policy, financial stability, macroprudential supervision and risk management.

The Bank of Slovenia manages the central national database of the debts of individuals and business entities.

Part of the Central Credit Register consists of the systems for information exchange on the debts of individuals (SISBON) and business entities (SISBIZ), which allow lenders to improve their credit risk assessment and management processes.

1.1.6 Responsibility for deposit security and bank resolution (Sections 3.8 and 3.9)

The deposit guarantee scheme in Slovenia is operated by the Bank of Slovenia. The fundamental objectives of the scheme are protecting depositors, maintaining confidence in the banking system, and maintaining financial stability in the country. Deposits at an individual bank are guaranteed up to the amount of EUR 100,000 (certain groups of depositors are excluded). The Bank of Slovenia manages a special deposit guarantee fund.

The Bank of Slovenia also plays the role of the national bank resolution authority. It manages a special bank resolution fund, whose assets are earmarked for financing bank resolution within the framework of the extraordinary measures that can be imposed by the Bank of Slovenia.

1.1.7 Statistics (Section 3.11)

The Bank of Slovenia records, collects, processes and disseminates data and information, including statistical data and information that are related to the performance of its tasks and are important for the functioning of the monetary and financial system (monetary and financial statistics, external statistics and financial accounts statistics).

1.1.8 Other tasks

The Bank of Slovenia manages the official foreign reserves and other assets.

The Bank of Slovenia also performs other tasks (a selection of which is cited below):

- it holds and manages the official foreign reserves, including part of the ECB's foreign reserves, and other assets;
- it manages accounts and provides payment services for the Republic of Slovenia, government bodies and public sector 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[3], and the Bank of Slovenia Act.

1.2 Key regulations[4] for the functioning of the Bank of Slovenia

Laws:

The umbrella law for the functioning of the Bank of Slovenia is the Bank of Slovenia Act.

- Constitutional Law Relating to the Fundamental Constitutional Charter on the Sovereignty and Independence of the Republic of Slovenia

[3] https://www.ecb.europa.eu/ecb/legal/pdf/c_32620121026en_protocol_4.pdf

[4] The entire list is given on the Bank of Slovenia website under Laws and Regulations at http://www.bsi.si/en/laws-and-regulations.asp?MapaId=69. Regulations in the area of supervision are also given on the following link (in Slovene): http://www.bsi.si/nadzor-bank.asp?MapaId=2066

(Official Gazette of the Republic of Slovenia, Nos. 1/91 [I], 45/94 [I] and 11/14 [revision])

- Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version] and 59/11)
- Euro Introduction Act (Official Gazette of the Republic of Slovenia, No. 114-06)
- Banking Act (Official Gazette of the Republic of Slovenia, Nos. 25/15, 44/16 [ZRPPB] and 77/16 [ZCKR])
- Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13)
- Resolution and Compulsory Winding-Up of Banks Act (Official Gazette of the Republic of Slovenia, Nos. 44/16 and 71/16 [constitutional court decision])
- Bank Resolution Authority and Fund Act (Official Gazette of the Republic of Slovenia, Nos. 97/14, 91/15 and 44/16 [ZRPPB])
- Government Measures to Strengthen the Stability of Banks Act (Official Gazette of the Republic of Slovenia, Nos. 105/12, 63/13 [ZS-K], 23/14 [ZDIJZ-C] and 104/15)
- Deposit Guarantee Scheme Act (Official Gazette of the Republic of Slovenia, No. 27/16)
- Central Credit Register Act (Official Gazette of the Republic of Slovenia, No. 77/16)
- Financial Instruments Market Act (Official Gazette of the Republic of Slovenia, Nos. 108/10 [official consolidated version], 78/11, 55/12, 105/12 [ZBan-1J], 63/13 [ZS-K], 30/16 and 44/16 [ZRPPB])
- Investment Funds and Management Companies Act (Official Gazette of the Republic of Slovenia, Nos. 31/15, 81/15 and 77/16)
- Consumer Credit Act (Official Gazette of the Republic of Slovenia, No. 77/16)
- Prevention of Money Laundering and Terrorist Financing Act (Official Gazette of the Republic of Slovenia, No. 68/16)
- Financial Conglomerates Act (Official Gazette of the Republic of Slovenia, Nos. 43/06, 87/11 and 56/13)
- Mortgage Bond and Municipal Bond Act (Official Gazette of the Republic of Slovenia, Nos. 10/12 and 47/12)
- Payment Services and Systems Act (Official Gazette of the Republic of Slovenia, Nos. 58/09, 34/10, 9/11, 32/12, 81/15 and 47/16)
- Foreign Exchange Act (Official Gazette of the Republic of Slovenia, Nos. 16/08, 85/09 and 109/12)
- Commemorative Coins Act (Official Gazette of the Republic of Slovenia, No. 53/07)
- National Statistics Act (Official Gazette of the Republic of Slovenia, Nos. 45/95 and 9/01)

Key EU regulations (directly enforceable):

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

- Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions

- Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (OJ L 225 of 30 July 2014)

- Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201 of 27 July 2012)

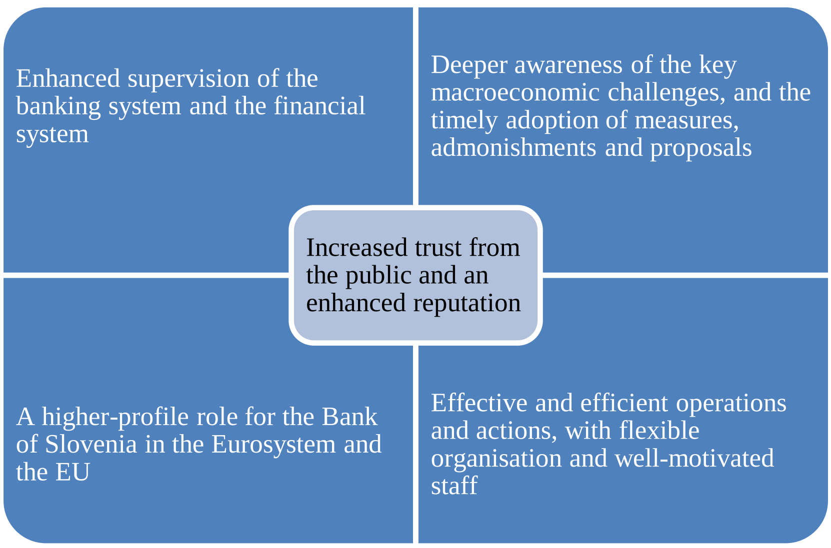
- Regulation (EU) No 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 (OJ L 337 of 23 December 2015, p 1)

1.3 Strategy of the Bank of Slovenia

The fundamental strategic document outlining the bank's objectives, values and development is the Strategy of the Bank of Slovenia 2015–2020,[5] which was adopted by the Governing Board of the Bank of Slovenia in October 2014.

The Bank of Slovenia's fundamental strategic document is the Strategy of the Bank of Slovenia 2015-2020.

Figure 1: **Bank of Slovenia's five strategic objectives**



[5] The Strategy of the Bank of Slovenia 2015-2020 is published on the Bank of Slovenia website under Bank of Slovenia – About Bank of Slovenia – Strategy (http://bsi.si/en/bank-of-slovenia.asp?MapaId=1295).

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

The Bank of Slovenia is completely independent in carrying out its duties, but at the same time as a public institution it is accountable to the general public and their elected representatives. The public's trust in the Bank of Slovenia and its reputation are founded on its expertise, its professional and political independence, its transparency and its decisiveness of action.

Motivated, mobile and well-trained staff are the foundation of the Bank of Slovenia's future development, and the basis for attaining its strategic objectives.

1.4 Realisation of priorities in 2016

1.4.1 Most important supervisory activities in 2016

Joint Supervisory Teams (JSTs), via which the ECB and the Bank of Slovenia conduct operational supervision of significant institutions (SIs), carried out their key planned supervisory activities in 2016.

The comprehensive assessment of Abanka confirmed the bank's adequate capital position.

Among the most important tasks was the **comprehensive assessment** of **Abanka** conducted as a result of its reclassification as an SI within the framework of the Single Supervisory Mechanism (SSM) as of 1 January 2016. The comprehensive assessment consisted of an asset quality review (AQR) and a stress test. The results revealed Abanka's capital position to be adequate.

Regular monitoring was conducted of compliance with the commitments to the European Commission deriving from state aid procedures at banks under government ownership, and the **first review was conducted of the recovery plans submitted by banks**.

In the **supervision of less significant institutions** (LSIs), in accordance with the joint supervisory standards, guidelines and recommendations issued by the ECB for the purpose of harmonising the supervision of LSIs, the **Supervisory Examination Programme** (SEP) for individual institutions was drawn up for the first time for 2016, and was mostly implemented. The **recovery plans of all LSIs in accordance with the joint supervisory standard** were also reviewed for the first time.

The Bank of Slovenia also **began using the IMAS supervisory tool** (Information Management for the SSM[6]) in the area of LSIs in 2016. This is used for SIs by the SSM, and has been adjusted slightly for LSIs. It is a particularly important aid to regular supervisory activities, and provides for a harmonised supervisory approach in all euro area countries.

The stress tests in 2016 were aimed at detecting key risks.

In 2016 the Bank of Slovenia again conducted **bottom-up stress tests of the banking system,[7] which have become part of its regular supervisory activities**. They covered all the less significant Slovenian banks, SID banka and the subsidiaries of banks under majority foreign ownership (NLB, NKBM and

6 Single Supervisory Mechanism.

7 In accordance with Article 100 of 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 (CRD IV); online at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:En:PDF

Abanka were included in the ECB tests). The general assumptions and methodology drawn up by the EBA for the pan-European stress tests in 2016 were taken into account in the stress tests. The stress tests were aimed at detecting key risks, and were used as one of the input parameters in the supervisory review and evaluation process (SREP[8]). **To put in place an effective and transparent stress testing process**, in 2016 the Bank of Slovenia simplified the forms for submitting stress test results, organised workshops for banks with a presentation of the methodology and set up a help desk system for communicating with banks, prepared expanded controls of input data and model forecasts, and conducted bilateral presentation of the stress test results.

The Bank of Slovenia required banks to submit plans for reducing non-performing loans over the 2017-2019 period.

The Bank of Slovenia continued its **efforts in the reduction of non-performing loans** (NPLs) in 2016. Action was organised via a special NPLs restructuring project, within the framework of which individual supervisory interviews were conducted with the eight most-exposed banks. The Bank of Slovenia required the banks to submit plans for reducing non-performing loans over the upcoming three-year period (2017-2019). There was successful participation in the ECB's NPL Task Force, while a detailed handbook for managing NPLs made to micro, small and medium-size enterprises (MSMEs) was drawn up in conjunction with the World Bank. Case studies and sample legal documents (contracts) form an integral part of the handbook, which was published in March 2017.[9]

At the level of the European Commission a special task force to **address the problem of the high NPL ratio at banks in the EU**, where Slovenia is represented by the Bank of Slovenia, began its work in mid-2016 (under the aegis of the Financial Services Committee). The task force has already drawn up an interim report on the burden placed on EU banking systems by non-performing loans, on their impact on financial stability and economic activity, and on examples of best practice for their resolution. The report cites Slovenia as one of the countries that has successfully reduced its NPL ratio. Later the task force will draw up proposals of possible measures and policies for reducing the NPL ratio.

The banks' NPE ratio declined from 11.4% to 8.2% in 2016.

Partly as a result of all of the aforementioned work, the stock of NPLs at the banks declined significantly last year. The ratio of claims more than 90 days in arrears to total classified claims at the banks declined from 9.9% to 5.8% in 2016. Taking account of the EBA's broader definition,[10] the ratio of non-performing exposures to total exposures in the banking system declined from 11.4% to 8.2% last year.

The Bank of Slovenia achieved the **majority of its objectives in the area of prevention of money laundering and terrorist financing (AML/CFT)** in 2016. A risk assessment from the perspective of AML/CFT was conducted at the level of individual institutions and the banking sector in 2016, and supervisory activities were conducted on this basis. There was also a successful realisation of activities within the framework of the Moneyval assessment (conducted by the relevant committee at the Council of Europe for the purpose of determining whether Slovenia is consistently complying with the FATF recommendations in this area). The following themes were to the fore in cooperation with the banking industry in 2016: the impact of the requirements of the new Prevention of Money Laundering and Terrorist Financing Act (the ZPPDFT-1)[11] on the implementation of existing procedures, the implementation of restrictive measures and the establishment of transactions with Iran after the withdrawal of

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8 The Supervisory Review and Evaluation Process is conducted annually at banks (annual prudential assessment). On the basis of the SREP risks are assessed at a bank, and appropriate measures are taken where necessary.

9 The handbook is available online at http://www.bsi.si/en/publications.asp?MapaId=2195.

10 The banks' non-performing exposures in accordance with the EBA definition are explained online at http://www.bsi.si/en/banking-supervision.asp?MapaId=1890.

11 http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7132

financial sanctions, and the requirement for asylum seekers to open a basic payment account.

Within the framework of the adoption of the **new** ZPPDFT-1, which entered into force in November 2016, to strengthen its collaboration with the competent authorities inside and outside Slovenia the Bank of Slovenia proposed the creation of a coordinating group for collaboration at the level of financial supervisors (Bank of Slovenia, SMA, ISA), but the proposal was not accepted. The Bank of Slovenia did however draw up a **memorandum of understanding with the Office for Money Laundering Prevention** in 2016, which will be signed in 2017.

The Bank of Slovenia is monitoring the banks' preparations for the changeover to the new IFRS 9.

Within the framework of the **preparations for the introduction of the new IFRS 9**, which will replace the existing IAS 39 on 1 January 2018, in 2016 the Bank of Slovenia primarily monitored the **banks' activities** in the preparations for the new standard, and received their initial assessments of the impact of the introduction of IFRS 9 on financial statements andown funds. On the basis of the initial data the Bank of Slovenia assessed that in general the greatest impact of the introduction of IFRS 9 could be expected to be an increase in impairments and provisions as a result of the changeover to the new model of expected losses, although a more detailed assessment at this stage of the preparations cannot be made yet.

1.4.2 Special Inspection Group (SIG)

In its two and a half years of functioning the SIG has investigated 76 cases (mostly pre-criminal proceedings by the police and state prosecutors) and four anonymous reports, has participated in the drafting of amendments to the Criminal Procedure Act and the Criminal Code, has prepared working material entitled *Proving the guilt of members of the management board and supervisory board of companies, and particularly banks, in criminal and civil cases*, which was submitted to government, the relevant ministries and 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, and has identified examples of patterns in breaches of banking legislation, which is important for subsequent supervision work, and in 2016 participated in procedures for licensing members of the management boards and supervisory boards of banks and savings banks.

After completion of the SIG's project work, the **activities are continuing within the framework of the Supervision Division**, as the long-term objectives of the SIG (preventive action in the sense of early warning of bad banking practice and unauthorised actions, and appropriate action) coincide substantively with and fall under regular bank supervision tasks.

1.4.3 Resolution and deposit guarantee scheme

In 2016 the Bank of Slovenia undertook the majority of its preparations and the first draft of **resolution plans** for the SIs (NLB and NKBM), which were given final approval by the Single Resolution Board (SRB).[12] At the same time it **put in place the first resolution plans** for two LSIs (Gorenjska banka and Delavska hranilnica). It also participated in the preparation of resolution plans for all of the international banking groups active in Slovenia; the first resolution plans have already been put in place.

In 2016 the Bank of Slovenia coordinated the payment of guaranteed claims to clients of Moja delnica BPH (in bankruptcy).

On the initiation of bankruptcy proceedings against the investment firm Moja delnica BPH d.d. (11 July 2016), the Bank of Slovenia[13] assumed responsibility

[12] For more on the Single Resolution Board, see online at https://europa.eu/european-union/about-eu/agencies/srb_en.
[13] In accordance with Article 466 of the Financial Instruments Market Act.

for the priority task of **coordinating the payment of guaranteed claims** to clients of the firm, and did so successfully.

Pursuant to the new Deposit Guarantee Scheme Act,[14] which has been in force since 12 April 2016, the Bank of Slovenia established a **special deposit guarantee fund** in 2016. The fund is financed by contributions from banks and savings banks established in Slovenia, the first contribution in the total amount of EUR 16 million having been paid at the end of 2016. The fund is required to reach its target level by 3 July 2024, in the amount of 0.8% of the total guaranteed deposits in Slovenia, or EUR 130 million with regard to the stock of guaranteed deposits at the end of 2016 (EUR 16.2 billion).

In accordance with EBA guidelines the Bank of Slovenia began carrying out **testing of the deposit guarantee scheme**, with the testing of the detailed identification of guaranteed deposits in the first phase.

1.4.4 Central Credit Register

The Central Credit Register has been established, with the aim of improving the management of credit risk.

In 2016 the Bank of Slovenia entirely realised the objectives in connection with the establishment of a central national database on the indebtedness of individual and business entities, the Central Credit Register (CCR), the two components of which are the electronic systems for exchanging information on the indebtedness of individuals (SISBON) and the indebtedness of business entities (SISBIZ).

The functioning of the two electronic systems (SISBON was joined on 3 January 2017 by SISBIZ) allows lenders to **improve credit risk assessment and management processes**, and contributes to responsible lending and the prevention of overleveraging by individuals and business entities. The CCR allows the Bank of Slovenia to be more effective in carrying out tasks in the areas of risk management, macroprudential supervision, monetary policy and financial stability.

1.4.5 Banknotes and coins

The new cash supply model has allowed the Bank of Slovenia to reduce the costs of its cash operations.

The Bank of Slovenia put in place a **new model for supplying currency to the market** in 2016. This provides for banknotes to be processed just once at the central bank, while damaged banknotes are destroyed in high-capacity banknote sorting machine, and it has also reduced the number of depot banks via which currency is supplied to the market. The Bank of Slovenia has thus automated banknote processing, has increased the number of banknotes processed and has achieved economies of scale, thereby **reducing the cost of cash operations**. The Bank of Slovenia intends to offer these banknote processing services to all major market participants in the coming years.

1.4.6 Corporate restructuring and deleveraging

It is evident from bank reports that there are several obstacles to the realisation of requirements from MRAs.

In 2016 the Bank of Slovenia **monitored and drew up regular analysis of the success of the implementation of master restructuring agreements (MRAs) on the basis of bank reports**. The total exposure of the monitored debtors in the banking system amounted to EUR 1.5 billion at the end of 2015, but had fallen to **EUR 1.3 billion** by the end of June 2016. It is evident from bank reports that there are several obstacles to the realisation of the requirements from MRAs, including slow ownership restructuring, a failure to achieve the planned business results, an ineffective process of divesting assets not vital to the business, and difficulties in establishing collateral in the form of participating interests in firms in the rest of the world.

The Bank of Slovenia was active in several working groups involved in the area of corporate restructuring and deleveraging in 2016. The more important

[14] https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2016-01-1074?sop=2016-01-1074.

activities within the framework of the **Interdepartmental working group for corporate restructuring and deleveraging at the Ministry of Finance** include an examination of the actions of the FARS in restructuring and insolvency proceedings, the transposition of European Commission guidelines with regard to state aid for corporate recovery and corporate restructuring into Slovenian law, and the submission of the final report on the project work.

An inter-institutional implementation group under the aegis of the Ministry of Justice, which monitors the **implementation of the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act** (the ZFPPIPP) and formulates proposals and analysis of court proceedings, participated in the drafting of the new ZFPPIPP-G. This has introduced a preventive restructuring procedure, and expanded the application of special rules in compulsory composition proceedings to small enterprises (previously just medium-size and large enterprises).

1.4.7 Establishment of a document management system

In 2016 the Bank of Slovenia took its first steps to changing over to secure digital transactions and established an electronic documentation system, thereby successfully linking new digital technologies, business processes and organisational architecture. The changeover to the use of electronic documentation and paperless operations was **successfully carried out** in the first phase **in the areas of procurement and invoice liquidation**.

1.5 Institutional profile

Figure 2: **Excerpt of tasks performed by the Bank of Slovenia in 2016 in figures**

BANK OF SLOVENIA

Cash operations	Financial and monetary system	Monetary policy	Banking supervision	Payment systems
• Banknotes totalling EUR 2,243.3 million counted • EUR 377.0 million in banknotes withdrawn from circulation and destroyed • Cash in the net amount of EUR 937.2 million placed into circulation	Payment services for the central government, local government and others: • Number of transactions executed: 50 million • Value of payment transactions executed: EUR 208,387 million	• 151 open market operations executed with Slovenian counterparties in the amount of EUR 1,925 million • EUR 4,576 million of securities issued by Slovenian public sector entities purchased within the framework of the PSPP	• 42 different inspections at 18 institutions • 10 different areas • 20 procedures conducted and 14 authorisations granted to perform the function of member of a bank's management board	The Bank of Slovenia's system facilitated real-time interbank settlement for: • 957,514 payment transactions • in the total amount of EUR 414,292 million

International cooperation / membership in international bodies

Analysis of economic policies and research

2 ECONOMIC AND INSTITUTIONAL ENVIRONMENT IN 2016

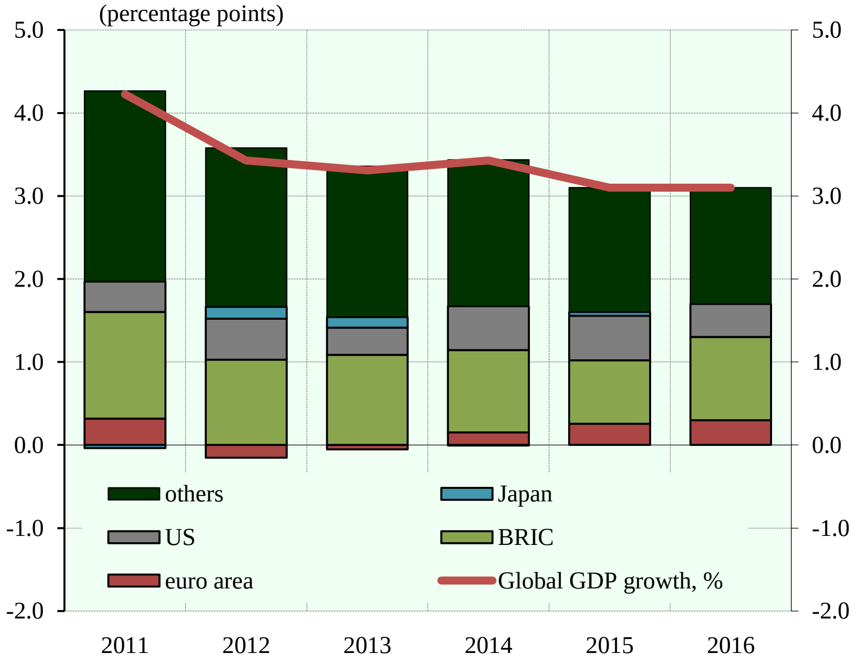
2.1 International situation

The contribution made to global economic growth by advanced economies declined slightly in 2016, primarily because of the US.

Global economic growth remained moderate in 2016. The contribution made to global growth by advanced economies declined slightly in 2016, primarily because of lower growth in the US. In the BRIC countries the more moderate growth in China and India was slightly compensated for by economic activity in Russia, where the decline in GDP was smaller than expected in the wake of rises in oil prices and strengthening prices of other commodities. Strengthening commodity prices were also a factor in the easing of the recession in Brazil. The euro area continued to record moderate economic growth. The decision by British voters to leave the EU did not have any major adverse economic impact in 2016. Irrespective of the tensions in the Middle East, which are causing migration pressures and are thereby causing a political crisis in the EU, confidence in the economy remains at high levels in many advanced economies. This was not significantly affected by the election results in the US, the failure of the constitutional reform in Italy or the renewal of sanctions against Russia.

Economic growth remained uneven in individual advanced economies, which was reflected in further divergence in monetary policies. The Fed raised its key interest rate again in December 2016, while the ECB extended its programme of non-standard monetary policy measures. This is holding the euro down, which is contributing positively to the competitiveness of the export sector in the euro area. The gradual rise in oil prices and other commodity prices brought a rise in input costs, thereby gradually increasing inflationary pressures.

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



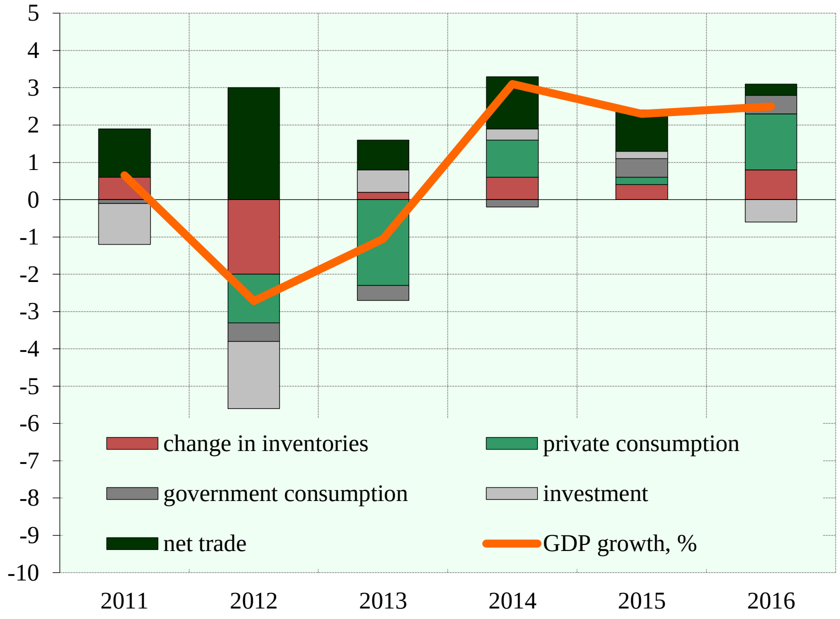
Sources: IMF, Bank of Slovenia calculations

2.2 Slovenian economy

According to initial estimates, Slovenia's GDP increased by 2.5% overall in 2016.

Economic growth strengthened to 2.5% in 2016, with particular impetus in the second half of the year. The seasonally adjusted year-on-year rate of growth increased to 3.6% in the final quarter. Domestic final consumption, household consumption in particular, was the main engine of growth for the first time since 2008. This was attributable to a significant rise in wages in the government sector, and even more so to employment growth of more than 2%. By contrast gross fixed capital formation actually contracted in 2016, having previously recorded weak growth. Investment in machinery and equipment increased, but there was simultaneously a sharp decline in construction investment owing to a freeze in the government investment cycle after the end of the old programme of European financing and before the rise of the new programme. Net exports accounted for a very small proportion of overall economic growth on this occasion, the lowest since 2008. Exports of merchandise and services actually increased slightly more than in the two previous years, but strengthening domestic consumption meant that imports increased even more.

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



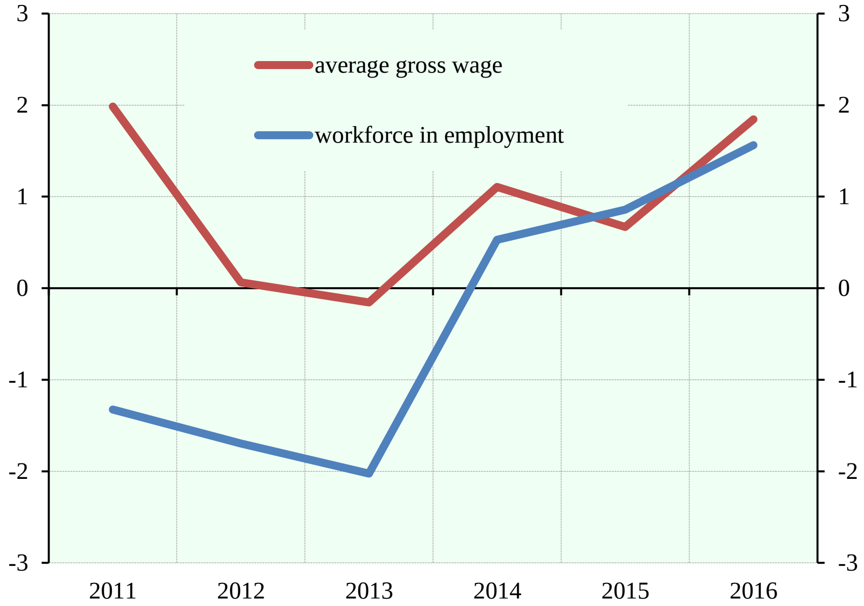
Sources: SURS, Bank of Slovenia calculations

2.2.1 Employment and wages

The workforce in employment increased by 1.6% in 2016.

The situation on the labour market was even better in 2016 than in the previous year. The workforce in employment increased by 1.6%, the highest figure since the outbreak of the crisis. The largest contributions to the increase came from manufacturing, human health and social work activities, and administrative and support service activities. The proportion of new hires accounted for by temporary employment last year remained at a comparable level to the previous year at 75%, while the contribution to overall employment growth made by self-employment and employment activities declined, an indication of increased direct hiring by firms. The number of registered unemployed stood at 103,152, down 8.5% on a year earlier. The largest factor in the fall in unemployment was a fall in inflows into unemployment, the largest fall in which was in the number of those newly registering as unemployed as a result of their temporary employment ending. The registered unemployment rate fell from 12.3% in 2015 to 11.2%. The average nominal gross wage was up 1.8% on the previous year. There was high wage growth in public services of 3.3% as a result of the relaxation of certain austerity measures, while wage growth in the private sector was lower at just 1.3%.

Figure 5: **Employment and wages**



Sources: SURS, Bank of Slovenia calculations

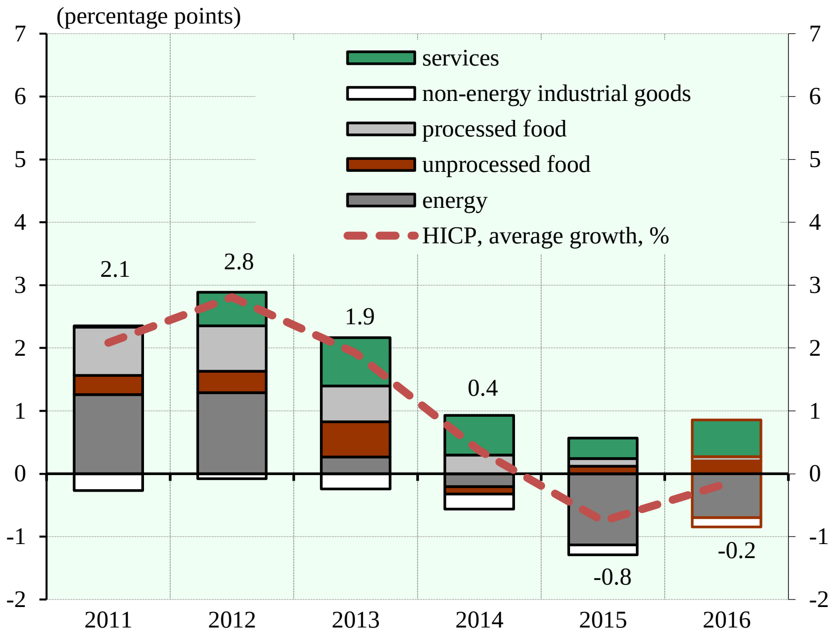
2.2.2 Price developments

Deflation eased towards the end of 2016. The fall in prices averaged 0.2%, 0.6 percentage points less than in the previous year. Prices across the euro area were unchanged overall. Deflation was pronounced in the early part of the year, primarily as a result of January's oil price shock, although the core inflation indicators, which do not reflect any direct impact from energy prices, also remained low at the same time, despite growth in the wage bill and private consumption. A favourable holiday season then pushed growth in services prices in the middle of the year, which brought a significant rise in headline inflation and core inflation. Growth in services prices stabilised towards the end of the year, although in the wake of strengthening oil prices on global markets there was a sharp decline in the negative contribution made by energy prices, which raised headline inflation, which approached the core inflation indicators at levels just under 1%.

Deflation eased towards the end of 2016.

Slovenia saw one of the sharpest overall falls in prices in the euro area in 2016. The deflation was primarily attributable to foreign factors, in particular developments in oil prices and commodity prices on global markets, which reduced energy prices more sharply than in the euro area overall. This is because the share of energy in domestic consumption is higher than the euro area average. The contributions to inflation made by prices of industrial goods were also more negative than in the euro area overall. By contrast growth in services prices was higher in Slovenia, which in the second half of the year was probably also attributable to the domestic economic growth, which was much stronger than in the euro area overall predominantly as a result of increased private consumption.

Figure 6: **Contributions of price categories to annual inflation**



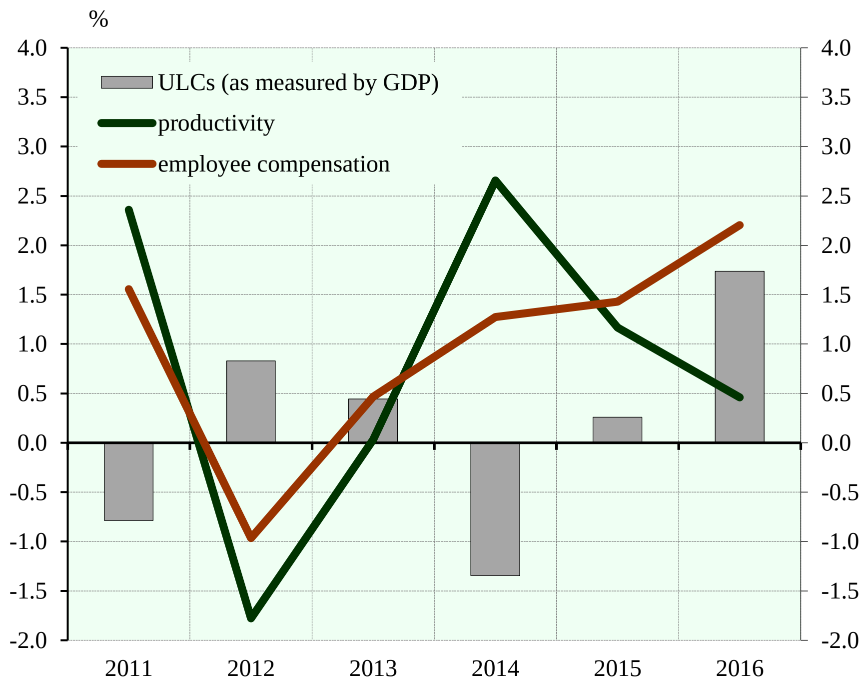
Note: Owing to rounding, components may not sum to their aggregate values. Inflation as measured by the HICP.
Source: SURS, Bank of Slovenia calculations

2.2.3 Competitiveness

The cost competitiveness of the Slovenian economy deteriorated last year as a result of a further decline in growth in labour productivity. Growth in labour productivity as measured by GDP stood at just 0.5% last year, down significantly on the previous year. Because growth in nominal wages increased relative to productivity growth, there was a significant increase in unit labour costs. Wage growth across the euro area also outpaced productivity growth last year, albeit less than in Slovenia, for which reason the cost competitiveness of the total economy in Slovenia diverged from the euro area average. It was the opposite case in industry, were Slovenia's cost competitiveness converged on the euro area average.[15] The gradual recovery in prices and the rise in the euro had an impact on price competitiveness last year. With prices in Slovenia ranging below the euro area average, price competitiveness again improved slightly in euro area markets, albeit less than in the previous year. At the same time the rise in the euro brought a deterioration for exporters in the terms of doing business on individual markets with foreign currencies, although the deterioration was small compared with the pronounced improvement in 2015 as a result of the sharp fall in the euro. Slovenia's global market share increased again in 2016, as growth in Slovenian exports again significantly outperformed growth in global trade.

[15] The changes in cost competitiveness are related to the initial assessment of annual GDP for 2015, which the SURS published on 31 August 2016, under which there was a significant decline in growth in value-added in industry. This resulted in a deterioration in industry's cost competitiveness compared with the euro area average from an accounts perspective in 2015.

Figure 7: **Productivity and ULCs**



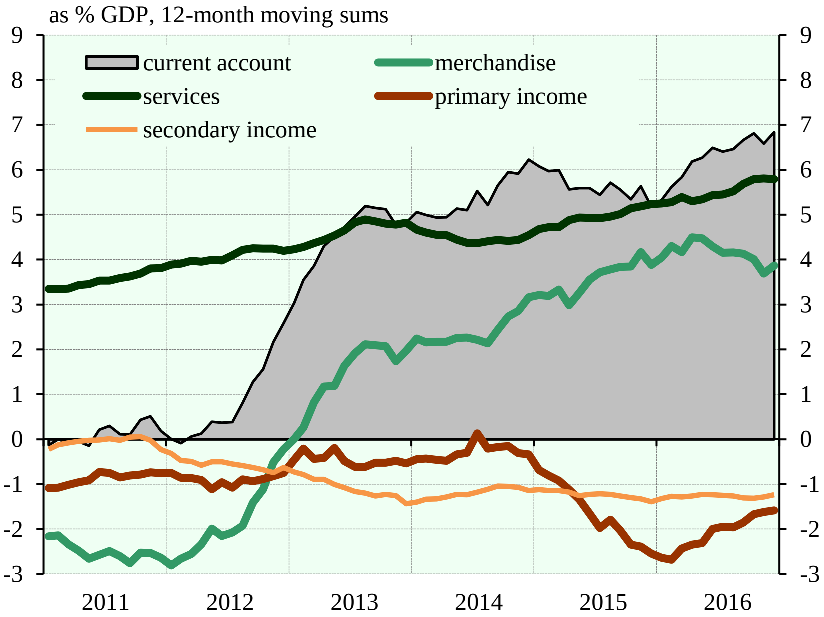
Sources: Eurostat, Bank of Slovenia calculations

2.2.4 Balance of payments and external debt

The current account surplus reached 7% of GDP in 2016.

The current account surplus widened considerably in 2016. It reached almost 7% of GDP, or EUR 2.7 billion, exceeding the surplus in 2015 by more than EUR 700 million. The current account surplus is an indicator of the competitiveness of Slovenia's export sector, whose exports of merchandise and services increased by 4.6% in value terms in 2016, despite the economic, political and security risks in the international environment. Another factor in the size of the surplus was the favourable terms of trade, import prices having fallen more sharply than export prices. Imports of merchandise and services increased by 4% in value terms in 2016, despite the fall in import prices, which was largely an indicator of the fall in oil prices on the global market. The growth in imports is thus a sign of stronger growth in domestic demand, which was nevertheless still outpaced by growth in foreign demand in 2016. The surplus of trade in merchandise and services amounted to EUR 3.8 billion or 9.7% of GDP, up EUR 320 million on 2015. The increase in the current account surplus was also significantly attributable to a narrower deficit in income. This amounted to EUR 1.1 billion or 2.8% of GDP, EUR 400 million less than in 2015. The narrowing was primarily the result of a smaller deficit in estimated reinvested earnings and interest on debt securities.

Figure 8: **Current account components**



Source: Bank of Slovenia

Slovenia was a net financer of the rest of the world in the amount of EUR 1.1 billion in 2016, compared with EUR 2 billion in the previous year. The largest net outflow item in 2016 was investments in securities, in the amount of EUR 4.3 billion, primarily via an increase in holdings of foreign debt securities and a decline in the liabilities to the rest of the world of domestic issuers of securities. The second-largest outflow item was loans, with a net outflow of EUR 0.6 billion of capital to the rest of the world. Net inflows were recorded by currency and deposits, in the amount of EUR 3.2 billion, and FDI, in the amount of EUR 0.7 billion. In addition there was an unidentified net inflow of EUR 1.3 million in 2016 in the form of a statistical error, which is largely attributable to the financial account, and the measurement of currency in circulation within this.

Slovenia's net external debt declined by EUR 2 billion in 2016 to end the year at EUR 10 billion. The gross external debt amounted to EUR 43.3 billion at the end of the year, down EUR 1.7 billion on the end of 2015, while gross external claims stood at EUR 33.2 billion, up EUR 0.3 billion on a year earlier. The general government sector accounted for half of the gross external debt (compared with 38% in 2013), followed by other sectors (25%) and banks (12%). The main increase in net borrowing in 2016 was recorded by the general government sector (EUR 16.9 billion), while the central bank and banks were net creditors to the rest of the world in the amount of EUR 6.8 billion, and other sectors and capital affiliates had a virtually balanced net position overall.

Slovenia's net external debt declined by EUR 2 billion in 2016.

2.2.5 Slovenia's fiscal position

The reduction in the general government deficit continued in 2016. It amounted to 1.5% of GDP, the government having estimated a deficit of 2.2% of GDP in its draft budget plans of October 2016. The reduction in the deficit was attributable to the improved economic situation, particularly on the labour market, the introduction of fiscal cash registers at the beginning of the year, and a significant decline relative to the previous year in the contribution made to the deficit by the Bank Asset Management Company (BAMC). In line with recommendations Slovenia was required to cut its structural deficit by 0.6% of GDP in 2016, having moved to the preventive arm of the Stability and Growth

There was a reduction in the general government deficit and debt in 2016.

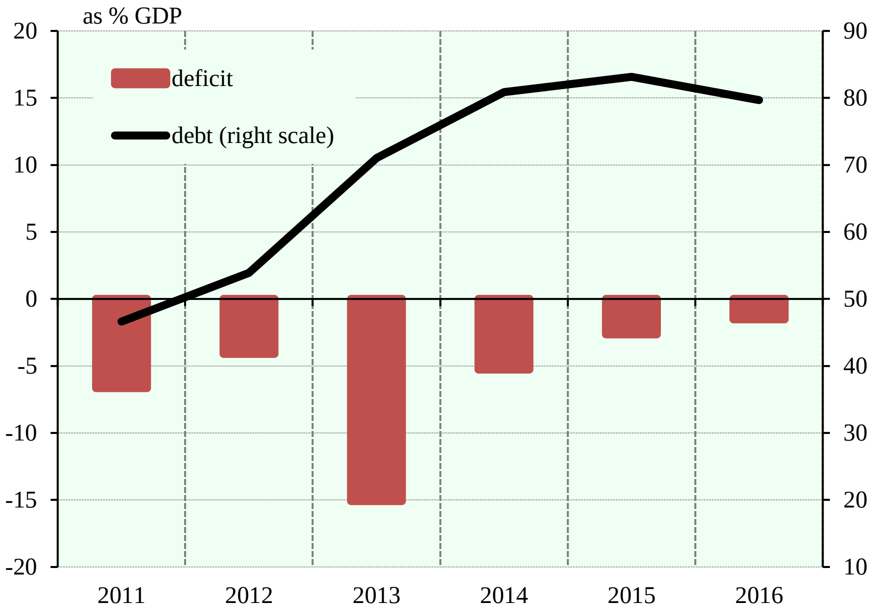
Pact in 2016. The European Commission will publish its assessment of the progress made with regard to the structural deficit in May.

The largest increases on the revenue side in 2016 were recorded by taxes and social security contributions, while there was a decline in capital transfers. General government revenues in 2016 were down slightly in year-on-year terms, although the key was the continuing relatively solid growth in tax revenues, which mitigated the decline in revenues from EU funds. Expenditure was down, primarily as a result of a decline in government investment. The decline in revenues from capital transfers and in government investment was related to the slow start to the disbursement of EU funds in the changeover to the new financial framework 2014-2020. On the expenditure side there was notably high growth in employee compensation as a result of the gradual relaxation of certain austerity measures. They were also partly relaxed with regard to pensions, which were increased by just over 1% after several years, and certain other transfers to households.

The general government debt stood at 79.7% of GDP at the end of 2016.

The general government debt declined in 2016 after a long period of rapid growth. It amounted to 79.7% of GDP, and remains below the EU average. The decline was attributable to the rise in GDP, a primary surplus and a decline in the government's cash reserves.The government continued its issues of euro-denominated bonds and treasury bills in 2016, the latter at negative interest rates. Some of the bonds issued in US dollars were replaced with euro-denominated bonds in 2016, the government thereby extending the maturity of the debt and reducing the cost of future interest payments. The required yield on 10-year government bonds averaged 1.13% during the year, down on the previous year. The decline was primarily attributable to the improvement in economic activity in Slovenia, a rise in its long-term sovereign debt ratings and the continuation of stimulus measures in ECB monetary policy.

Figure 9: **General government deficit and debt**



Source: SURS

2.2.6 Banking system[16]

At the end of 2016 there were 13 banks, three savings banks and three branches of foreign (European Economic Area member state) banks

[16] Figures for 2016 are unaudited.

operating in Slovenia. The banks[17] held a market share of 93% of the banking system in terms of total assets. There were two fewer banks and one fewer branch compared with the previous year, the trend of a fall in the number of banking institutions in Slovenia seen over several years thereby continuing.

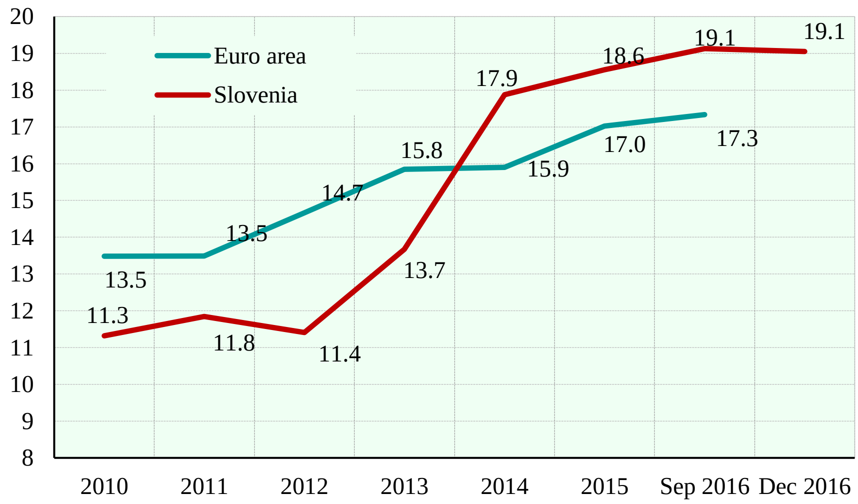
The Slovenian banking system's total assets amounted to EUR 37 billion at the end of 2016.

The contraction in the Slovenian banking system's total assets slowed significantly in 2016. Total assets amounted to EUR 37 billion, down 0.9% or EUR 333 million. The main factors in the contraction in total assets on the funding side were the continuing repayment of liabilities to foreign banks and a decline in the stock of issued debt securities. Claims against banks and investments in securities were down on the investment side. Total assets were down for the seventh consecutive year, and declined to 93% as a ratio to GDP.

The small domestic banks remain the most vulnerable in capital terms.

The capital position of the Slovenian banking system improved slightly in 2016, although significant differences between the bank groups remain. The large domestic banks have maintained their good capital position, while the small domestic banks remain the most vulnerable bank group in capital terms. The Slovenian banking system's total capital ratio on a consolidated basis reached 19.1% in December, maintaining its position above the average across the euro area. The improvement in capital adequacy was primarily attributable to a decline in capital requirements, which was the result of better optimisation of operations, an improvement in the quality of the credit portfolio, and further consolidation of the banking system. There was an additional improvement in the quality of the capital structure in 2016, as a result of a decline in the stock of subordinated instruments at certain banks. The banks primarily increased the stock of the highest-quality common equity Tier 1 capital via earnings, increased reserves and minor recapitalisations.

Figure 10: **Capital adequacy at banks and comparison with the euro area, consolidated figures, in percentages**



Sources: Bank of Slovenia, ECB Statistical Data Warehouse

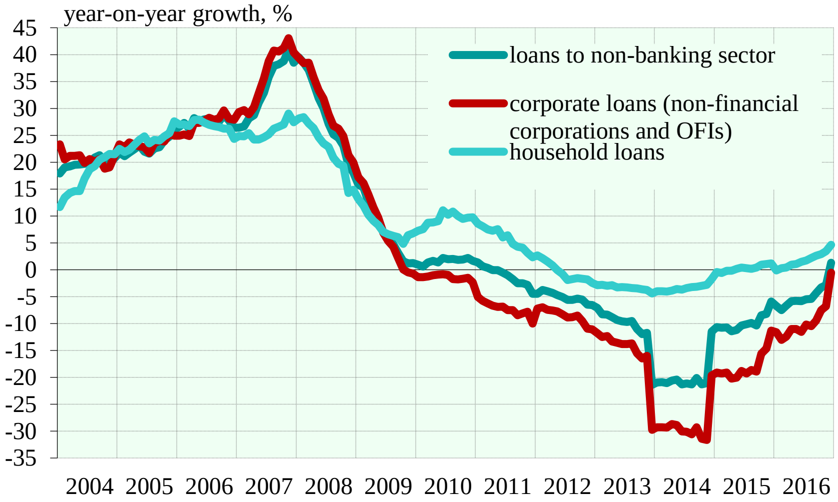
Growth in loans to the non-banking sector turned positive at the end of 2016.

The contraction in lending to the non-banking sector slowed throughout the year. Growth in loans to the non-banking sector turned positive at the end of the year reaching 1.3%, although growth in corporate loans remained negative, in the amount of 1%. Last year's contraction in corporate lending was attributable to both supply-side and demand-side factors. The supply-side factors include the maintenance of credit standards at higher levels, the commitments that the banks that received state aid made to the European Commission, whose withdrawal would have a positive impact on lending, and regulatory changes at the global level, which are placing a temporary burden on banks. Even more significant

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

were the limiting factors on the demand side, in particular the changing structure of the economy, and the increasing use of internal resources and non-bank resources in corporate financing. Household loans gradually increased last year, the rate of growth reaching 4.6% by the end of the year. Growth in housing loans, which has remained positive ever since the outbreak of the crisis, increased to 4.1%. The gradual increase in growth is attributable to low household indebtedness, low interest rates on loans and relatively favourable real estate prices, and the fact that the banks are increasingly focusing on households as corporate lending contracts. The increase in growth in consumer loans was attributable to the improved economic environment, the improvement in conditions on the labour market and increase in household spending on durables.

Figure 11: **Lending to the non-banking sector**



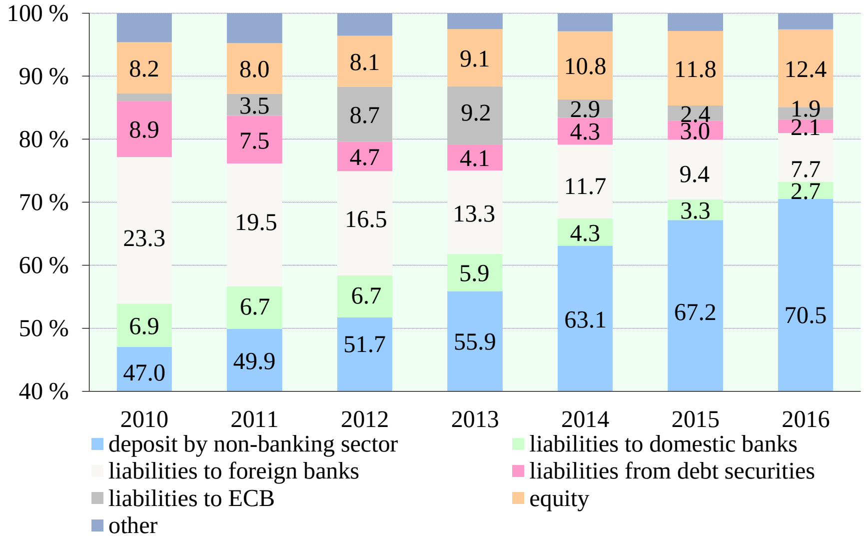
Source: Bank of Slovenia

The Slovenian banking system's liquidity position remains good, although funding stability is declining as average maturity shortens. The favourable liquidity position is reflected in a high first-bucket liquidity ratio, a stable stock of secondary liquidity, and the high proportion of the pool of eligible collateral that is free, which allows banks to obtain additional liquidity at the Eurosystem if necessary.

Household deposits in the banking system increased by EUR 1 billion last year to EUR 16.6 billion.

Deposits by the non-banking sector increased in importance as the most important source of funding in the banking system. The proportion of total funding that they account for had reached almost 71% by the end of 2016. This was partly attributable to the banks' ongoing repayments of debt on the wholesale markets and at the Eurosystem. Household deposits have maintained their leading role in deposits by the non-banking sector. Despite extremely low interest rates, the stock of household deposits increased by 6.7% in 2016. Low interest rates are deterring savers from committing funds for fixed terms, for which reason the proportion of sight deposits is continuing to strengthen as short-term and long-term deposits decline. The proportion of total deposits by the non-banking sector accounted for by sight deposits increased by 8 percentage points in 2016, to stand at 63%. The increase in sight deposits is having an adverse impact on the stability of bank funding structure, as it is increasing the possibility of a rapid withdrawal of savers' funds from banks in the event of potentially extreme shocks, which could create additional liquidity pressure on the banks.

Figure 12: **Breakdown of bank funding, in percentages**



Source: Bank of Slovenia

The banks generated a pre-tax profit of EUR 364 million in 2016. The trend of decline in net interest continued as a result of the fall in interest rates and the ongoing contraction in turnover. Net interest was down 10% last year. The banks faced a decline in interest income on the asset side, while the fall in interest rates and the increase in the proportion of sight deposits mean that the banks have diminishing room for additional cuts in interest expenses. The banks' gross income in 2016 was down 2.6% on the previous year, while net non-interest income was up 11% on the previous year. The banks reduced operating costs again in 2016. Impairment and provisioning costs in 2016 were down 69% on the previous year, and were the decisive factor in the increase in profit, which was up EUR 205 million on the previous year at EUR 364 million.

The banks generated a pre-tax profit of EUR 364 million in 2016.

3 IMPLEMENTATION OF THE BANK OF SLOVENIA'S TASKS

3.1 Institutional framework

The Eurosystem and the European System of Central Banks (ESCB) are headed by the ECB's decision-making bodies: the Governing Council and the Executive Board. The functioning of decision-making bodies is defined in 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 by 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 principal decision-making body of the ECB. It comprises the members of the Executive Board and the governors of national central banks. When Lithuania joined the euro it took 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. The calendar of the rotation of voting rights in the Governing Council is available on the ECB website.[18]

The Governing Council conducts an assessment of economic and monetary developments every six weeks, and passes resolutions on monetary policy.

In the system of rotating voting rights, the governors on the Governing Council are divided 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 governors in the second group, including the Governor of the Bank of Slovenia, share 11 voting rights. Voting rights are rotated at monthly intervals in both

[18] Rotation of voting rights in the Governing Council: https://www.ecb.europa.eu/ecb/orga/decisions/govc/html/votingrights.en.html.

groups. The members of the Executive Board with permanent voting rights are added to the 15 voting rights from the aforementioned two groups.[19]

The Governor of the Bank of Slovenia attends the meetings of the Governing Council and participates equally in the decision-making process. The Governing Council meets every six weeks to make decisions on monetary policy (monetary policy meetings). The minutes of ECB monetary policy meetings are published around four weeks after the meeting.[20]

The **Supervisory Board**, which discusses, plans and carries out tasks in banking supervision (**Single Supervisory Mechanism**), is answerable to the Governing Council. Representatives of national banking supervisors, among them the vice-governor of the Bank of Slovenia, sit on the Supervisory Board. The Supervisory Board meets twice a month as a rule. It proposes draft decisions to the Governing Council under the non-objection procedure.

The Supervisory Board, which discusses, plans and carries out tasks in banking supervision (Single Supervisory Mechanism), is answerable to the Governing Council.

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

Figure 13: **Eurosystem/ESCB committees as at 31 December 2016**

Accounting and Monetary Income Committee (AMICO)	Market Operations Committee (MOC)
Banknote Committee (BANCO)	Monetary Policy Committee (MPC)
Committee on Controlling (COMCO)	Organisational Development Committee (ODC)
Eurosystem/ESCB Communications Committee (ECCO)	Market Infrastructure and Payments Committee (MIPC)
Financial Stability Committee (FSC)	Risk Management Committee (RMC)
Information Technology Committee (ITC)	Statistics Committee (STC)
Internal Auditors Committee (IAC)	Budget Committee (BUCOM)
International Relations Committee (IRC)	Human Resources Conference (HRC)
Legal Committee (LEGCO)	

The **Eurosystem/ESCB committees** assist the ECB's decision-making bodies, and contribute significantly to cooperation within the ESCB. They consist of representatives of the ECB and the national central banks of the Eurosystem, and other competent bodies, such as national supervisory authorities in the case of

[19] Explanation of rotation: https://www.ecb.europa.eu/explainers/tell-me-more/html/voting-rotation.en.html.
[20] https://www.ecb.europa.eu/press/accounts/2016/html/index.en.html.

the Banking Supervision Committee. Each of the national central banks of Member States that have not yet joined the euro participates in ESCB committee meetings whenever a committee is dealing with matters that fall within the field of competence of the General Council of the ECB. In addition, some of the **committees meet in an SSM composition** when dealing with matters related to banking supervision.[21] The mandates of the committees are laid down by the Governing Council, to which the committees report via the Executive Board.

There was an increase in the total number of different forms of participation in 2016, as the table below reveals.

Table 1: **Bank of Slovenia's participation in the Eurosystem and ESCB**

	TYPE OF RTICIPATION	2015	**2016**
1.	**Number of meetings**	295	**378**
2.	Number of teleconferences	589	**1,207**
	• of which SSM	228	269
3.	Number of written procedures	6,277	**8,142**
	• of which SSM	1,037	1,815
4.	Number of questionnaires/surveys	305	**310**
	• of which SSM	81	46
5.	Technical Assistance	10	**35**
6.	Alternative forms of participation	125	**176**
	• of which SSM*	35	25

* Reports, proposals, etc.

Box 1: **Cooperation within the framework of the European Banking Authority (EBA)**

The Bank of Slovenia is involved in and participates in two key organs in the area of bank supervision. Within the framework of the SSM, it is, as stated on page 21, a member of the Supervisory Board, which discusses, plans and carries out ECB supervisory activities, and proposes draft resolutions to the Governing Council of the ECB under the non-objection procedure. At the same time the Bank of Slovenia is a member of the **Board of Supervisors** at the **European Banking Authority (EBA)**,[22] which is an independent EU

[21] One member from the central bank and one member from the national competent authority of each participating Member State when the central bank is not simultaneously the national authority responsible for banking supervision.

[22] The EBA's objectives are to maintain financial stability in the EU and to ensure the integrity, efficiency and orderly functioning of the banking sector. The EBA is part of the European System of Financial Supervision (ESFA), which is also made up of two other supervisory authorities: the European Securities and Markets Authority (ESMA and the European Insurance and Occupational Pensions Authority (EIOPA). The system also comprises the European Systemic Risk Board (ESRB) as well as the Joint Committee of the European Supervisory Authorities and national

authority whose purpose is ensuring effective and consistent prudential regulation and supervision in the European banking sector. With the aim of putting in place consistent, effective and efficient supervisory practices and ensuring the harmonised application of European legislation in all EU Member States, the EBA issues guidelines and recommendation addressed to competent supervisory authorities and banks. The Board of Supervisors is the EBA's principal 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 from the Supervision Division participate in 28 working groups 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 2: **Bank of Slovenia's participation in the EBA**

Type of participation	2015	2016
Number of meetings	45	75
Number of teleconferences	32	26
Number of written procedures	305	199
Number of questionnaires/surveys	46	48
Reports, proposals, etc.	37	20

3.2 Implementation of monetary policy

Eurosystem monetary policy measures are aimed at supporting the recovery of the euro area economy.

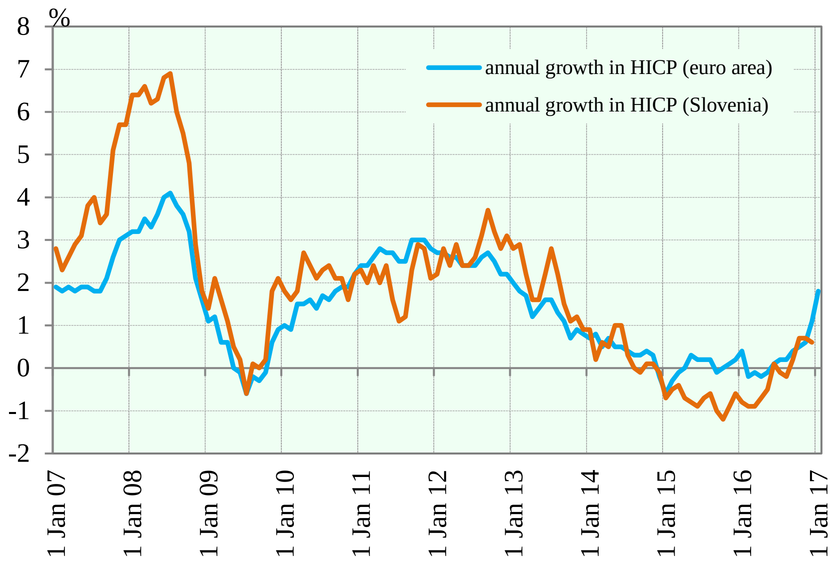
Since 2014 Eurosystem monetary policy measures have been aimed at supporting the recovery of the euro area economy, and at gradually reviving price growth. These measures are based on three pillars:

- targeted longer-term refinancing operations (TLTROs);
- purchases of public-sector and private-sector securities;
- a negative interest rate on the deposit facility alongside forward guidance on the future path of the monetary policy.

The Eurosystem continued its expansive monetary policy in 2016 with the aim of encouraging economic recovery and meeting its inflation targets. The standard measures in the form of the regular refinancing operations by which the Eurosystem provides liquidity to the banking system again played only a minor role in the provision of liquidity in 2016, as the non-standard measures generated large surplus liquidity.

supervisory authorities. The EBA is independent, but accountable to the European Parliament, the European Council of the European Union and the European Commission.

Figure 14: **Inflation in Slovenia and the euro area**



Source: Bloomberg

Inflation remained below the Eurosystem target in 2016.

In 2016 inflation as measured by the harmonised index of consumer prices (HICP) remained below the Eurosystem target of below but close to 2%, although it picked up in the second half of the year under the influence of rising energy prices (see Figure 14). Core inflation, which excludes changes in food and energy prices, ranged from 0.7% to 1.0% at the level of the euro area, and did not show any trend of increase. The rates were even slower in Slovenia: it was only towards the end of the year that the HICP emerged from negative territory, where it had been since the beginning of 2015.

The Eurosystem modified the package of non-standard monetary policy measures twice in 2016, in March and December, to maintain a sufficiently expansionary monetary policy. In March it responded to the significant deterioration in the global enviroment provoked by investors' concerns surrounding the slowdown in economic growth in emerging markets, China in particular, and the historically low oil prices, which further reduced inflation expectations. In the context of additional geopolitical risks, there was a sharp increase in risk aversion. The situation stabilised in the second half of the year. Economic growth in the euro area remained stable, while the situation on the labour market also improved. Inflation nevertheless still showed no sign of a convincing trend of increase. The Governing Council of the ECB assessed that medium-term inflation expectations were insufficient, and that price growth was based primarily on the Eurosystem's expansionary monetary policy, for which reason it remained necessary. The Governing Council therefore made cuts to all three key interest rates in March: 5 basis points in the interest rate on the marginal lending facility and the interest rate on main refinancing operations to 0.25% and zero respectively, and 10 basis points in the interest rate on the deposit facility to -0.40%. Interest rates remained at these levels for the rest of 2016.

It also made changes to other measures:

Monthly purchases in the APP stood at EUR 80 billion between March 2016 and March 2017.

1. It adjusted the monthly purchases volume under the Asset Purchase Programme (APP). These averaged EUR 80 billion between March 2016 and March 2017, and will average EUR 60 billion from April 2017 until at least December 2017 at least.

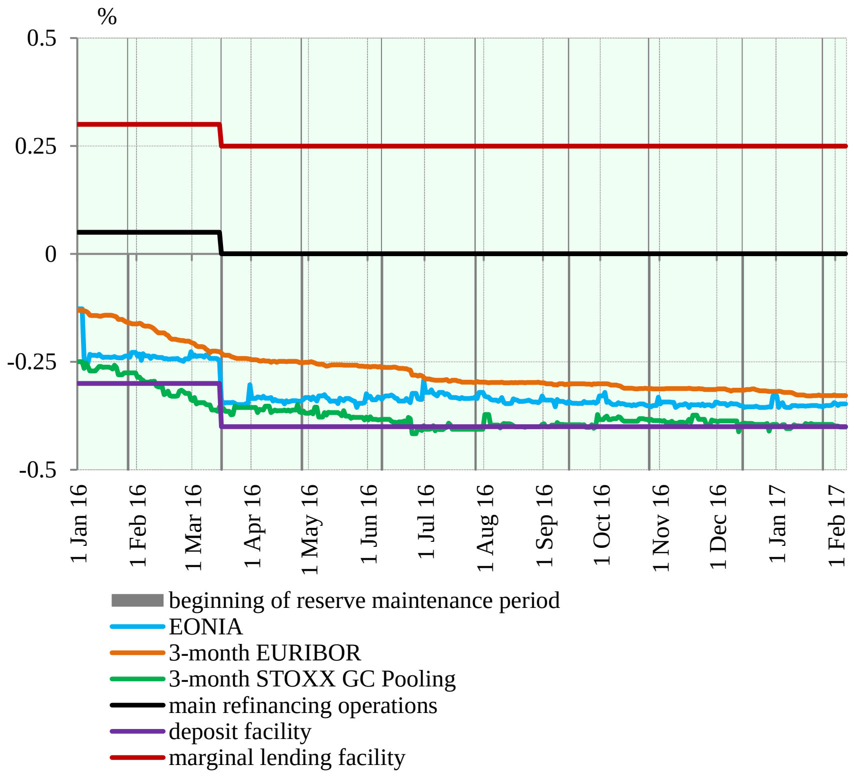
2. Under the APP it announced the launch of the Corporate Sector Purchase Programme (CSPP) in June 2016.

3. It also announced a (second) series of targeted longer-term refinancing operations (TLTRO-II), in which banks participate depending on their lending activity. The new operations were executed quarterly between June 2016 and March 2017, with a maturity of four years on each occasion. These operations had more favourable terms that the similar operations in the first series (TLTRO), because there is no longer any need for early repayment by banks who fail to increase their lending to the non-banking sector, while those who do increase their lending will be entitled to lower interest rates.

4. It reiterated its forward guidance of monetary policy, within the framework of which it expects ECB interest rates to remain at their present or lower levels for an extended period of time, in any case for some time after the active asset purchase programmes have come to an end.

The Governing Council expects ECB interest rates to remain at their present or lower levels for an extended period of time.

Figure 15: **Interest rates of the ECB and the interbank money market**



Sources: Bloomberg, ECB

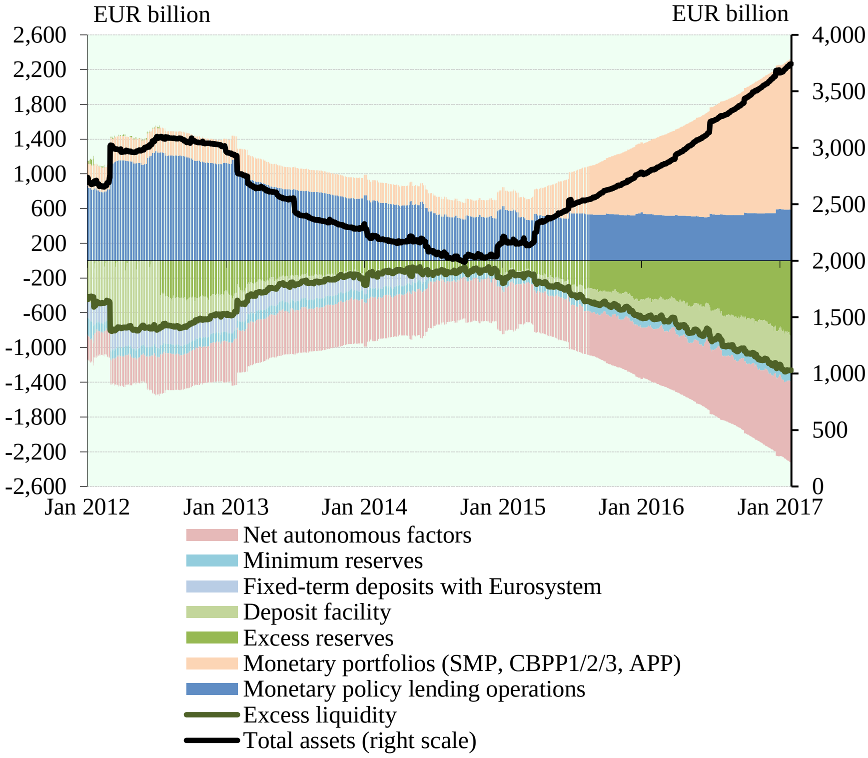
3.2.1 Excess liquidity, standing facilities, minimum reserves and money market

In 2016 the increase in the Eurosystem's balance sheet to more than EUR 3,600 billion and the excess liquidity in the euro area[23] to more than EUR 1,200 billion was due to securities purchased under the APP (see Figure 16). The growth in

[23] Excess liquidity is the liquidity that the banks hold in excess of their needs deriving from autonomous factors and the minimum reserves requirements. It is defined as the sum of the deposit facility and the banks' excess reserves. Excess reserves are the banks' account balances at the Eurosystem in excess of the minimum reserve requirements. Banks must hold the latter over the reserve maintenance period (which in 2016 lasted six or seven weeks), on the basis of Eurosystem regulation.

excess liquidity was slowed by growth in net autonomous factors,[24] i.e. items in the balance sheet of the central bank that are not related to monetary policy, but nevertheless affect bank liquidity. Their growth was primarily attributable to the increase in deposits by non-banking customers in the Eurosystem, e.g. the public sector.

Figure 16: **Simplified Eurosystem consolidated balance sheet**



Source: ECB

The banks held the majority of their excess liquidity on accounts at the Eurosystem in the form of excess reserves, while placing a smaller part in the deposit facility (see Figure 16). Although both were equally (and negatively) remunerated, the banks in certain countries (Slovenia not among them) still favoured the deposit facility. The deposit facility averaged EUR 326 billion over the year, almost three times higher than in 2015.

In an environment of high excess liquidity in 2016, there was minimal recourse to the marginal lending facility. The banks' borrowing via the standing lending facility at the Eurosystem averaged EUR 0.1 billion over 2016, EUR 0.2 billion less than in 2015. Slovenian banks did not draw on the marginal lending facility in 2016.

Slovenian banks' excess liquidity increased sharply in 2016.

The excess liquidity of banks in Slovenia increased sharply in 2016, as it did in many other euro area countries, albeit by significantly less than the Bank of Slovenia's purchases under the APP. Owing to the high general liquidity, low interest rates that did not compensate for risk of lending to other banks, and the increase in proportion of sight deposits by the non-banking sector, Slovenian banks in 2016 increased their excess liquidity on accounts at the Bank of Slovenia. Slovenian banks' excess reserves exceeded EUR 2,500 million at the

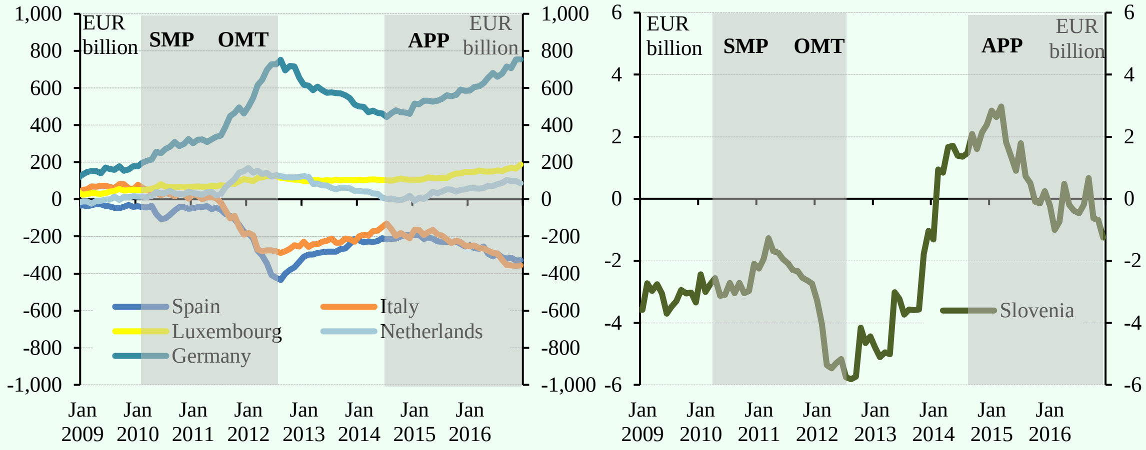
[24] Autonomous factors include banknotes in circulation, deposits by public-sector entities at the central bank and financial assets of the central bank that are not a consequence of the implementation of monetary policy, e.g. foreign reserves. An increase in autonomous factors on the asset side of the central bank balance sheet increases bank liquidity (e.g. investments in securities), while an increase on the liability side reduces bank liquidity (e.g. banknotes in circulation).

end of 2016, or 1,000% of their calculated minimum reserves requirements (compared with EUR 700 billion or 600% of minimum reserves requirements across the euro area). Although the excess reserves had increased to their highest level to date by the end of the year, the increase was significantly less than the amount of money provided by the Bank of Slovenia via purchases under the APP. The reasons for this are described in detail in Box 2.

Box 2: **The APP produced an increase in central banks' claims/liabilities in the TARGET2 payment system.**

At the end of 2016 central banks' claims/liabilities in the TARGET2 payment system (T2 claims/liabilities)[25] reached a level similar to the highest level of 2012, although the increase in 2016 was the result of securities purchased by the Eurosystem and not shocks on the financial markets as in the period until 2012. As a result of the financial crisis between 2008 and 2012 some market participants had restricted or closed access to market funding sources. They therefore used monetary policy loans to replace the funding (the banks directly, others via banks). The replacement of foreign funding was reflected in an increase in the T2 claims/liabilities of Eurosystem central banks. T2 liabilities increased at central banks in countries where market participants repaid borrowed funds abroad, e.g. Spain, Italy, Greece and Slovenia. T2 claims increased at central banks in countries where market participants received the repaid funds, e.g. Germany (see Figure 17).

Figure 17: **Claims (+) / liabilities (–) of selected central banks in the TARGET2 payment system, balance as at the final day of the month**



Source: ECB Statistical Data Warehouse

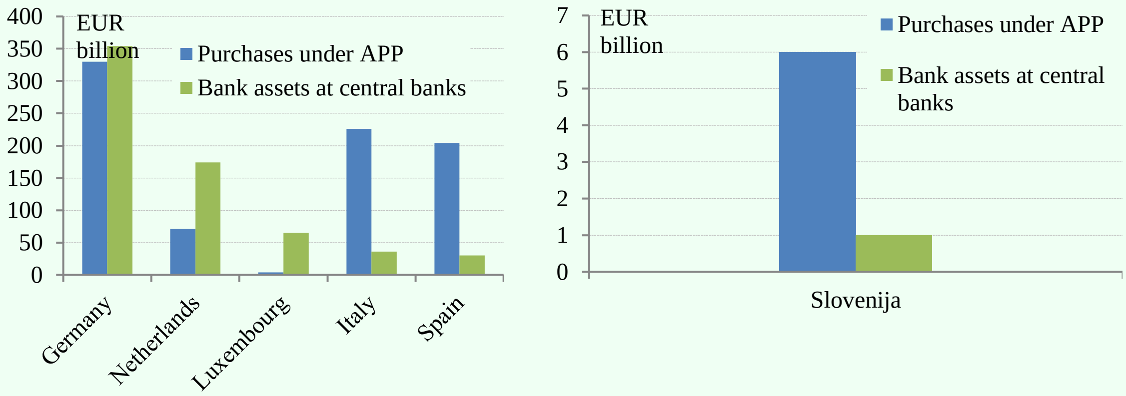
Since 2015 the increase in central banks' T2 claims/liabilities has been the result of purchases under the APP. Through the purchases the Eurosystem provided additional money to market participants, although the stock did not necessarily increase in countries whose securities the Eurosystem purchased (see Figure 18). The main reason for this was the location of the securities sellers' cash accounts. The majority of the securities were sold by foreign sellers, particularly those outside the euro area, whose accounts on which they received the proceeds were mostly at banks in financial centres (Frankfurt, Luxembourg, Amsterdam), and not at banks in the countries whose securities were being sold. The settlement of these purchases involves a cross-border central bank transfer to the purchaser's bank in another country, which is expressed as an increase in the T2 liabilities of the central bank that is purchasing securities, e.g. the liabilities of the Bank of Spain, and an increase in the T2 claims of the central bank in the country where the seller's account is located, e.g. the

[25] 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. Payments are initiated by households, firms, financial institutions and the public sector, i.e. anyone in the country. Central banks do not settle these payments by transferring assets between each other, but instead disclose mutual claims and liabilities in the amount of the balance of the payments. The central bank in a country where the cumulative payments are net outward discloses liabilities, while the central bank in a country where the cumulative payments are net inward discloses claims against other members of the Eurosystem. For a comprehensive explanation and examples, see the Bank of Slovenia's 2015 Annual Report, Box 2, p 19.

claims of the Bundesbank. Because the APP, the TLTRO and the TLTRO-II provided readily available money for banks via the central banking system, the role of the interbank money market in providing bank liquidity diminished. Given the very low interest rates on this market, banks with excess money did not lend to other banks, who frequently had sufficient money, or the low interest rates failed to compensate for lending risk in the eyes of the lending bank. The money created through the APP therefore remained concentrated in certain countries.

In 2016 also in Slovenia the majority of the money created through securities purchased under the APP via the Bank of Slovenia flowed over the border. In addition to the APP, the Bank of Slovenia's T2 claims/liabilities were also affected by management of the government's debt and short-term liquidity surpluses. In 2016 the Bank of Slovenia purchased EUR 3.6 billion[26] of securities under the APP, the majority from foreign sellers. Transferring the proceeds over the border pushed the Bank of Slovenia's T2 liabilities higher, although the T2 liabilities were also impacted by the migration of government deposits between the Bank of Slovenia and the foreign country. The migrations were related to purchases of Slovenian government securities and payments for matured securities or early redemptions, and to the Ministry of Finance's treasury investments used to manage the government's short-term liquidity surpluses. The proceeds for bonds sold and repayments of investments from abroad caused the net liability position vis-à-vis T2 to temporarily become a net claim position in 2016 (see Figure 17).

Figure 18: **Purchases under the APP and banks' assets at central banks,* change between September 2014 (the month before the beginning of the APP) and December 2016**



*Note: Includes the deposit facility and the banks' accounts at the central bank, including the minimum reserves requirements.
Source: ECB

The moderate growth in household deposits, corporate deposits and other deposits at banks was reflected in moderate growth in the minimum reserve requirements. With no change in the 1% reserve ratio, there was an increase in the minimum reserves requirements in Slovenia and across the euro area for the second consecutive year, although the increase remained moderate. The average minimum reserve requirements over the eight reserve maintenance periods increased from EUR 112 billion in 2015 to EUR 116 billion in 2016 across the euro area, and from EUR 225 million to EUR 231 million in Slovenia.

The EURIBOR rates for all maturities were in negative territory for the majority of the year.

The high excess liquidity, in conjunction with the high demand for qualitative securities that financial institutions among others need to meet regulatory requirements, also shaped activity on the money market in the euro area. Interest rates in the unsecured segment of the interbank money market fell further during the year, as a result of the high excess liquidity.. With the exception of its month-end increases, the EONIA[27] ranged between -0.25%

[26] This is the difference between the amortised cost of securities owned by the Bank of Slovenia at the end and at the beginning of the year, which is an approximation of the amount of money created by the purchases.
[27] The EONIA (Euro OverNight Index Average) is the average interbank interest rate on overnight deposits.

and -0.35%, i.e. approximately 5 basis points above the interest rate on the deposit facility (see Figure 15 at the beginning of this section). The EURIBOR[28] rates for all maturities were in negative territory for the majority of the year. The high excess liquidity put downward pressure also on interest rates on the secured (repo) market. These were additionally suppressed by a structural increase in demand for high-quality, liquid securities, which financial institutions need to meet regulatory requirements, and the declining supply of such securities as a result of purchases under the APP.

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

The Eurosystem has executed its open market lending operations via full allotment at a fixed interest rate since October 2008, and this policy will remain in place at least until the end of the final reserve maintenance period of 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 offered three types of lending operations in 2016. In addition to the main refinancing operations and the longer-term refinancing operations with a 3-month maturity, which make up part of the standard Eurosystem monetary policy framework, it also offered TLTROs, where the possibility of partcipation is tied to the banks' lending activity to the non-banking sector. Two of the first series of eight TLTROs and three of the second series of four TLRTO-II were executed in 2016 (see Box 3). The TLTROs and the TLRTO-II are executed quarterly. The Eurosystem began executing TLTROs in 2014.

The regular refinancing operations have less importance in a period of non-standard measures, which was also the case in 2016.

The regular refinancing operations, i.e. the main refinancing operations and 3-month longer-term refinancing operations, have less importance in a period of non-standard measures, which was also the case in 2016. The Eurosystem executed 52 main refinancing operations (MROs) in 2016, in which the average allotted amount was EUR 48 billion (compared with EUR 92 billion in 2015), while the average number of participating banks fell to 93 (from 127 in 2015). Slovenian banks borrowed an average of EUR 14 million in 2016 (compared with EUR 21 million in 2015). Longer-term refinancing operations (LTROs) are tendered to banks on a monthly basis with a maturity of three months at a fixed interest rate calculated as the average of the ECB's key interest rate over the duration of the operation (the indexed rate). An average of 66 banks participated in the 3-month LTROs in 2016 (compared with 120 in 2015), while the allotted amount averaged EUR 7 billion (compared with EUR 26 billion in 2015). Slovenian banks participated in just four operations in 2016 (down from 11 in 2015), borrowing an average of EUR 128 million in 2016 (compared with EUR 378 million in 2015).

Box 3: **Targeted longer-term refinancing operations (TLTRO-II)**

The second series of targeted longer-term refinancing operations (TLTRO-II) was announced in March 2016 as part of the package of measures aimed at encouraging new lending by banks to households and non-financial corporations at favourable terms. In four tenders between June 2016 and March 2017 banks were able to borrow an amount up to 30% of their stock of corporate and household loans as at 31 January 2016, minus the funds borrowed in the first two TLTROs that had not been repaid early. The potential borrowing was estimated at EUR 1,693 billion across the euro area, or EUR 3.4 billion for Slovenian banks. The interest rate on the TLTRO-II operations will be determined in June 2018, and will depend on the individual bank's new lending. If a bank increases its corporate and household lending between 1 February 2016 and 31 January 2018 compared with the borrowing it disclosed in the reference period (February 2015 to January 2016), the interest rate on the TLTRO-II could be reduced to the interest rate on the deposit facility applicable at the time of the execution of the individual operation (e.g. -0.40% for

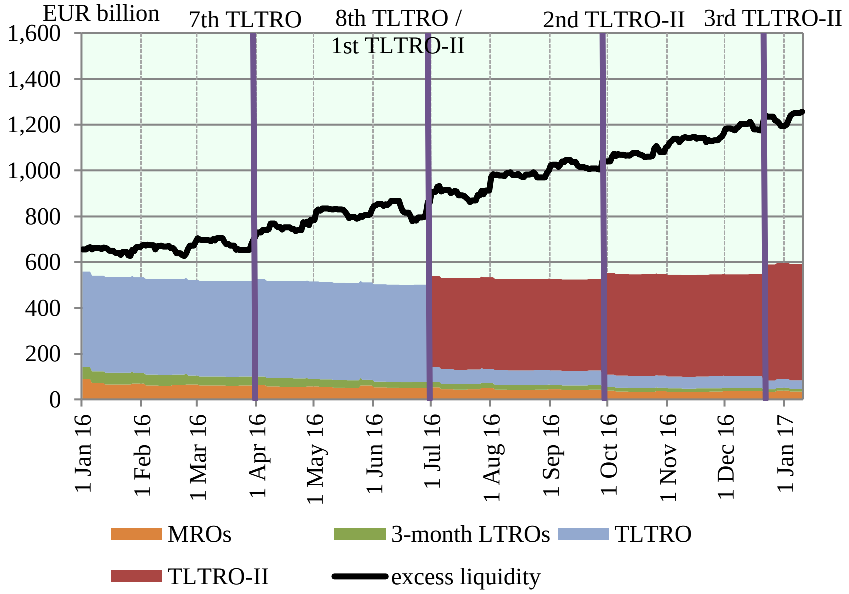
[28] The EURIBOR (Euro InterBank Offered Rate) is the daily average of interest rates at which banks lend euros at various maturities of up to one year. The EURIBOR is used as a reference interest rate for the euro money market.

the third TLTRO-II executed in December 2016). Otherwise the interest rate on the TLTRO-II for the bank will be equal to the interest rate on the MRO applicable at the time of the execution of the individual operation (e.g. 0% for the third TLTRO-II executed in December 2016). Banks that reduced their corporate and household lending in the reference period will also be entitled to a proportionate reduction in the interest rate if they slow the reduction in lending relative to the reference period. The maturity of all four operations is four years from the settlement date of the individual operation. After two years banks have the option of making early repayments of the borrowed funds on a quarterly basis. Compared with the first series of TLTROs, the second series does not include mandatory early repayments in the event of insufficient growth in lending; as described above, banks are encouraged to increase lending through the interest rates on the TLTRO-II.

At the announcement of the TLTRO-II in June 2016, banks were given the additional opportunity to make early repayments of their borrowings in the previous TLTROs. The settlement of the early repayments took place on the day of the allotment of the first TLTRO-II, thereby allowing the banks to transfer their borrowings in the TLTRO to the more favourable terms under the TLTRO-II. The banks took the opportunity and repaid EUR 368 billion from the first seven TLTROs in June. They borrowed a total of EUR 399 million in the first TLTRO-II. Some borrowings in the first and second TLTROs were also repaid in two ordinary early repayments in September and December (EUR 9 billion and EUR 14 billion respectively). In addition, certain banks made a mandatory early repayment of the TLRTO in the amount of EUR 2 billion in September.

The total balance of TLTROs across the euro area stood at EUR 38 billion at the end of 2016 (compared with total disbursement in the amount of EUR 432 billion), while the total balance of TLTRO-II stood at EUR 507 billion (or 43% of the potential borrowing). The balance of Slovenian banks' TLTROs stood at EUR 103 million at the end of 2016, while their balance of TLTRO-II stood at EUR 593 million (or 18% of potential borrowing). The majority of the disbursement of TLTRO-II was accounted for by the first TLTRO-II, which was executed in June 2016, and in which Slovenian banks drew down a total of EUR 338 million..

Figure 19: **Outstanding balance MROs, LTROs, TLRTOs and excess liquidity in the euro area**



Source: Bloomberg

3.2.3 Asset purchase programme

The Eurosystem expanded the monthly purchases in the APP from EUR 60 billion to EUR 80 billion in April 2016.

The Eurosystem further strengthened the monthly purchases of the asset purchase programme (APP), which includes purchases of public-sector and

private-sector securities, from EUR 60 billion to EUR 80 billion in April 2016. The APP includes: (1) the public sector purchase programme (**PSPP**); (2) the asset-backed securities purchase programme (**ABSPP**); (3) the third covered bond purchase programme (**CBPP3**); and, as of June 2016, (4) the corporate sector purchase programme (**CSPP**).

Purchases under the PSPP began in March 2015, and encompass securities issued by euro area governments and government agencies, and European institutions. In Slovenia these are Slovenian government bonds, SID banka bonds and DARS bonds. They are purchased solely on the secondary securities market. The purchases were divided between the national central banks (NCBs) of the euro area according to their share of the ECB's capital (the capital key). NCBs made 90% of the securities purchases, the ECB carrying out the remaining 10%. The ECB purchases government and government agency bonds of all jurisdictions, while the NCBs primarily purchase bonds issued by their own central, regional and local authorities, and agency bonds. The NCB that failed to reach its capital key through such purchases purchased bonds of European institutions to reach the level of the capital key. Bonds of European institutions may together account for no more than 10% of total purchases under the PSPP. The Eurosystem purchased EUR 777.9 billion of public-sector bonds under the PSPP in 2016. The average weighted maturity of all bonds purchased was 8.3 years at the end of 2016. Purchases of Slovenian government bonds and bonds of suitable Slovenian agencies by the Eurosystem cumulatively amounted to EUR 4,935 million by the end of 2016.

Purchases of Slovenian government bonds and bonds of suitable Slovenian agencies by the Eurosystem cumulatively amounted to EUR 4,935 million by the end of 2016.

The aim of the ABSPP is, through its purchases since November 2014, to encourage diversification of funding sources, and the issuance of new asset-backed securities by banks and others. New issues of asset-backed securities should bring an improvement in lending terms for corporates and households, thereby encouraging banks' credit flows and consequently improving the effectiveness of the monetary policy transmission mechanism. The stock of asset-backed securities purchased by the Eurosystem stood at EUR 22.8 billion at the end of December 2016, the majority of purchases having been made on the secondary market for such securities.

The purchases of banks' covered bonds under the CBPP3 since October 2014 have had a similar purpose. They are purchased on a decentralised basis by NCBs and the ECB. The stock of covered bond purchases stood at EUR 203.5 billion as at 31 December 2016. The majority of the purchases were made on the secondary market (70%), where liquidity was relatively good. The remaining 30% was made on the primary market, where the programme gave impetus to new covered bond issuance.

Alongside the aforementioned three asset classes under the APP, the Eurosystem added a fourth in March 2016, namely **corporate bonds**, which it began purchasing in June, thereby significantly increasing investors' demand for investments in the corporate sector. The Corporate Sector Purchase Programme is described in detail in Box 4.

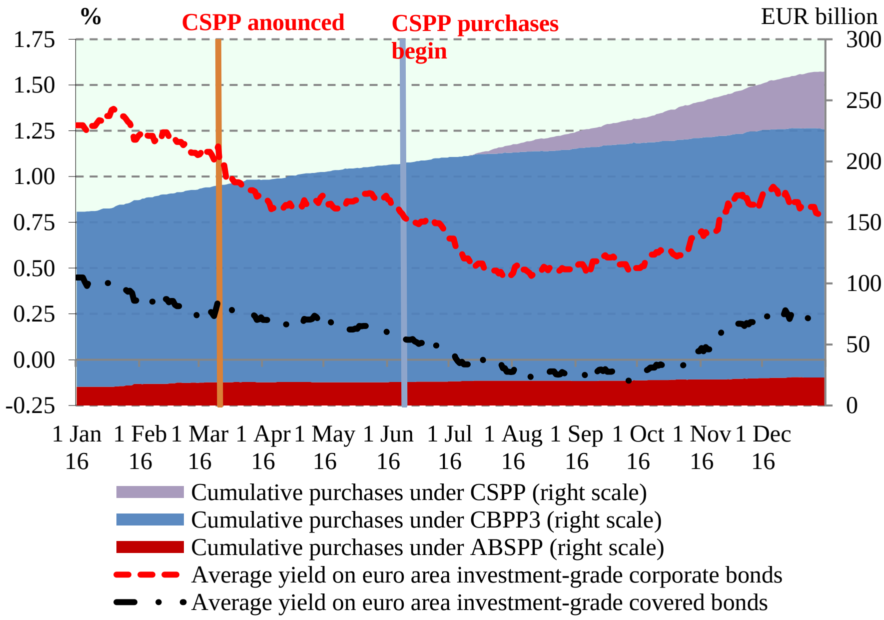
The Eurosystem began purchasing corporate bonds in June.

Box 4: **Corporate Sector Purchase Programme (CSPP)**

Under the APP the Eurosystem has also been purchasing bonds issued by non-banking corporations since June 2016. The securities must meet the following eligibility criteria: (i) they must be denominated in euros; (ii) the issuer may not be a credit institution, and must be established in the euro area; (iii) they must have a minimum residual maturity of six months and a maximum residual maturity of 30 years and 364 days at the time they are bought; (iv) they must meet the criteria applying to securities eligible as collateral for monetary policy operations, including a minimum rating of BBB-/Baa3. The purchases are made on the primary and secondary markets, although only on the latter if the issuer is a public sector entity. The upper limit on purchases is 70% of the issue of an individual security. There is no minimum limit on an eligible issue of corporate securities. Six NCBs are making purchases on behalf of the Eurosystem, the ECB acting as coordinator. The purchases of Slovenian bonds are being made by the National Bank of Belgium.

The stock of CSPP purchases stood at EUR 51.1 billion at the end of December 2016. The majority of the purchases were made on the secondary market (86%). Since the CSPP was announced in March 2016, there has been a notable increase in corporate bond issuance in the euro area compared with issues in the same months of the previous year. The weighted average maturity of issued corporate bonds was also longer, by approximately 1.5 years. Demand from other investors for corporate bonds not eligible for the CSPP increased. As a result the programme has succeeded in bringing an improvement in the financing conditions for the corporate sector, which was also evident in the falling yields on the securities.

Figure 20: **Average yields on corporate and covered bonds, and cumulative stock of purchases under the ABSPP, CBPP3 and CSPP**



Sources: Bloomberg, Bank of America Merrill Lynch Index Data[29]

Because the Eurosystem holds an increasing proportion of securities in individual asset classes as a result of the APP, it simultaneously makes them available for lending to support their liquidity on the secondary market and the repo market. Securities lending is executed on a decentralised basis via the NCBs and the ECB or their agents, including bonds purchased under the PSPP, the CBPP and the CSPP. To help increase efficiency, certain NCBs have been accepting cash collateral as of 15 December 2016, in the maximum total amount of EUR 50 billion across the entire Eurosystem. Before this, all NCBs accepted only other securities as collateral for securities lending. The Bank of Slovenia makes securities available for lending via two channels: via the automated Securities Lending and Borrowing programme of Euroclear Bank, and via Deutsche Bank as agent. Bonds purchased under the first and third covered bond purchase programmes (CBPP and CBPP3) and bonds purchased under the SMP[30] whose issuers are eligible for purchases under the PSPP have also been included in its lending programme since July 2016.

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[29] *BofA Merrill Lynch Euro Covered Bond Index, BofA Merrill Lynch Euro Non-Financial Corporate Index.*

[30] The Securities Market Programme (SMP) began in 2010 as a response to the extraordinary situation in individual market segments, most notably the government securities segment. The Eurosystem purchased government bonds whose yields had increased disproportionately. The programme ended in 2012, with the announcement of the Outright Monetary Transactions (OMT) programme.

3.2.4 US dollar lending

The banks' demand for US dollar lending at the Eurosystem remained low in 2016.

Although the banks' demand for US dollar lending at the Eurosystem remained low in 2016, it was up on previous years, although not at Slovenian banks, which have not participated in the operations since 2009. US dollar refinancing operations were executed weekly on the basis of eligible collateral denominated in euros, at a pre-determined fixed interest rate with full allotment and a maturity of seven days. An average of two banks participated in the tenders across the Eurosystem, compared with an average of one in the previous year.

3.2.5 Collateral for monetary policy loans

All Eurosystem monetary policy loans must be secured by eligible collateral. Banks may collateralise monetary policy loans with debt securities from the list of eligible assets published on the ECB website and bank loans granted to eligible debtors from the corporate, the government and the non-residents sector.

In 2016 there was no change in the Eurosystem collateral framework for monetary policy loans, although minor adjustments were made. Debt securities with a negative cash flow, i.e. payments to the security issuer by the bearer, also became eligible, in light of low and negative interest rates. The eligibility of uncovered bank bonds was extended, despite the entry into force of the BRRD Directive, and the Eurosystem will again assess their eligibility in 2017. To increase transparency a requirement was introduced whereby rating agencies must publicly explain new assessments of eligible covered bonds, and submit quarterly surveillance reports on issue programmes.

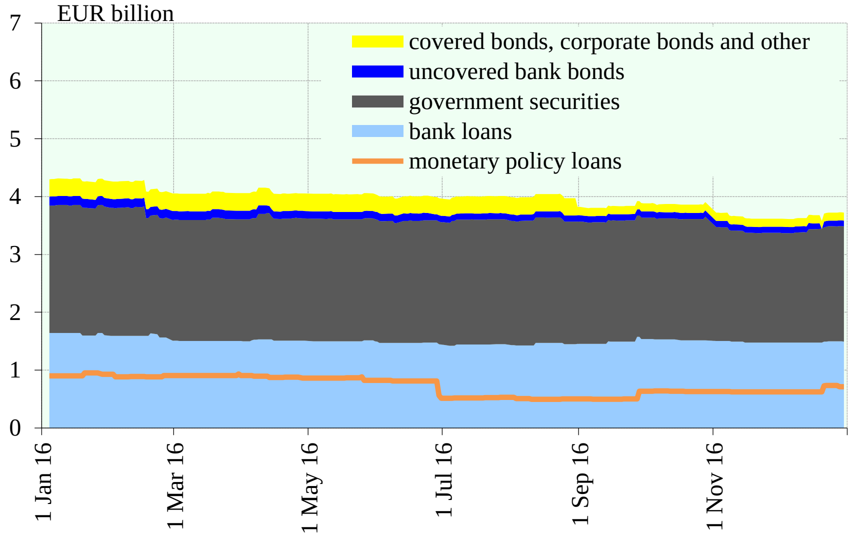
The banks maintained almost the same level of eligible collateral at the Eurosystem as a year earlier. Although they had the option of selling securities under the APP, they did not reduce collateral at the Eurosystem. Eligible collateral declined by less than 1% over the course of the year, to stand at EUR 1,660 billion at the end of the year.

The structure of eligible collateral remained similar to the previous year. Covered bonds accounted for the highest proportion of eligible assets(23%), followed by government securities (22%), asset-backed securities (19%) and bank loans (17%).

3.2.5.1 Collateral in Bank of Slovenia credit operations

The pool of eligible collateral at the Bank of Slovenia, in which the banks hold assets as collateral for monetary policy loans, decreased by EUR 610 million during the year to stand at EUR 3.8 billion at the end of 2016. The decline in 2016 by 14% of the pool was smaller than the decline in monetary policy loans (21%). The portion of the unused pool, i.e. the surplus of the banks' pool of collateral over the Bank of Slovenia's loans to banks, stood at a high 82%, similar to the previous year.

Figure 21: **Breakdown of pool of eligible collateral at the Bank of Slovenia by asset type, and monetary policy loans to Slovenian banks**



The pool of securities of Slovenian issuers on the list of eligible assets averaged around EUR 27 billion in 2016, a comparable level to the previous year. Slovenian government securities accounted for the vast majority (91%). A total of 44 securities were listed as at the end of the year.

3.2.6 Bank of Slovenia as the lender of last resort[31]

According to the Bank of Slovenia Act, one of the Bank of Slovenia's key objectives is to strive to ensure financial stability. Pursuant to point 14 of Article 12 of the aforementioned law, the Bank of Slovenia may act as a lender of last resort, i.e. in exchange for eligible collateral it lends to a solvent bank or savings bank in liquidity difficulties. The Bank of Slovenia did not approve any such loans in 2016.

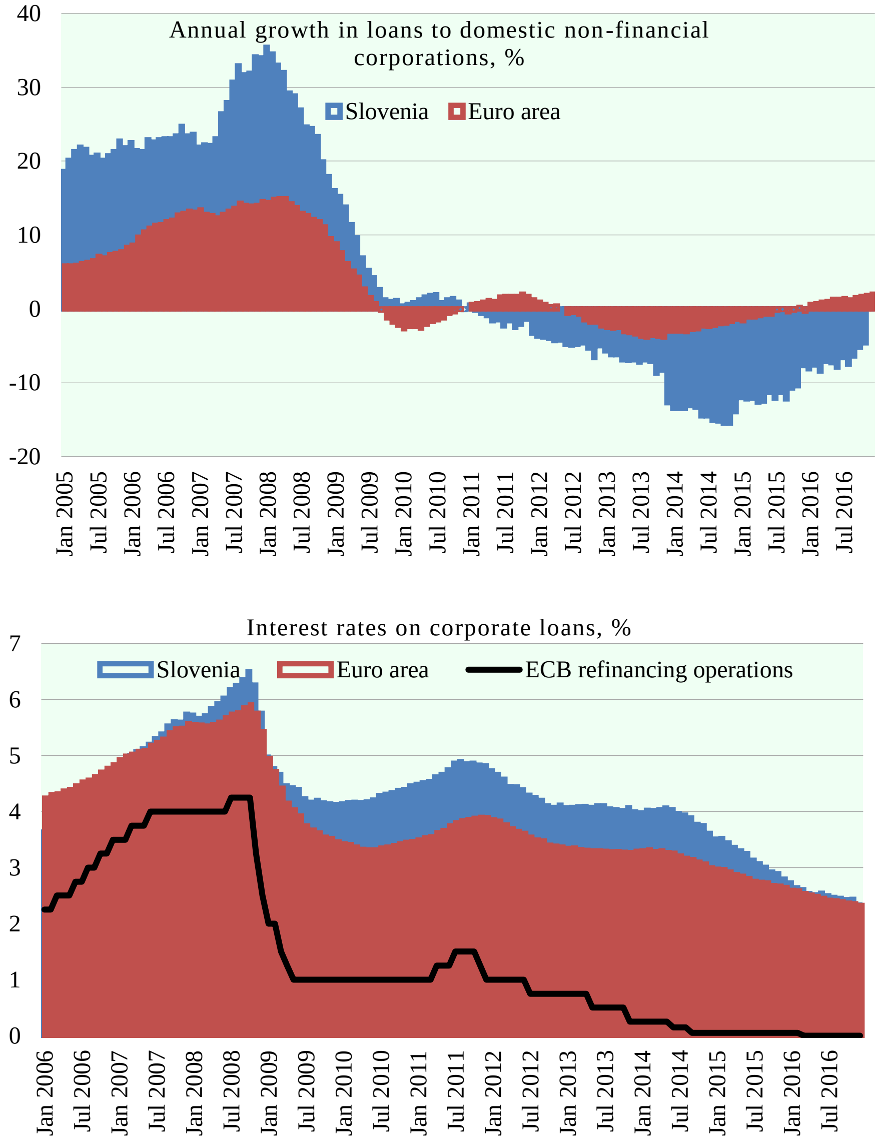
3.2.7 Non-standard monetary policy measures in Slovenia

The impact of non-standard measures on Slovenia can be monitored from the perspective of the basic objectives of the individual categories of measure. The basic purpose of the extraordinary longer-term refinancing operations is to encourage credit easing through the provision of additional long-term funding to the banking system. The Slovenian banking system's demand for such funding has been relatively low since 2014, the banks having faced excess liquidity, which is also attributable to the persistent and widening current account surplus. The excess liquidity nevertheless did not lead to increased lending activity. Household lending has recovered slightly over the last two years, but lending to the corporate sector has undergone a sustained contraction (see upper graph in Figure 22). The stalling of bank lending activity can be attributed to corporate deleveraging, the high level of non-performing claims on bank balance sheets, and reduced demand for loans caused by tighter lending terms. It is evident from developments in interest rates that the ECB's extremely low key interest rate during this period and the numerous non-standard measures have not to a great extent passed through into lower corporate borrowing costs (see lower graph in Figure 22). A significant fall in interest rates in the amount of 74 basis points was only evident in 2015, the dynamic having remained relatively stable between 2010 and 2013 with an average year-on-year fall of 15 basis points.

The stalling of bank lending activity can be attributed to corporate deleveraging, the significant level of non-performing claims on bank balance sheets, and reduced demand for loans caused by tighter lending terms.

[31] Banks in the euro area may obtain a loan from the central bank not solely via monetary policy operations, but also in exceptional circumstances via a loan of last resort, known as Emergency Liquidity Assistance (ELA). The allotment procedures are described at https://www.ecb.europa.eu/pub/pdf/other/201402_elaprocedures.en.pdf.

Figure 22: **Year-on-year growth in new bank loans to corporates and interest rates on new loans**



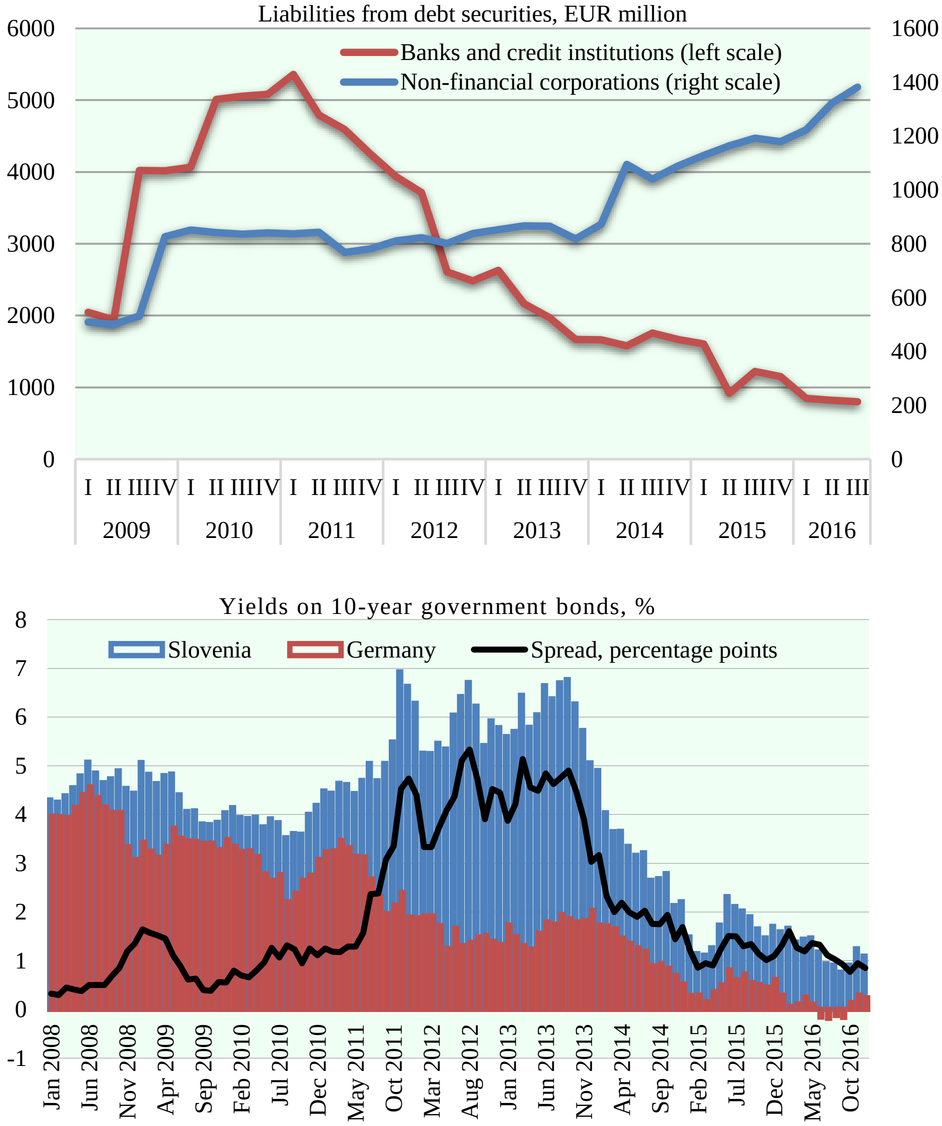
Sources: Bank of Slovenia (monetary statistics), ECB Statistical Data Warehouse

Alongside the extraordinary longer-term refinancing operations, the ECB non-standard measures also include purchase of debt securities. Prior to 2015 these measures primarily targeted purchases of covered bank bonds (CBPP and CBPP2), and purchases of government securities that were under pressure owing to concerns over the break-up of the euro area (SMP and OMT). There is no market for covered bonds in Slovenia, for which reason there was no direct impact. It is possible to discern an increase in issuance of corporate bonds and commercial paper after 2013, which Slovenian firms used to replace bank financing (see upper graph in Figure 23). Over the entire period the banks exploited the low interest rate environment to restructure their debt and to reduce the costs of existing liabilities, which had a beneficial impact on their profitability.

Monetary policy also mitigated the volatility in Slovenian bond yields.

The non-standard measures can be linked to the narrowing of the spread between the long-term yields on government bonds of euro area countries, and a reduction in the yields, which can most unbiasedly be assessed in the wake of the announcement of the individual purchase programmes. A large fall in yields on 10-year Slovenian bonds in the amount of 72 basis points was only evident in the wake of the announcement of the PSPP in early 2015 (see right graph in Figure 1b). In the preceding period, i.e. between 2009 and 2012, the fall in the wake of the announcement of the four programmes of bond purchases (CBPP, CBPP2, SMP and OMT) averaged just 3 basis points, an indication of the negligible link between announcements of purchases and bond yields. The sharpest fall in yields on Slovenian bonds was not related to monetary policy, but followed the orderly wind-down of Factor banka and Probanka, and the bank recovery and resolution and transfer of non-performing claims to the BAMC in late 2013: the year-on-year fall in the average yield on 10-year bonds between 2013 and 2014 amounted to 290 basis points. Monetary policy nevertheless also mitigated the volatility in Slovenian bond yields. This is significant, as the level and volatility of the yield on sovereign debt is the basis for borrowing costs in other segments, such as non-financial corporations.

Figure 23: **Stock of liabilities of banks and corporates from debt securities, and yield on 10-year Slovenian government bonds**



Source: Bank of Slovenia (unconsolidated financial accounts), Bloomberg

Indirect positive effects of the non-standard measures are also evident, via an improvement in the international environment and the impact on the euro exchange rate. The improvement in the economic situation in the most vulnerable countries as a result of the non-standard measures also had a beneficial impact, either directly or indirectly via their partners, on Slovenia's trade with euro area countries. Trade with partners in the EU increased by 30% between 2010 and 2016. An even larger indirect effect on Slovenia's foreign trade was achieved via the impact of the non-standard measures on the euro exchange rate. Trade with countries outside the EU almost doubled between 2010 and 2016.

Other beneficial effects of the non-standard measures can be seen indirectly, via the improvement in the international environment and the impact on the euro exchange rate.

3.3 Payment and settlement systems

Payment and settlement systems are a vital component of the broader financial system, as they ensure the reliable, safe, efficient and timely settlement of financial transactions. They thereby make a significant contribution to the smooth functioning of financial markets, and to general economic stability and efficiency. As the Eurosystem central bank the Bank of Slovenia operates the TARGET2-Slovenija payment system, and performs the function of settlement agent and agent bank for (payment) systems within the framework of which credit transfers, direct debits and payments ordered by payment cards are executed.

3.3.1 TARGET2

The TARGET2-Slovenija payment system, in which there were 19 participants at the end of 2016 (three less than at the end of 2015), represents the Slovenian component of the pan-European TARGET2 payment system, which functions on a single shared platform and is as a whole operated by the Eurosystem.

A total of 957,514 transactions with a total value of EUR 414.3 billion were settled in the TARGET2-Slovenija payment system in 2016, down 0.27% and 51.53% on 2015 respectively. With the volume of transactions settled remaining virtually the same, the majority of the decline in total value was attributable to a fall in the value of government deposits at participants (as a result of low and negative interest rates), and a fall in the value of liquidity transfers between participants in the TARGET2-Slovenija payment system under foreign ownership and their majority owners from abroad.

A total of 957,514 transactions with a total value of EUR 414.3 billion were settled in the TARGET2-Slovenija payment system.

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 platform commenced operations in June 2015, the most intensive phase of the project followed in 2016 with the preparation and execution of the migration of major national markets to T2S. Approximately half of the euro area markets began operating in T2S in 2015 and 2016, while the migration of the others is envisaged by September 2017. The Slovenian market began operating in T2S in February 2017. The Bank of Slovenia (cash accounts) and KDD – Central Securities Clearing Corporation (securities accounts) were responsible for Slovenia's migration to T2S. In cooperation with KDD, the Bank of Slovenia comprehensively monitored adaptations and guided activities for the migration of domestic market participants to T2S. In 2016 these activities mostly focused on testing, the legal arrangements, and the final preparations for the beginning of operations in T2S. Within the framework of Slovenia's T2S national user group, which is chaired by the Bank of Slovenia, a dialogue unfolded between the relevant stakeholders of the Slovenian securities market with the aim of helping to ensure the timely and efficient migration of the Slovenian market to T2S.

There were intensive preparations in 2016 for the migration of the Slovenian market to the pan-European T2S platform, operations beginning in February 2017.

3.3.3 Retail payment infrastructure

Involvement in numerous activities related to the establishment of infrastructure for instant payments.

As a direct participant in the STEP2-T pan-European payment system for SEPA credit transfers and SEPA direct debits, which is operated by EBA Clearing, in 2016 the Bank of Slovenia enabled banks and savings banks in Slovenia to exchange SEPA credit transfers with more than 4,300 payment service providers and to exchange SEPA direct debits with more than 3,500 payment service providers across Europe. The Bank of Slovenia performed the settlement agent function for five retail payment systems in 2016, via which credit transfers, direct debits and payments ordered by payment cards are executed, and in so doing provided payment systems participants for the settlement of their claims and liabilities deriving from their participation in these payment systems in risk-free central bank money in their accounts with it. Within the framework of this function, it also executed procedures for interbank settlement of orders deriving from pension payments.

The Bank of Slovenia was also involved in Eurosystem activities related to the establishment of pan-European infrastructure for instant payments, i.e. payments that are continuously available (24/7/365) where the payee's account is credited immediately or almost immediately after the payment order is submitted by the payer.

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, and supervised the operations of three payment institutions and one electronic money institution.

The Bank of Slovenia regularly monitored the operation and functioning of seven payment systems that operate under Slovenian law in 2016. It also conducted assessments of the operation and functioning of four payment systems in connection with compliance with Eurosystem oversight standards, and issued an authorisation for the amendment of the rules of one payment system.

The Bank of Slovenia also issues authorisations to non-bank entities to provide payment services (payment institutions) and electronic money issuance services (electronic money institutions). The Bank of Slovenia regularly supervised the operations of three payment institutions and one electronic money institution, and conducted one on-site inspection of the operations of a payment institution. The number of payment institutions fell to three in 2016, one payment institution having been absorbed by another[32] on the basis of a Bank of Slovenia authorisation.

3.3.5 Encouragement of activity on the part of participants in the payment services market

The National Payments Council is another forum where dialogue takes place with national stakeholders in the payment services market.

In its role as a catalyst (encouraging the activity of market participants), in 2016 the Bank of Slovenia again coordinated and guided the activities of the payment services market in accordance with Eurosystem policy, pursuing the objectives of security and efficiency in this area in so doing. The Bank of Slovenia also ensured dialogue with other stakeholders in the payment services market within the framework of the **National Payments Council**, which it established in 2013, and whose objective is to support the balanced and sustainable development of a market for secure and efficient payment services in Slovenia.. The Bank of Slovenia organised two sessions of the National Payments Council in 2016, at which current topics in the area of payment services were discussed, and issued

[32] The Bank of Slovenia publishes a register of payment institutions (http://www.bsi.si/placilni-sistemi.asp?MapaId=1465) and electronic money institutions (http://www.bsi.si/placilni-sistemi.asp?MapaId=1468) on its website as a centralised database of such entities. The Bank of Slovenia also publishes a list of institutions from countries of the European Economic Area that may provide payment services and electronic money issuance services in Slovenia on the basis of notification.

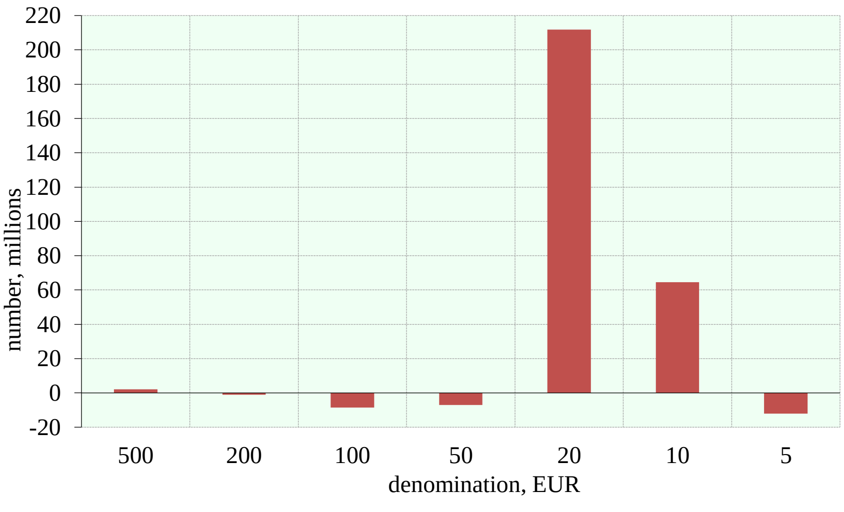
two e-newsletters[33] with the latest news in the area of payments in Slovenia and the EU.

3.4 Banknotes and coins

By the end of 2016, a net total of EUR 4.49 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro. This comprised EUR 4.41 billion in banknotes (249.41 million banknotes) and EUR 74.71 million in coins (260.30 million coins). In terms of quantity, the 20-euro note had the highest net issuance (211.73 million banknotes), followed by the 10-euro note (64.51 million banknotes) and the 500-euro note (2.04 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 (80.39 million coins) and 2-cent (54.42 million coins), while the lowest net issuance was recorded by the 1-euro (9.47 million coins). The Bank of Slovenia supplied euro cash to the market throught its banknote depots, whose operations were coordinated by the Bank of Slovenia on a daily basis.

In conjunction with the other national central banks of the Eurosystem, in 2016 the Bank of Slovenia continued its activities for the introduction of a fourth banknote in the Europa series (after the 5-, 10- and 20-euro notes), the new 50-euro note, which will be issued into circulation on 4 April 2017. Like the first three in the series, the 50-euro banknote also has enhanced security features.

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



Source: Bank of Slovenia

In 2016 the Bank of Slovenia issued a commemorative coin into circulation to mark the 25th anniversary of the independence of the Republic of Slovenia, and a collector coins to mark the 150th anniversary of the Red Cross in Slovenia.

The Bank of Slovenia organised the issuance, distribution and storage of general circulation and commemorative coins for the Republic of Slovenia on the basis of the Commemorative Coins Act.[34] In 2016[35] the Bank of Slovenia issued a commemorative 2-euro coin into circulation to mark the 25th anniversary of the independence of the Republic of Slovenia (1 million coins

[33] The e-newsletters are available online at http://www.bsi.si/svet-placila.asp?MapaId=1756.
[34] For more, see the Numismatic News section on Bank of Slovenia website (http://www.bsi.si/en/banknotes-and-coins.asp?MapaId=950).
[35] For more on collector products issued in 2016, see http://www.bsi.si/iskalniki/priloznostne-izdaje-BS-en.asp?mapaid=954&leto=2017.

were minted), and collector coins to mark the 150th anniversary of the Red Cross in Slovenia (1,000 gold, 2,000 silver and 114,500 bi-coloured 3-euro coins). For the collector market the Bank of Slovenia issued a collection of euro coins minted in 2016 in BU (brilliant uncirculated) and proof versions, and a 2-euro commemorative coin and 3-euro collector coin, both proof-quality. The collector products issued by the Republic of Slovenia and the Bank of Slovenia are available at Bank of Slovenia counter[36] and at selected branches of the Bank of Slovenia's two agents for collector products, Deželna banka Slovenije and NKBM.

Figure 25: **Collector coins issued in 2016**

Collector coin marking the 150th anniversary of the Red Cross in Slovenia (left), and commemorative coin marking the 25th anniversary of the independence of the Republic of Slovenia (right)

Figure 26: **Collection of Slovenian euro coins in 2016**

The total value of the tolar banknotes, coins and payment notes still in circulation at 31 December 2016 was EUR 41.58 million. This comprised

The total value of the tolar banknotes, coins and payment notes still in circulation at the end of 2016 was EUR 41.58 million.

[36] The Bank of Slovenia counter service has been based at Štefanova 1, Ljubljana since September 2016. The office hours are 9 am to 1 pm on Monday to Friday, plus 2 pm to 3.30 pm on Wednesdays.

46.51 million tolar banknotes (worth SIT 7.42 billion or EUR 30.94 million), 443.52 million tolar coins (worth SIT 2.14 billion or EUR 8.95 million) and 20.92 million payment notes (worth SIT 403.62 million or EUR 1.68 million).

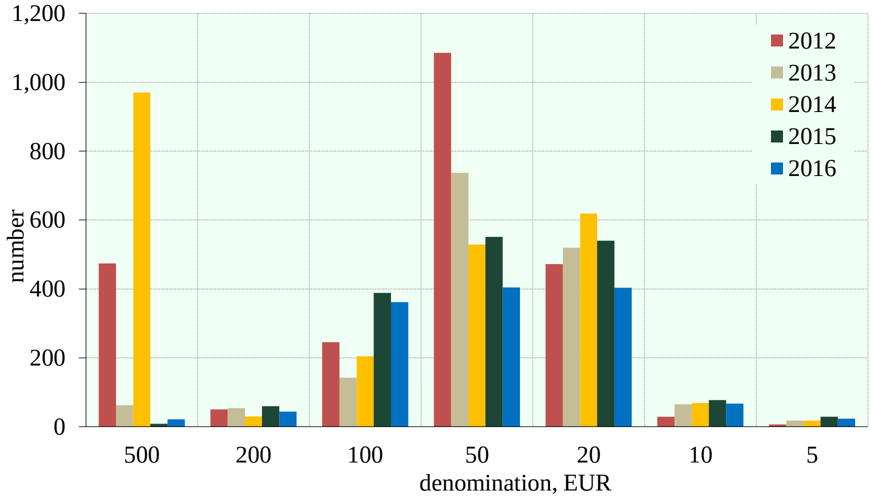
Compared with the figures from the end of 2005, 58.92% of the tolar banknotes have been returned from circulation (96.53% of the total value of the tolar banknotes), while only 13.91% of the tolar coins have been returned (38.17% of the total value). The payment notes and tolar banknotes are exchangeable at Bank of Slovenia counters with no time limit, while the last day for exchanging tolar coins was 3 January 2017.

The total number of transactions via the counter of the Bank of Slovenia rose again last year. A total of 2,810 counter receipts and outlays of euro cash (2015: 2,705) and 2,453 incoming and outgoing payments of cash for the needs of government bodies (2015: 2,495) were made in 2016, while there were 3,767 exchanges of tolar banknotes and coins (2015: 2,016).

The Bank of Slovenia cash processing unit sorted 64.71 million banknotes and coins, compared with 26.36 million in 2015. A total of 63.44 million banknotes and 1.27 million coins were sorted in 2016 (compared with 25.55 million banknotes and 808,550 coins in 2015). A total of 10.12 million banknotes were taken out of circulation and destroyed in order to maintain the quality of banknotes in circulation (compared with 8.75 million banknotes in 2015).

A total of 1,323 counterfeit euro banknotes and 1,030 counterfeit euro coins were withdrawn[37] from circulation in 2016, compared with 1,653 euro banknotes and 1,092 euro coins in 2015. In terms of quantity, 50-euro and 20-euro notes accounted for the largest proportion of counterfeit banknotes (61.0% in total, their numbers separated by just one), while 2-euro coins accounted for the largest proportion of counterfeit coins (59.1%). The Eurosystem figures in this area rank Slovenia among countries where a small number of counterfeits are withdrawn from circulation. Some 80 foreign currency counterfeits (US dollars and pounds sterling) were withdrawn from circulation in 2016, compared with 39 counterfeits in 2015. The quality of foreign currency counterfeits has remained at approximately the same level.

Figure 27: **Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination and year**



Source: Bank of Slovenia

[37] 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.

3.5 Joint management of the ECB's foreign reserves

The Bank of Slovenia and the Central Bank of Luxembourg were among the most successful in the Eurosystem in their joint management of the ECB's foreign reserves.

The Bank of Slovenia also manages part of the ECB's foreign reserves. Upon the introduction of the euro on 1 January 2007, the Bank of Slovenia transferred a portion of its foreign reserves in US dollars and gold to the ECB. The main purpose of the ECB's foreign reserves is to ensure adequate liquidity for operations on the currency market. All euro area national central banks have contributed their shares to the ECB's foreign reserves, which they manage jointly with the ECB. Since 1 January 2007 the Bank of Slovenia and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves, and were among the most successful of the central banks in the Eurosystem in so doing in 2016. In addition to the foreign reserves transferred to the ECB, the Bank of Slovenia also holds a portion of its investments in foreign currency in case the ECB calls for additional foreign reserves, which is in accordance with Article 30 of the Protocol on the Statute of the ESCB and the ECB.

3.6 Banking supervision

The objective of the Bank of Slovenia's supervisory activities is identifying risks in all areas of the operations of banks and savings banks (credit risk, liquidity risk, operational risk, capital risk, interest rate risk, profitability risk, internal controls, corporate governance, reputation, anti money laundering) in timely fashion, and ensuring the stability of credit institutions and the system through effective action.

The establishment of the SSM saw **supervision of significant institutions (SIs) in the EU**[38] transferred to the ECB in 2014, although this supervision is conducted in **operational terms via joint supervisory teams** (JSTs). The JST for each bank consists of a coordinator from the ECB, and members from the national supervisory authority and the ECB. The national supervisory authorities (the Bank of Slovenia in Slovenia's case) participate in all the supervisory activities, while the supervisory decisions with regard to these banks are made by the ECB.

The supervision of banks that do not meet the criteria for being classed as SIs, i.e. **less significant institutions** (LSIs), is conducted by national supervisors, i.e. the **Bank of Slovenia** in Slovenia's case, in accordance with the rules and methodology of the ECB and the SSM. National supervisors regularly submit supervisory data for LSIs to the ECB, and inform it of the findings of their supervision. The national supervisory authorities may consult the ECB on the imposition of measures, but the final decision is their responsibility, other than in exceptional cases. The new arrangements also allow the ECB to directly take over the supervision of LSIs 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.

Four banks and three savings banks remain under the direct supervision of the Bank of Slovenia.

There were three banks in Slovenia classed as SIs under the direct supervision of the ECB in 2016, whose supervision is conducted via a JST: NLB d.d., NKBM d.d. and Abanka Vipa d.d. The SIs included banks that are members of banking groups established in euro area countries and that constitute a significant banking group. Four banks and three savings banks remain under the direct supervision of

[38] According to the ECB criteria, significant institutions are banks (1) whose total assets amount to more than EUR 30 billion or more than 20% of GDP (except banks whose total assets are less than EUR 5 billion); (2) who are among the three largest banks in the country; (3) who have received funding from the European Stability Mechanism; (4) whose total assets amount to more than EUR 5 billion and who account for more than 20% of the assets/liabilities in a single Member State.

the Bank of Slovenia. Three branches of banks and banking groups of Member States were also operating in Slovenia at the end of the year.

Table 3: **Significant banks and less significant banks (as at 28 February 2017)**

SIGNIFICANT BANKS (SIs)	LESS SIGNIFICANT BANKS (LSIs)
NLB d.d.	Gorenjska banka d.d.
Nova KBM d.d.	Deželna banka Slovenije d.d.
Abanka d.d.	Addiko bank d.d.
UniCredit banka Slovenija d.d.	Delavska hranilnica d.d.
SKB banka d.d.	Hranilnica LON d.d.
Banka Intesa Sanpaolo d.d.	Primorska Hranilnica Vipava d.d.
Sberbank banka d.d.	SID Slovenska izvozna in razvojna banka d.d.*
Banka Sparkasse d.d.	

Note: *Has special status as a bank specialising in promotion of exports and development. Supervision is conducted by the Bank of Slovenia.

3.6.1 Supervision of significant banks

A JST is appointed for each significant 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.

Table 4: **Framework composition of JST for NLB and NKBM**

Coordinator	ECB representative
Sub-coordinator	Bank of Slovenia representative
Members	Bank of Slovenia representatives (2-3) and ECB representatives (3)

A JST is appointed for each significant bank.

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**. The inspections for significant banks are coordinated 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 2016 the ECB adopted Supervisory priorities and set out the Minimum engagement level of supervisory activities for all significant banks with regard to the size and liquidity profiles of the banks. A Supervisory examination programme of ongoing supervisory activities and an on-site inspection plan for 2016 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).[39] The SREP is based on the review and evaluation of the business model, the internal governance and risk management system, the level of individual risks, including the internal capital adequacy assessment process (ICAAP) put in place by the bank, and liquidity. Stress tests were also conducted within the framework of the SREP in 2016. **On the basis of the bank's risk profile, the ICAAP and the results of the stress tests, a determination is made of the level of capital adequacy that the bank must maintain until the next SREP.**

The other supervisory activities at significant banks in 2016 focused primarily on credit risk, operational risk, and corporate governance and risk management.

In the area of credit risk, which is the most significant risk in the banking system, the following activities were carried out in 2016, alongside the ongoing supervision of banks:

- **Two significant banks in Slovenia were included in the NPL Task Force**, which was activated at all significant banks with a high level of non-performing loans within the framework of the SSM. The purpose was to obtain a horizontal overview of various practices in the management of non-performing claims, and to order the banks to take corrective measures in the event of deficiencies being identified. In the area of oversight the ECB Within the NPL Task Force ECB issued its Guidance to banks on non-performing loans. The ECB also issued a supervisory letters to banks for areas where their practices were found not to comply with the guidance, with requirements for corrective measures. **Improvements are required in the area of the strategy for managing and monitoring non-performing loans, restructuring of loans, creation of impairments, write-off policy, collateral valuation and remuneration policy.**

- The JST conducted a limited review of the credit process at one of the significant banks. The objective was to examine the entire procedure for recognising cured credit exposures, and to identify any non-compliance with banking regulations. **On the basis of the deficiencies identified, the bank was issued a supervisory letter with four requirements to improve the recognition of cured exposures.**

- An inspection of credit risk began at two significant banks, which encompassed a review of the internal rating system, the proper recognition and reporting of non-performing exposures, forborne exposures and cured exposures, the methodology for creating impairments, and individual credit files. The inspection process had not been completed by the end of 2016.

An **inspection of operational risk** with a focus on IT risks was conducted at one of the significant banks. At two significant banks the JSTs monitored how the banks implemented the action plans for rectifying deficiencies identified in the previous year in the thematic review of Risk **governance and appetite**. The **majority of the deficiencies were rectified**, and the inspection will be completed in 2017. At one of the banks an enhanced follow-up review was begun in 2016, within the framework of which there will be a detailed examination of board's oversight role on the internal control functions , setting and monitoring the limit system , and interplay between the risk appetite limits and strategy.

[39] The SREP is conducted annually at banks (annual prudential assessment). Risks are assessed at the bank on the basis of the SREP, and appropriate measures are taken where necessary.

The JSTs also conducted a **review of disclosures under Regulation (EU) No 575/2013**, i.e. disclosures providing comprehensive information about the bank's risk level,[40] at five significant banks. The banks' disclosures are in general improving and becoming higher in quality, although there remain certain deficiencies that partly derive from the new regulatory requirements and greater expectations on the part of the supervisor. Deficiencies were identified in disclosures relating to the calculation of capital requirements, impaired assets, the assessment of risk appetite, key policies related to the supervisory board selection process and diversity, and remuneration policy and practice related to management body. **The banks must rectify the deficiencies in disclosures for the 2016 financial year.**

Members of JSTs participated in the formulation of 24 assessments of the suitability of members of governing bodies.

Members of JSTs participated in **24 fit and proper assessments of members of management bodies**confirmed and adopted at ECB level, and a disqualification procedure was initiated in one case. They also participated in the issue of authorisations for qualifying holdings and authorisations for mergers with absorption: **four such authorisations** were issued in 2016.

The banks again submitted updated **recovery plans** at the end of 2016, which the JSTs will review in 2017.

3.6.1.1 Irregularities identified and measures at significant banks

There were 119 irregularities identified in the supervision of the operations of significant banks in 2016.

In the supervision of significant banks, there were 119 irregularities identified in their operations in 2016, of which the largest number were in credit risk management, operational risk management and corporate governance, where the supervision was focused. The findings are given in the table below. As stated, certain irregularities were rectified in 2016, while the rectification of the others will be monitored in 2017.

Table 5: **Irregularities identified**

Area	Number of irregularities/deficiencies identified	Key findings
Operational risk	**37**	• inadequate management of operational risk and IT risk • inadequate IT system architecture and IT security management • incomplete databases of loss events • inadequate early warning system (EWS) and inadequate stress testing
Corporate governance	**36**	• inappropriate composition of supervisory board and deficient knowledge of supervisory board

[40] Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R0575&from=EN.

		members • deficient risk appetite framework • deficient knowledge in key control functions • deficient documentation of ICAAP and ILAAP*
Credit risk and early warning system (EWS)	**33**	• inappropriate client reclassification • different client rating in group of connected clients • outdated information on clients • inadequate database for calculation of LGD and PD** • inadequate collateral management and procedure for reporting forborne exposures
Interest rate risk	**7**	• segregation of interest rate risk function • staff turnover • deficiencies in reporting • inadequate inclusion of interest rate risk in ICAAP*
Market risk	**5**	• deficiencies in derivatives transactions
Liquidity risk	**1**	

*ICAAP: internal capital adequacy assessment process; ILAAP: internal liquidity adequacy assessment process; **LGD: loss given default; PD: probability of default

Table 6: **Supervisory measures imposed on significant banks**

Type of measure	**Number of measures imposed**
Decision to initiate procedure to revoke authorisation to perform the function of a member of a bank's management board	1
Decision staying procedure to prohibit performance of the function of member of a bank's supervisory board	1
Supervisory letter issued	12

3.6.2 Supervision of less significant banks

Within the framework of the **SREP**, in 2016 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 2016.**

The Bank of Slovenia imposed a capital increase measure on two banks in 2016.

Three supervisory reviews were conducted at less significant banks in 2016, in the areas of credit risk, liquidity risk, interest rate risk, operational risk, profitability risk, the business model and corporate governance.

3.6.2.1 Irregularities identified and measures at less significant banks

There were 61 irregularities and deficiencies identified in the supervision of less significant banks in 2016, almost half of which were in corporate governance. There was a sharp fall in the number of irregularities identified in the area of credit risk compared with 2015 (from 29 to five). As stated, certain irregularities were rectified in 2016, while the rectification of the others will be monitored by the Bank of Slovenia in 2017.

There were 61 irregularities and deficiencies identified in the supervision of less significant banks.

Table 7: **Irregularities identified**

Area	**Number of irregularities/deficiencies identified**	**Description of key irregularities**
Corporate governance	**30**	• inappropriate quality and composition of governing bodies • inadequate decision-making process • deficiencies in strategic planning and internal auditing

		• omission of professional diligence
Operational risk	**7**	
Credit risk	**5**	• establishment of early warning system (EWS) • inadequate creation of impairments • conflict of interest in loan approval • inappropriate risk appetite framework
Liquidity risk	**5**	• inadequate document management and segregation of powers and responsibilities • requisite liquidity reserves and improper reporting of liquidity gaps • deficient monitoring of indicators defining crisis situation
Interest rate risk	**5**	• absence of strategy and policy in the area • deficient segregation of responsibilities at highest decision-making level • deficiencies in production of reports on interest rate risk • lack of comprehensive and effective communication at highest management level
Capital risk	**3**	• deficient internal capital adequacy • financing of purchase of own shares • non-inclusion of subsidiary in prudential consolidation

Business model and profitability risk, strategic risk, reputation risk, internal controls	**6**

Table 8: **Supervisory measures imposed on less significant banks**

Type of measure	**Number of measures imposed**
Order on the rectification of breaches	3
Order on the rectification of breaches with additional measures	2
Decision to initiate procedure to revoke authorisation to perform the function of a member of a bank's management board	1
Post-inspection letter	2

Supervision of the operations of the three branches of foreign banks and banking groups of Member States (two from Austria and one from France) present in the Slovenian banking market was conducted by the Bank of Slovenia via regular reports, requests for additional clarification, and the monitoring of the liquidity positions of the branches. **No measures were imposed on the branches in 2016.**

3.6.3 Horizontal banking supervision

Examiners specialising in individual risks conducted reviews of various risk areas at 11 banks in 2016.

On-site inspections were ordered by the ongoing supervision groups. The purpose of the inspections was enhanced analysis of various risks, internal control systems, business models and governance. The inspections are conducted on the premises of the institution under review, according to a predetermined scope and timeframe. They are conducted by examiners specialising in individual risks. It is important that the head of the team and the inspection team itself work independently from the ongoing supervision groups. **Reviews of various risk areas were conducted at 11 banks in 2016.** The majority of the reviews were conducted in the area of credit risk, followed by liquidity, governance, and operational risk. Four reviews of the eligibility of collateral for monetary operations at the ECB were also conducted.

Because the SSM regulation stipulates that supervisors employed by the ECB or supervisors from other competent national authorities of countries in the SSM may participate in on-site inspections for significant banks alongside supervisors employed by the Bank of Slovenia, in one case the review was headed by a manager from the ECB's specialist organisational unit, while in two cases supervisors not employed by the Bank of Slovenia participated in the review.

3.6.4 Supervision of compliance and AML/CFT

Within the compliance supervision the Bank of Slovenia carried out several activities in 2016 with special emphasis on the prevention of money laundering and terrorist financing (hereinafter: AML/CFT), and the implementation of restrictive measures. Certain compliance activities such as fraud, abuse of inside information, breaches of laws and regulations, etc. were carried out by the Special Inspection Group (SIG) within the Bank of Slovenia.

Even though that Single Supervisory Mechanism (SSM) was introduced in 2014 the area of AML/CFT remains the responsibility of national competent authorities.. Thus AML/CFT supervision remains one of the Bank of Slovenia's key tasks in order to assess the quality of management with risk of ML/TF at banks and savings banks.

The area of prevention of money laundering and terrorist financing at banks remains the responsibility of national competent authorities.

Major activities carried out in 2016 included an AML/CFT risk assessment including on-site inspections, and the Moneyval assessment:

- AML/CFT risk assessment including on-site inspections

In 2016 the banks continued to **report regularly on the situation in the area of AML/CFT**,[41] which is the basis for defining AML/CFT risk profile of individual banks and of the banking sector as a whole. Appropriate supervisory activities were conducted later, depending on the individual institution's AML/CFT risk profile.

Four direct AML/CFT inspections of banks were conducted in 2016. One case involved a comprehensive inspection, one was a targeted inspection, and two were follow-up inspections with purpose to identify whether the banks had rectified the deficiencies and breaches identified in previous inspections.

On the basis of the on-site inspections, it was found that in 2016 there were no significant changes referring the system of internal controls in the area of AML/CFT. The banks' awareness of the importance of AML/CFT risk management remains relatively high, what is also evident from the statistics of measures imposed in the area of AML/CFT and the statistics of suspicious transactions reports submitted to the Office for Money Laundering Prevention by the banks. Between 2015 and 2016 certain new threats appeared, such as terrorist financing, the refugee issue and transactions in virtual currencies, which will require appropriate attention in conducting supervisory activities in the future.

The banks' awareness of the importance of AML/CFT risk management remains relatively high.

- Moneyval assessment

A comprehensive Moneyval assessment was conducted in 2016, i.e. an assessment carried out by the special committee within the Council of Europe, whose purpose was **determining whether Slovenia has implemented the Financial Action Task Force (FATF) recommendations in the area of AML/CFT**. According the FATF assessment methodology the following areas are reviewed: i) the adequacy of national legislation in the area of AML/CFT, ii) the effective implementation of preventive measures in the financial and non-financial sectors, and iii) the effectiveness of proceedings conducted by the law enforcement agencies.

The assessment activities were coordinated by the Office for Money Laundering Prevention, with active participation of the Bank of Slovenia, considering the fact that assessment of implemented measures is an important part of Moneyval evaluation..

[41] The risk-based approach is well-established in the area of AML/CFT, and in accordance with the EU directive and national legislation it must be taken into account by institutions with obligations under the legislation and by the competent national authorities, with the aim of properly identifying and understanding the risks and taking the appropriate mitigating measures.

In addition to written information provided, the Moneyval assessors also met representatives of the Bank of Slovenia and six commercial banks. The assessment process will be finished in the first half of 2017, by adoption of Moneyval report at the Moneyval plenary meeting in May.

As a result of a number of regulatory changes in the area of AML/CFT in the recent period, the Bank of Slovenia was also active in monitoring the activities at the level of EU supervisory authorities in 2016. In this respect it should be pointed out that first drafts of EBA guidelines and technical standards were issued with aim to ensure **standard interpretation and implementation of AML/CFT requirements across the entire EU**. Guidelines issued by EU supervisory authorise will be considered in AML/CFT guidelines issued by the Bank of Slovenia.

Box 5: **Misdemeanours proceedings against supervised entities in 2016**

In accordance with the legislation in this area (in particular the Banking Act, the Payment Systems and Services Act, the Prevention of Money Laundering and Terrorist Financing Act, the Consumer Credit Act and the Foreign Exchange Act), the Bank of Slovenia is also **responsible for conducting and ruling on misdemeanours proceedings against supervised entities**. Misdemeanours proceedings are usually conducted against the responsible person(s) in conjunction with the misdemeanours proceedings against a supervised entity. The Bank of Slovenia also initiates misdemeanours proceedings on the basis of information and reports submitted from bank clients. **The Bank of Slovenia conducted a total of 29 combined misdemeanours proceedings in 2016, of which 18 ended in *res judicata* outcomes.**

Two admonishments, two reminders and one fine were pronounced. The decision taken in 13 proceedings was that the misdemeanours body would not issue a misdemeanour ruling, because the alleged conduct was not a misdemeanour or because it was not proven that a misdemeanour had been committed by the perpetrator.

3.6.5 Stress tests

The findings of the stress tests in 2016 were used as one of the input parameters in the annual supervisory review and evaluation process.

In accordance with Article 100 of the CRD IV,[42] which requires supervisors to conduct annual stress tests, the Bank of Slovenia conducted bottom-up stress tests[43] of the banking system. The stress test are part of regular supervisory activities.

The stress tests in 2016 were aimed at identifying key risks at the individual tested banks and savings banks. **The findings of the stress tests were used as one of the input parameters in the annual Supervisory Review and Evaluation Process (SREP) at the individual bank or savings bank.** Risks are assessed at the bank or savings bank on the basis of the SREP, and appropriate measures are taken where necessary.

All banks and savings banks classed as LSIs, including SID banka and the subsidiary banks under majority foreign ownership, were included in the stress tests conducted between 18 March and 20 July 2016. NLB and NKBM were included in the parallel stress tests conducted under the aegis of the ECB, which also followed the EBA methodology, while stress tests were conducted on

[42] 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), online at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:En:PDF.

[43] Bottom-up stress tests are a standard tool used to test the sensitivity of the banks to selected shocks. They include two macroeconomic scenarios (baseline and adverse), and currently apply a three-year time horizon. Standard international practice dictates that stress tests be performed according to the bottom-up approach if they serve as the basis for assessing additional capital requirements.

Abanka within the framework of the comprehensive assessment of the bank owing to its classification as an SI in 2016.[44]

The general assumptions and methodology drawn up by the EBA for the pan-European stress tests in 2016 were taken into account in the stress tests. Two scenarios[45] were envisaged on the basis of the macroeconomic assumptions, and were applied to the consolidated data from the closing accounts for 2015. The time horizon of the exercise was three years (2016, 2017 and 2018).

In general, the stress tests aimed at identifying the key risks at specific banks and savings banks revealed a lack of qualified staff, knowledge and skills to be a common problem for Slovenian banks (including the significant banks). The banks are also weak in the areas of model support and adequate databases.

3.6.6 Activities to reduce banks' NPLs

The Bank of Slovenia continued its work in the reduction of non-performing loans (NPLs) in 2016. The activities were part of a special project, and focused primarily on direct supervisory activities, improvements in the processes for restructuring micro, small and medium-size enterprises (MSMEs), and cooperation at the ECB level.

In 2016 the Bank of Slovenia conducted individual **supervisory interviews with the eight banks most heavily exposed to NPLs**, within the framework of which it reviewed the success of their implementation of strategies to manage NPLs and the realisation of individual plans to reduce NPLs. It required the banks to **draw up and submit plans to reduce NPLs over the next three years** (2017 to 2019), and conducted and wrote up regular **analysis of the implementation of master restructuring agreements** (MRAs; for more, see Box 6).

Banks in Slovenia face a variety of obstacles to reducing NPLs. One of the largest is that there is **no organised market for NPLs**, an issue also faced by other euro area countries. Other euro area countries are facing challenges in connection with the reduction of NPLs, for which reason a special NPLs task force was established **at ECB level in 2016**, on which Bank of Slovenia representatives sit. The task force drew up a report on the burden placed on EU banking systems by non-performing loans, on their impact on financial stability and economic activity, and on examples of best practice for their resolution. The report cites Slovenia as one of the countries that has successfully reduced its NPL ratio. The ECB task force drafted **guidance to banks on non-performing loans for all SIs**, which was subject to public discussions between September and November 2016. The final text of the guidance was drafted on the basis of the comments and proposals from the public discussion, and was published by the ECB in March 2017.

The Handbook for Effective Management and Workout of MSME NPLs addresses all important areas of the resolution of non-performing loans to micro, small and medium-size enterprises.

In 2016 the Bank of Slovenia carried out additional activities for the operationalisation of the **Guidelines for managing the non-performing claims of MSMEs from 2015.** To this end by the end of 2016 it had drafted the **Handbook for Effective Management and Workout of MSME NPLs**[46](published March 2017) in conjunction with representatives of the World Bank and within the framework of technical assistance received from the

[44] For more on Abanka, see Section 1.4.1.

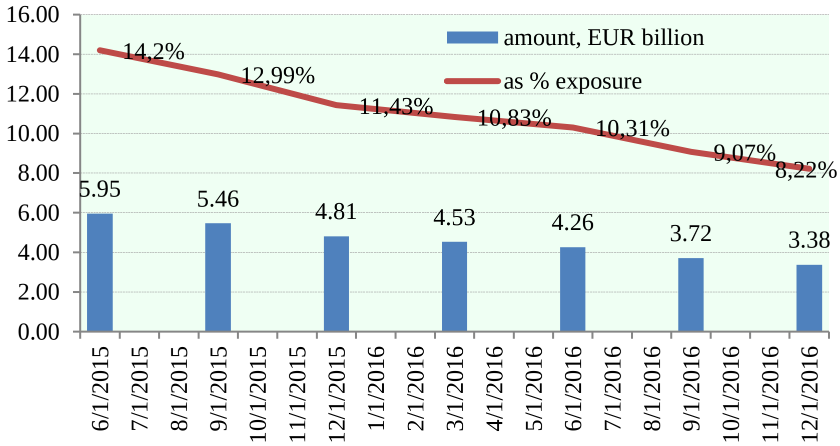
[45] The baseline scenario was based on the European Commission's autumn economic forecasts (released 5 November 2015), which was expanded for the purposes of the stress tests with a projection to the end of 2018. The adverse scenario reflected four systemic risks identified as the most pertinent by the European Systemic Risk Board (ESRB) and the ECB: 1. an abrupt reversal of compressed global risk premiums, amplified by low secondary market liquidity, 2. weak profitability prospects for banks and insurers in a low nominal growth environment, amid incomplete balance sheet adjustments, 3. rising debt sustainability concerns in the public and non-financial private sectors, amid low nominal growth, and 4. prospective stress in a rapidly growing shadow banking sector, amplified by spillover and liquidity risk.

[46] The Handbook for Effective Management and Workout of MSME NPLs is online at http://www.bsi.si/en/publications.asp?MapaId=2195.

European Commission. It focuses on all important areas of the resolution of non-performing loans to SMEs at banks, and will be included in the package of regulations for the area of credit risk.

Partly as a result of the aforementioned efforts by the Bank of Slovenia, the level of NPLs in the banking system declined again in 2016.

Figure 28: **Non-performing exposures according to EBA definition, in EUR billion and percentages**[47]



Box 6: **Monitoring the implementation of corporate MRAs**

The banks have reported to the Bank of Slovenia on the status of master restructuring agreements (MRAs)[48] in the existing manner since March 2015. The Bank of Slovenia encouraged the signing of MRAs, as they provide for a collective, coordinated approach to the resolution of non-financial corporations that minimises the losses of the creditor banks.

Bank of Slovenia examiners monitor the exposures of significant firms/groups that have signed an MRA, undertake an assessment of material MRAs twice a year, and use the information obtained in their regular supervision and oversight of banks.

At the end of 2016 banks were reporting to the Bank of Slovenia on 82 MRAs signed after the second half of 2013 or in 2014 at the latest.

On the basis of the reports the Bank of Slovenia found 50% of the MRAs to be successful, 20% unsuccessful and 30% partly successful. This breakdown has been relatively stable over different periods. **The total exposure of the monitored debtors in the banking system amounted to EUR 1.5 billion at the end of 2015, but had fallen to EUR 1.3 billion by the end of June 2016.** The main reasons for the decline in exposure were the sale of firms, divestment, repayment from cash flow generated, the sale of claims, and the transfer of claims from the BAMC to SDH. It is evident from the reports that cases where the restructuring of the debtor’s financial liabilities was accompanied by operational restructuring (optimisation, search for new markets, focus on products with higher margins), and by ownership consolidation and recapitalisation were more successful.

It is also evident from bank reports that there are several obstacles to the realisation of requirements from

[47] The information on non-performing exposures is online at http://www.bsi.si/en/banking-supervision.asp?MapaId=1890.

[48] According to the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks (Appendix I, Section 3.3.1.1, ninth paragraph), the agent bank of an MRA is required to report to the Bank of Slovenia when either 1) a medium-size of large enterprise (according to the ZGD-1) or 2) a small enterprises whose total exposure at all banks exceeds EUR 3 million is undergoing restructuring, and the restructuring simultaneously involves at least three banks, or undertakings in a group (according to Article 63 of the ZGD-1) that meet the first or second of the aforementioned conditions.

MRAs:

- a failure to achieve the planned business results (a failure to meet the debtor's financial commitments to creditors, over-optimistic planning in certain cases);
- ineffective divestment from assets not essential to the business;
- difficulties in using participating interests in firms in the rest of the world as collateral;
- loss of confidence between the creditors and the debtor, consequently leading to the appointment of a joint representative of the banks;
- discord between individual creditors as a result of differing views of the resolution of the debtor;
- slow implementation of activities in connection with operational restructuring;
- lack of transparency in ownership, which clouds business relationships.

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.

The most significant risks in the banking system diminished in 2016.

The strategic framework of macroprudential policy, which provides the basis for the administration of macroprudential policy through the use of instruments directly under Bank of Slovenia control, consists of the Guidelines for the macroprudential policy of the Bank of Slovenia, which were published in early 2015, and the *Macroprudential policy for the banking sector* document, which builds on these guidelines. Updates to the strategic documents were prepared during 2016.[49]

Box 7: **Risks in the banking sector**

The Bank of Slovenia regularly assesses the level of risks in the banking system, and their expected development. In 2016 there was a trend of decline in the most significant risks, which over the last three years has been partly attributable to the favourable macroeconomic environment and positive forecasts. **Credit risk** declined further last year as a result of the improved financial position of firms and households, and an increase in the banks' activities in resolving non-performing claims. **Income risk** was also lower than in previous years. After five years of losses, the positive profitability seen in 2015 improved further last year, which was also attributable to the reduction in the level of credit risk. The decline in impairment and provisioning costs was a significant factor in profitability, and the continuing growth in capital adequacy. **Solvency risk** also ended the year at a lower level, and is a reflection of the banks' increased resilience to unexpected shocks. The small domestic banks remain more vulnerable than average.

Performance in the low interest rate environment nevertheless remains a significant limitation for banks in achieving the requisite profitability, particularly in light of the ongoing contraction in turnover. The change in the financing models for corporate investment with a greater focus on resources from the rest of the world, parent firms in particular, and on internal resources brought a reduction in demand for bank loans and a further contraction in bank lending activity. Income risk therefore remained one of the most significant risks at the banks, with a trend of increase. The banks continued to modify their business models in the direction of increased household financing and longer loan maturities, with more favourable interest rate terms. The structure of bank funding is increasingly based on domestic resources and less on wholesale funding, although their stability is declining as a result of shortening maturities. The shortening of average funding maturity increased the banks' exposure to interest rate risk and increased the importance of maintaining an adequate level of liquidity. In the event of a deterioration in bank profitability, which could reduce the capacity to generate internal capital, solvency risk could also increase again.

[49] Macroprudential policy strategy: https://www.bsi.si/en/financial-stability.asp?MapaId=1740.

The Bank of Slovenia uses six macroprudential instruments.[50] In 2016 it **developed two additional macroeconomic instruments** in the form of recommendations: the recommended **maximum level of the LTV ratio**, and the recommended **maximum level of the DSTI (debt service-to-income) ratio**.

The macroprudential recommendation is a maximum LTV ratio of 80% for housing loans.

The macroprudential recommendation sets the maximum LTV at **80%**. The recommended maximum of the DSTI ratio is 50% for borrowers with monthly income less than or equal to EUR 1,700, and 50% for that portion of income up to EUR 1,700 inclusive and 67% for that portion of income exceeding EUR 1,700 for borrowers whose monthly income is greater than EUR 1,700. Moreover, in the loan approval process (when assessing creditworthiness) it is recommended that banks apply, *mutatis mutandis*, the limitations on the attachment of a debtor's financial assets set out in the Enforcement and Securing of Claims Act and the Tax Procedure Act, i.e. earnings that are exempt from attachment and limitations on the attachment of a debtor's monetary earnings.

The introduction of the residential real estate instruments will facilitate the systematic monitoring of changes in housing loans in terms of the LTV and DSTI ratios, while harmonising the monitoring of credit standards amongst banks with regard to the aforementioned ratios. In the event of increased risks to financial stability as a result of failure to comply with the recommendation, the Bank of Slovenia will introduce a binding macroprudential measure, while the parameters of the instruments will be tightened in the event of rising systemic risks despite compliance with the recommended maximum values. The introduction of the macroprudential instruments does not encroach on the responsibilities of banks in the assessment and take-up of risks. Banks must continue to define their own internal policies in the assessment and take-up of risks with regard to the value of real estate collateral and the creditworthiness of borrowers.[51]

For the purpose of the application of a **countercyclical capital buffer to third countries**,[52] the Bank of Slovenia has developed a tool for identifying countries to which the Slovenian banking system is materially exposed. No third country is currently identified as material.

Table 9: **Macroprudential instruments used by the Bank of Slovenia**

MACROPRUDENTIAL INSTRUMENT	YEAR OF INTRODUCTION	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

[50] Details can be found online at http://www.bsi.si/en/financial-stability.asp?MapaId=1192.
[51] https://www.bsi.si/en/financial-stability.asp?MapaId=2034
[52] Non-members of the European Economic Area.

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	slowing the decline in the LTD ratio, increasing 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-SIIs buffer	2016	• increasing the resilience of O-SIIs, and consequently the entire banking system and financial system, to shocks	/
Instruments for the residential real estate market (LTV and DSTI)	2016	• preventing excessive credit growth and excessive leverage • preventing the easing of credit standards	/

Notes: GLTDF: limit on gross loans to deposits flows; O-SIIs: other systemically important institutions; LTV: recommended maximum loan-to-value ratio; DSTI: recommended maximum level of the DSTI (debt service-to-income) ratio.

The LTD ratio for the non-banking sector stabilised at around 77%.

The Bank of Slovenia maintained the **GLTDF**[53] instrument in 2016, which defines the minimum requirements for the **ratio of the annual change in the stock of loans to the non-banking sector before impairments to the annual change in the stock of deposits by the non-banking sector** as an active instrument with a minor adjustment of the first corrective measure.[54] The objectives of the instrument are being realised. The LTD ratio for the non-banking sector has stabilised at around 77%, while the proportion of total liabilities accounted for by stable funding, i.e. deposits by the non-banking sector, increased to 70%, and systemic liquidity risk was significantly lower that at the introduction of the instrument. Individual risks are still present: most notably the maturity mismatching of assets and liabilities is increasing on bank balance sheets. The Bank of Slovenia therefore maintained the instrument as active and slightly eased its requirements, the instrument hereby allowing for easier resolution of non-performing claims.

[53] http://www.bsi.si/en/financial-stability.asp?MapaId=1888.
[54] The requirement for the first corrective measure was reduced from GLTDFq >= 40% to GLTDFq >= 0%.

On a quarterly basis the Bank of Slovenia reviews the indicators used in determining the **countercyclical capital buffer,** and publishes them. The buffer has stood at 0% since its introduction.[55]

In accordance with the ZBan-2 the Bank of Slovenia conducts an annual review of the criteria for defining a bank **as an O-SII and the buffer rate for the identified banks**. NLB d.d., SID banka d.d. Ljubljana, Nova KBM d.d., UniCredit banka Slovenija d.d., Abanka d.d., Sberbank banka d.d., SKB d.d. and Banka Intesa Sanpaolo d.d. were thus designated O-SIIs in 2016. Only at one of the identified banks was the buffer rate modified (reduced). The banks must meet the O-SII buffer rate of between 0.25% and 1.00% from 1 January 2019.[56]

3.7.1 Financial Stability Board

The Financial Stability Board is responsible for formulating macroprudential policy in Slovenia. It formulates and implements it in conjunction with the supervisory authorities.

The Financial Stability Board (FSB) is the macroprudential body responsible for formulating macroprudential policy in Slovenia. It was established in 2014 on the basis of the Macroprudential Supervision of the Financial System Act (the ZMbNFS) 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. The FSB formulates macroprudential policy, and implements it in conjunction with the supervisory authorities (the Bank of Slovenia, the SMA and the ISA). The FSB consists of two representatives from each of the supervisory authorities, and also two representatives from the Ministry of Finance, who do not have voting rights. The FSB is chaired by the Governor of the Bank of Slovenia. Its secretariat is organised at the Bank of Slovenia.

The FSB met in four ordinary sessions in 2016. In accordance with the tasks defined by law, it identified, monitored and assessed systemic risks to financial stability. The assessments of the most significant risks in the banking system were drawn up on the basis of the risk dashboard, defined as the set of quantitative and qualitative indicators for defining and measuring systemic risks. It was found that the trends in credit risk are favourable, and are having a positive impact on income risk. Interest rate risk remains at a relatively high level, with a trend of further deterioration, particularly as a result of the lengthening of the average repricing period for assets. The Bank of Slovenia reported regularly to the committee responsible for implementing the warnings and recommendations of the European Systemic Risk Board (ESRB) on the measures taken on the basis of ESRB recommendations, and newly adopted ESRB recommendations.

The FSB also discussed other current matters in individual sectors of the financial system last year. The Bank of Slovenia briefed the FSB on the introduction of two macroprudential instruments for the real estate market (LTV and DSTI), and on the experience of the payment of guaranteed claims of investment firms in bankruptcy. In connection with the capital market, at the SMA's initiative the FSB discussed the development of the Slovenian capital market, the strategy for managing government-owned capital assets, and current changes in sectoral legislation with systemic impact. In the insurance area the ISA briefed the FSB on the initial position of the insurance sector according to Solvency 2, the new European system of capital adequacy supervision, presented analysis of the impact of the period of low interest rates on the insurance sector, and reported on the results of the stress tests conducted by the European Insurance and Occupational Pensions Authority.[57] The FSB reports on its work in detail in its annual report.[58]

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[55] https://www.bsi.si/en/financial-stability.asp?MapaId=1886.
[56] https://www.bsi.si/en/financial-stability.asp?MapaId=1887.
[57] https://eiopa.europa.eu/.
[58] The FSB's annual report is published online (in Slovene) at http://www.bsi.si/financna-stabilnost.asp?MapaId=1836.

3.8 Bank resolution

Under the Resolution and Compulsory Winding Up of Banks Act[59] (the ZRPPB), which entered into force on 25 June 2016, the Bank of Slovenia acquired the role of the national resolution authority.

The Bank of Slovenia acquired the role of the national resolution authority under the ZRPPB.

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) was **fully transposed into Slovenian law** by the ZRPPB. **The ZRPPB gives the Bank of Slovenia a key role in the event of bank resolution and the resolution process, and entails a shift from bank resolution via bail-out to resolution via bail-in, i.e. the assets of the banks and bank creditors.**

The objective of bank resolution is to ensure that critical services are provided to the economy as smoothly as possible, and to minimise the costs of resolution.

The resolution of an individual bank or group is initiated if the bank is unable to rectify the difficulties itself and no early intervention measures that the Bank of Slovenia has at its disposal within the framework of regular bank supervision suffice. Bank resolution entails the identification and maintenance of the critical functions that the individual bank performs and that cannot be compensated for by other banks over the short term, where an interruption to the performance of these functions would entail a high risk to the economy. The part of the bank that does not represent the critical functions may be the subject of ordinary bankruptcy proceedings. Bank resolution does not necessarily entail the preservation of the bank in its entirety, but in the parts that represent the critical functions. There are several tools available in accordance with the ZRPPB:

- **sale of business** (the bank is purchased in its entirety or recapitalised by a new owner)
- **asset separation** (assets that would prevent sale are separated prior to sale of the bank)
- **bridge institution** (no immediate purchaser, the bank is temporarily recapitalised with money from the resolution fund)
- **bail-in** (the available assets of the bank’s owners and creditors are used to provide capital)

The Resolution Unit at the Bank of Slovenia draws up and updates the resolution plans for each bank in Slovenia, and participates in the preparation and update of resolution plans at banks whose resolution is the responsibility of the Single Resolution Board (SRB). The resolution plan sets out the activities that ensure the preservation of the critical functions of the individual bank. For the purpose of executing resolution, a **minimum requirement for own funds and eligible liabilities (MREL)** is stipulated for each bank. It represents the required amount of capital and instruments convertible into capital in the event of the resolution of the bank.

The ZRPPB sets out the sequence for the use of the assets of the bank’s owners and creditors in the event of resolution:

1. common equity Tier 1 capital,
2. additional Tier 1 capital,
3. Tier 2 capital,
4. subordinated debt,
5. debt securities,

[59] Official Gazette of the Republic of Slovenia (Nos. 44/16 and 71/16 [constitutional court decision]).

6. other unsecured ordinary claims (except claims from debt securities),
7. ineligible deposits (deposits by financial institutions, pension funds, etc.)
8. eligible deposits by large enterprises of more than EUR 100,000,
9. eligible deposits by individuals and SMEs of more than EUR 100,000,
10. claims whose original maturity is less than seven days that are held by an institution that is not part of the same group, or a payment or settlement system, or an operator or participant in such a system (that are no subject to bail-in),
11. guaranteed deposits (not subject to bail-in),
12. senior claims (not subject to bail-in).

In the event of potential adverse scenarios for an individual bank or for several banks in the system being identified during regular monitoring, the Bank of Slovenia initiates resolution when all possibilities of recovery that the bank had at its disposal alone have been exhausted, before the execution of any one of the envisaged methods of bank resolution is endangered. The objective of bank resolution is to ensure that critical services are provided to the economy as smoothly as possible, and to minimise the costs of resolution.

3.8.1 Single Resolution Fund

The **Single Resolution Board**[60] **(SRB)** began functioning in Brussels in 2016, and acts as an independent EU agency. The **Bank of Slovenia is a member**. The SRB is responsible for the preparation and update of the resolution plans of significant banks and groups, the implementation of resolution at individual significant banks and groups, where necessary, and also decides on the use of the **Single Resolution Fund**[61] (SRF), to which **credit institutions and certain investment firms from the 19 countries of the banking union contribute**.

Slovenian banks contributed EUR 14.5 million to the Single Resolution Fund in 2016.

The total contributions amounted to EUR 7,007.7 million in 2016, of which Slovenian banks contributed EUR 14.5 million.[62]

3.8.2 Bank Resolution Fund at the Bank of Slovenia

Since the end of March 2015 the Bank of Slovenia has managed the Bank Resolution Fund, which was established pursuant to the Bank Resolution Authority and Fund Act (ZOSRB).[63] The fund's assets are earmarked for financing bank resolution within the framework of the extraordinary measures that can be imposed by the Bank of Slovenia. The banks contributed assets totalling EUR 191.07 million into the resolution fund in March 2015 (1.3% of total guaranteed deposits).

In accordance with the ZOSRB, the Governing Board of the Bank of Slovenia[64] set out an investment policy to ensure that the fund's assets are secure, low risk and highly liquid. Consequently the following investments are eligible for the fund: (i) euro area bonds or short-term securities of central or regional governments, agencies, supranational institutions and non-financial corporations whose second-best rating may be no lower than A-, or BBB- in the case of government securities; (ii) bank balances at foreign commercial banks or the

60 http://srb.europa.eu/.
61 http://srb.europa.eu/en/content/single-resolution-fund.
62 Information on contributions to the fund: http://srb.europa.eu/en/content/2016-ex-ante-contributions.
63 http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7059.
64 The Regulation on the investment policy and management fees of the bank resolution fund is published online (in Slovene) at http://www.bsi.si/library/includes/datoteka.asp?DatotekaId=7057.

Bank of Slovenia; and (iii) bank deposits maturing in a maximum of 14 days. The debt of banks established in Slovenia and of foreign banking groups that own subsidiary banks established in Slovenia, and the debt of the Republic of Slovenia are not eligible investments for the Bank Resolution Fund.

The conditions for the management of the assets of the Bank Resolution Fund were relatively unfavourable in 2016, as in 2015. The market yields on investment-grade assets reached record lows, while the same was true of interest rates on the money market. Therefore, the fund reduced its placements in short-term deposits, and left the money in an account at the Bank of Slovenia, where the interest rate was also negative, albeit higher than the interest rates on the money market. In addition, given the exceptionally low market yields, the fund reduced the proportion of lower-yielding investments in short-term agency bonds and increased the proportion of investments in medium-term bonds of non-financial corporations, thereby slightly increasing its interest rate exposure.

The net profit of the Bank Resolution Fund at the Bank of Slovenia amounted to EUR 219,166 in 2016.

The value of the fund was EUR 191,070,937 when initial contributions were made in March 2015, EUR 190,994,811 at the end of **2015**, and **EUR 191,213,977 at the end of 2016**. The fund's net profit amounted to EUR 219,166 in 2016, a return of 0.115% in 2016. Its detailed performance will be disclosed in its annual report.[65]

By law the fund will cease operating on 31 December 2024, and the unused funds will be repaid to the banks.

3.9 Deposit guarantee scheme

The deposit guarantee scheme in Slovenia is operated by the Bank of Slovenia.

The Deposit Guarantee Scheme Act (ZSJV) entered into force in April 2016,[66] thereby fully transposing Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (DGSD) into Slovenian law. The ZSJV stipulates that the Bank of Slovenia shall **establish and operate a deposit guarantee scheme** to guarantee a depositor's deposits in the event of the unavailability of deposits at a bank by means of the payment of coverage of guaranteed deposits to depositors, or through other measures by which depositors' access to guaranteed deposits is maintained in the event of the bank's resolution or compulsory wind-up.

The scheme put in place must provide for **payouts of guarantee deposits to commence within seven business days** in the wake of the unavailability of deposits at an individual bank (**the deadline is binding after 2023, before which the deadline period is gradually reduced**). A similar payout procedure is undertaken in the event of the payout of guaranteed deposits in the wake of the bankruptcy of an investment firm, which was executed in practice for investors in the investment firm Moja delnica d.d. (in bankruptcy) in August 2016.[67]

The requisite funds for the payment of guaranteed deposits are provided from several sources. The banks in Slovenia pay contributions into the **deposit guarantee fund**; the first contribution in the total amount of EUR 16 million was made in December 2016. The fund will reach its full size in the amount of 0.8% of total guarantee deposits at banks in Slovenia in 2024. Should the deposit guarantee fund's assets not suffice for the needs of the actual payout of guaranteed deposits, the fund may undertake additional borrowing, and the Bank of Slovenia may instruct the banks to make an additional extraordinary

[65] The annual report is published online (in Slovene) at http://www.bsi.si/sklad.asp?MapaId=2000.
[66] Deposit Guarantee Scheme Act (Official Gazette of the Republic of Slovenia, No. 27/16) (http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7428).
[67] In accordance with Article 466 of the Financial Instruments Market Act, the Bank of Slovenia assumed the obligation to pay the guaranteed claims of the investment firm Moja delnica d.d. as of the date of initiation of the bankruptcy proceedings.

contribution to the fund; as a last resort funds may be provided by the government in the form of a short-term loan.

The deposit guarantee fund's investment policy, which in accordance with the ZSJV is determined by the Governing Board of the Bank of Slovenia,[68] sets out the diversification of investments with a low level of risk, and provides for the appropriate diversification of the fund's investments for the needs of the payout of guaranteed deposits.

3.10 Payment services for Bank of Slovenia clients

The Bank of Slovenia administers accounts and provides payment services for clients. It executed a total of 50 million transactions in 2016, the majority consisting of credit transfers (94%) and direct debits (6%).

The Bank of Slovenia administers the government's single treasury account and 189 municipal single treasury accounts, open in various currencies. The accounts of direct and indirect spending units of the state budget and municipal budgets, the Health Insurance Institute and the Pension and Disability Insurance Institute (included in the single treasury account system as set out in the Public Finances Act) were opened as sub-accounts of the government or municipal treasury accounts. The sub-accounts are administered by the Public Payments Administration, to which direct and indirect spending units of the state budget and municipal budgets submit payment orders and from which they receive the full set of feedback about payments transacted.

The Bank of Slovenia administers the government's single treasury account, 189 municipal single treasury accounts, and accounts of other budget spending units.

In addition to the single treasury accounts, the Bank of Slovenia also administers seven 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 the Central Securities Clearing Corporation (KDD), and the accounts of KDD members via which cash settlements are made for securities transactions. At the end of 2016 there were 13 KDD members, namely nine commercial banks and four investment firms, with current accounts for customer funds and clearing accounts open at the Bank of Slovenia.

At the end of 2016 there were 13 KDD members with open current 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 regular tasks in connection with monetary and financial statistics, external statistics, national financial accounts statistics and other statistics, including publication and the provision of statistics to users, were carried out successfully by the Bank of Slovenia in 2016.

Banks and savings banks are required to report to the Central Credit Register in **the first phase** of its development. The reporting requirements were introduced with data per 30 September 2016, and entail an upgrade of the existing monthly reporting system (the report has been expanded by all exposures to legal entities). Two new reports were introduced: a quarterly report on credit risk parameters, which includes the loss rate and default rate in accordance with the

Two new reports were introduced in the first phase of development of the Central Credit Register in 2016: a quarterly report on credit risk parameters and a report on developments in respect of debtors in connection with financial instruments at the level of individual transactions.

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

Bank of Slovenia guidelines of 27 October 2015, and a report on developments at the debtors from individual financial instruments in the reference month.

In 2016 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 2013**. Under the revision the methodology for administering EU transfers was harmonised with the methodology introduced by SURS a year earlier upon the recommendation of Eurostat. The impact of the change was an average decline of EUR 0.2 billion in the annual current account surplus. The largest change in the aggregates during the revision was in the 2015 figures for reinvested earnings from FDI, which non-financial corporations reported in the annual report on capital investments with non-residents. These figures replaced a temporary estimate, which was mostly based on a three-year series of past data. Non-financial corporations under foreign ownership recorded in 2015 their highest profits in Slovenia so far, the figure diverging sharply from the three-year average. The impact of the change was a decline of EUR 0.3 billion in the current account surplus.

The Bank of Slovenia works with Statistical Office of the Republic of Slovenia (SURS) and the Ministry of Finance in resolving the methodological issues for the **financial accounts statistics for the government sector,** and the **data on state aid to financial institutions during the economic and financial crisis**. In 2016 its collaboration encompassed the preparation of the interpretations and proposals for booking the transactions of the BAMC for Eurostat, and methodological meetings on issues relating to the booking of EU funds.

The Bank of Slovenia again conducted a **survey of corporate access to financing** in 2016, this time in conjunction with SID banka d.d., in order to reduce the reporting workload. The survey provides insight into the availability of external financing to non-financial corporations.

Preparations for the **household finance and consumption survey** (HFCS) were undertaken under the aegis of the ESCB. A draft questionnaire was prepared, the database was set up, and a public tender was held. The tender resulted in the selection of Ipsos d.o.o., with whom the Bank of Slovenia has already begun negotiations on the surveying process.

The Bank of Slovenia continued its activities in 2016 to change over to the **special data dissemination standard (SDDS+)** of the IMF. The preparations encompassed the technical aspect of data dissemination, and it should be possible to meet the standard as early as in 2017.

3.12 Bank of Slovenia information system

The Bank of Slovenia carried out two major projects in 2016 in conjunction with business users: an overhaul of the application for executing Bank of Slovenia payments, and the construction of an electronic system for exchanging data and information on the indebtedness of business entities (SISBIZ).

The overhaul of the application for executing Bank of Slovenia payments successfully extended the useful lifetime of the information support for the provision of payment services, and facilitated easier maintenance and simpler upgrades of the application in the future, and more effective action in the event of contingencies. **The overhauled application provides for the processing of 50 million credit transfers per year, the execution of 3.5 million SEPA direct debits, and a daily capacity of 600,000 transactions (excluding pension orders) and 230,000 SEPA direct debits.**

In the establishment of SISBIZ, the information system for the exchange of data and information on the indebtedness of business entities, there was a particular focus on security aspect, i.e. mechanisms for preventing any abuse of the data. A key element of the data exchange system is providing for a full audit trail, so that at any moment it is possible to determine when the data of a business entity was accessed, by whom, and for what purpose.

In the establishment of SISBIZ, the information system for the exchange of data and information on the indebtedness of business entities, there was a particular focus on the mechanisms for preventing any abuse of the data.

Other activities in the area of applications included the upgrade of applications developed in-house for reason of migration to T2S (TARGET2-Securities, the pan-European platform for securities settlement), reporting changes and other support for Bank of Slovenia business processes.

Upgrades were also made to the systems hardware and software (e.g. SIEM infrastructure and software for security backups, and in the area of information system security).

3.13 Conferences[69]

The Bank of Slovenia organised a seminar entitled Rethinking Monetary-Fiscal Policy Coordination in May 2016 in conjunction with the IMF. At the seminar central bank governors, senior representatives of major domestic financial institutions, and high-profile academics discussed current theoretical and practical aspects of monetary and fiscal policy. The major themes of the discussion were the administration of fiscal policy within the institutional framework of the EU and the impact of these limitations on the administration of monetary policy, and the search for an appropriate balance in conditions of low economic growth and low inflation in Europe.

The Bank of Slovenia organised seminars entitled Rethinking Monetary-Fiscal Policy Coordination and Macroprudential Instruments and Financial Cycles in 2016 in conjunction with other institutions.

As a co-founder of the European Central Banking Network (ESBN), in September 2016 the Bank of Slovenia organised a research conference entitled Macroprudential Instruments and Financial Cycles in conjunction with the Centre for Economic Policy Research (CEPR). Researchers from 20 central banks presented their analysis in connection with the identification of financial and credit cycles, early warning tools, the implementation of the countercyclical capital buffer, and the evaluation of macroprudential instruments. The purpose of the conference was to compare the experiences of the participating countries in the areas covered by the conference, to identify similarities and differences between them, and, from the contributions and debates, to elucidate the main useful lessons of the analysis presented.

Box 8: **Ceremony to mark the 25th anniversary of the introduction of the tolar**

A special ceremony to mark the **25th anniversary of the introduction of the Slovenian tolar**, and the presentation of awards to students from Slovenian universities for the best master’s and doctoral theses in the area of finance took place at the Bank of Slovenia in October 2016. In addition to the award winners and their mentors, the event was also attended by representatives of commercial banks and several institutions, and former members of the Governing Board of the Bank of Slovenia. The keynote speech at ceremony was given by Borut Pahor, president of Slovenia, while other speakers included France Arhar, the first governor of the Bank of Slovenia, Marko Kranjec, the finance secretary, and Boštjan Jazbec, the current governor.

3.14 Technical assistance

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

[69] The conferences programme is available online at https://www.bsi.si/en/bank-of-slovenia-r.asp?MapaId=1876.

Slovenia provided bilateral and multilateral (i.e. in conjunction with other institutions) assistance to central banks, supervisory authorities and other institutions in Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, the Netherlands and Serbia in 2016. The assistance was provided by the Bank of Slovenia in the following areas: banking supervision, banking regulations, accounting, monetary and financial statistics, financial stability, internal auditing, information technology and security, the credit register, legal issues, organisation of business, document management and electronic archiving, economic and monetary policy, and payment and settlement systems. Ten study visits and four expert missions were organised within the framework of this assistance. Assistance was also provided via correspondence and meetings. Bank of Slovenia experts also provided assistance in the form of workshops and seminars at the Centre for Excellence in Finance (CEF), the Bank Association of Slovenia, the International Center for Promotion of Enterprises (ICPE), within the framework of European Supervisor Education Initiative and within the framework of the IMF.

The Bank of Slovenia provided bilateral and multilateral assistance to central banks, supervisory authorities and other institutions in Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, the Netherlands and Serbia in 2016.

The Bank of Slovenia received technical assistance from international institutions, the IMF and the European Commission in 2016. It received technical assistance from the IMF in the area of contingency planning and crisis management.[70]

Within the framework of the European Commission’s structural reform support service, the Bank of Slovenia received technical assistance provided by the World Bank in the area of management of NPLs to micro, small and medium-size enterprises.

3.15 Publications

In addition to its regular publications the Bank of Slovenia issued a report on the wind-down of Factor banka and Probanka[71] (May 2016, 42 pages), which provides a detailed description of the process of the orderly wind-down of the two banks between 2013 and 2016.

In May 2016 the Bank of Slovenia issued a report on the wind-down of Factor banka and Probanka.

The Bank of Slovenia’s key publications[72] are the monthly briefing on bank performance, the Financial Stability Review (released in January and June 2016), the Economic and Financial Developments report (January, April, July and October 2016), the Macroeconomic Projections for Slovenia (June and December 2016), and the statistical publications, the Monthly Bulletin and Slovenia’s International Economic Relations, which are released monthly, the annual Direct Investment publication, and the Financial Accounts, which are released quarterly and annually.

3.16 Media and other communications

The Bank of Slovenia received and responded to a total of more than 430 media enquiries in 2016. The largest number of questions were submitted by journalists from RTV Slovenija and the newspapers *Delo*, *Dnevnik* and *Finance* (60 to 80 questions from each).

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[70] The report is published on the IMF website at http://www.imf.org/external/pubs/cat/longres.aspx?sk=44217.0.
[71] The report is published online at http://www.bsi.si/publikacije-in-raziskave.asp?MapaId=1779.
[72] The entire list of Bank of Slovenia publications can be found at http://www.bsi.si/en/publications.asp?MapaId=70.

In substantive terms the largest number of questions related to July's criminal investigation at the Bank of Slovenia, the Special Inspection Group and cooperation with the prosecution authorities, the bank recovery in 2013 and 2014, the appointment of new vice-governors, the bankruptcy of Moja delnica BPH, the renovation of the lobby of the Bank of Slovenia building, the establishment of the Central Credit Register, and the end of the period when tolar coins could be exchanged for euros.

The media published 3,120 stories relating to the Bank of Slovenia in 2016, and average of 260 per month. Almost half of the stories (49%) were accounted for by online media, followed by print media (34%), and radio and television (17%).

On 20 occasions in 2016 the Bank of Slovenia issued rebuttals and follow-up answers in response to media reporting as a result of false statements or for further clarification. They were published in the Press Releases section of the Bank of Slovenia website.

The Bank of Slovenia issued rebuttals and follow-up answers in response to media reporting on 20 occasions in 2016 as a result of false statements or for further clarification.

In addition to media questions, the Bank of Slovenia received and responded to more than 820 questions from the general public, individuals and businesses alike. The questions concerned all areas of the Bank of Slovenia's duties, although the conversion of foreign currencies into euros was the most common subject.

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

3.17 Education and training

Together with the ECB and 11 other central banks of the Eurosystem, the Bank of Slovenia helped to organise the Generation €uro competition for the fifth consecutive year in 2016. The competition is in three rounds, and is aimed at encouraging students in senior years at secondary school to study economics and finance, and to learn about the role, duties and actions of the ECB and the Eurosystem. The winning team in 2015/16 was from the St. Stanislav's Institution, a diocesan classical gymnasium in Ljubljana. A total of 27 teams from 17 secondary schools participated in the first round in the 2016/17 school year.

A total of 27 teams from 17 secondary schools participated in the first round of the Generation €uro competition in the 2016/17 school year.

The Bank of Slovenia works with secondary schools and universities in providing mandatory work experience to students. A total of 10 school students and 14 university students, including six from abroad, took work experience placements with the Bank of Slovenia in 2016. The Bank of Slovenia is currently sponsoring six students.

The Bank of Slovenia designed its Open Day event in 2016, and launched it in 2017. The Open Day, which will be held at the Bank of Slovenia once a month in general, is aimed at raising financial literacy among the general public, in particular those of primary and secondary school age, and senior citizens and pensioners. These groups were initially provided with information about the role, tasks and importance of the central bank, and were then able to choose between lectures about seven areas (for the time being) of the Bank of Slovenia's activities.[73]

[73] Detailed information about the Open Day event is given online (in Slovene) at https://www.bsi.si/banka-slovenije.asp?MapaId=2130.

Figure 29: **Logo of Bank of Slovenia's Open Day event**

Izobraževalni dan
Banke Slovenije

Source: Bank of Slovenia

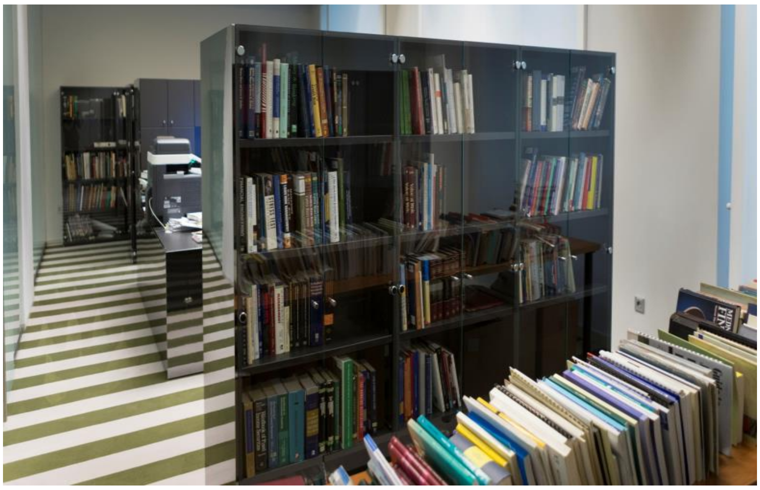
3.18 Bank of Slovenia library

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

The Bank of Slovenia library is home to around 16,000 bibliographic units.

The library allows users (including outside visitors[74]) to borrow material for home, and also undertakes inter-library lending.

Figure 30: **Bank of Slovenia library**



The Bank of Slovenia library moved to new premises in 2016, in the renovated lobby in the Bank of Slovenia building.

[74] For more about the library, see https://www.bsi.si/en/bank-of-slovenia.asp?MapaId=2136.

4 BANK OF SLOVENIA'S COOPERATION WITH OTHER INSTITUTIONS

4.1 Cooperation with institutions in Slovenia

The Bank of Slovenia works with a range of institutions in Slovenia, as illustrated in Figure 31. Its cooperation with the Bank Association of Slovenia (BAS), the Securities Market Agency (SMA), the Insurance Supervision Agency (ISA) and the Office for Money Laundering Prevention is examined in detail below.

4.1.1 Cooperation with the SMA and ISA

In addition to cooperation within the framework of the CMC, the Bank of Slovenia also held meetings with the SMA and ISA on the subject of joint inspections.

In accordance with the Rulebook on mutual cooperation by supervisory authorities in the area of macroprudential supervision of 1 January 2016, the Bank of Slovenia assumed responsibility for organising meetings of the Commission for Mutual Cooperation (CMC), which consists of the vice-governor of the Bank of Slovenia, the director or deputy-director of the ISA, and the director or deputy-director of the SMA. Meetings of the CMC were also attended by the general director of the financial system directorate at the Ministry of Finance, where there was discussion of legislation relating to the financial system and other systemically important issues relating to the financial sector. The CMC met three times in 2016. In addition to amendments to legislation in the financial area, the CMC discussed joint activities and major individual activities and inspections by the supervisory authorities, and gave briefings on activities deriving from the work of the boards of supervisors of the EBA, the ESMA and the EIOPA.[75] The CMC also discussed the conclusions of

[75] European Banking Authority (EBA), European Securities and Markets Authority (ESMA), European Insurance and Occupational Pensions Authority (EIOPA).

coordinating meetings, particularly in relation to the project for the potential merger of financial supervisors.

In addition to cooperation within the framework of the CMC, the Bank of Slovenia also held meetings with the SMA and ISA on the subject of joint inspections. Alongside the operational disclosure of the inspection plans of individual institutions, other tasks in the current year and potential methodological changes in supervisory procedure were also examined at the meetings. The Bank of Slovenia conducted two joint inspections with the ISA in 2016.

4.1.2 Cooperation with the Office for Money Laundering Prevention

In the area of AML, the Bank of Slovenia again carried out several activities in 2016 in conjunction with the Office for Money Laundering Prevention, primarily in connection with the Moneyval assessment,[76] an update of the national risk assessment and the drafting of the new Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT-1).[77]

4.1.3 Cooperation with the BAS

Intensive cooperation with the BAS continued at all levels in 2016, including the Bank of Slovenia's regular participation in various technical workshops and expert conferences organised by the BAS for control, support and managerial functions at banks.

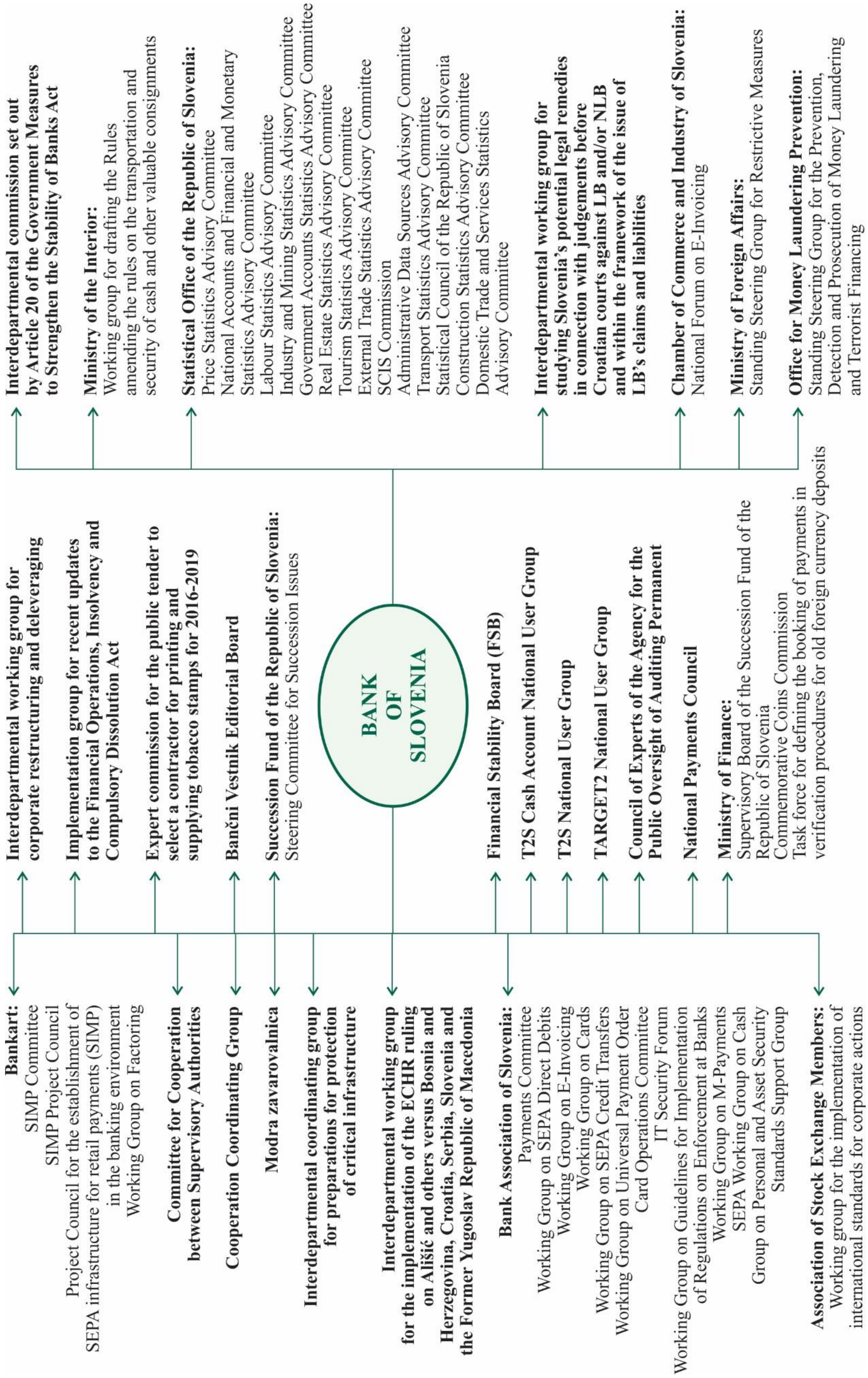
The Bank of Slovenia's cooperation with the BAS in 2016 related primarily to the banks' activities in implementing EBA regulations and in implementing the new IFRS 9.

The majority of the cooperation related to the banks' activities in connection with the creation and implementation of EBA regulations and guidelines in the area of risk management and internal governance arrangements at banks, and activities in connection with the implementation of the new IFRS 9. The Bank of Slovenia held three comprehensive multi-day workshops in the area of the creation and implementation of the EBA guidelines on sound remuneration policy and reporting on remuneration to the Bank of Slovenia, while two workshops were devoted to the inclusion of Slovenian banks in the EBA consultation process for drafting new guidelines with regard to assessment of the suitability of members of the governing body and guidelines on internal governance arrangements.

In the area of banking supervision, the Bank of Slovenia also participated, via papers and discussions, in all of the BAS's most important conferences for banks, of which 12 were aimed at the most senior staff and management. The Bank of Slovenia's contributions discussed the latest themes in the area of risk management, assessment of liquidity and internal capital, new financial reporting standards, important aspects of the activities of the HR department, the internal audit department and the compliance department, remuneration policy, assessment of the suitability of members of the governing body, and the general regulatory framework for banks. In numerous discussions with representatives of the banks, at these conferences the Bank of Slovenia responded directly to a number of issues and questions raised by the banks, defining its position regarding the issues raised.

[76] The Moneyval assessment is conducted by the aforementioned committee within the framework of the Council of Europe, whose purpose is determining whether Slovenia is consistently implementing the FATF recommendations in the area of AML/CFT.
[77] ZPPDFT-1: http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7132.

Figure 31: **Bank of Slovenia's cooperation with other institutions in Slovenia**



4.2 Cooperation with foreign institutions

4.2.1 European Union

Representatives of the Bank of Slovenia participated in informal meetings of the ECOFIN (the EU's council of economics and finance ministers and central bank governors) in 2016. The first meeting was in April 2016 in Amsterdam, which included discussions on strengthening the banking union, the fights against money laundering and tax evasion, and financing the transition to a sustainable economy. The second meeting was held in Bratislava in September 2016, and discussed the deepening of economic and monetary union (the fiscal pillar), the investment plan for Europe and tax issues.

Representatives of the Bank of Slovenia participated in informal meetings of the ECOFIN in 2016.

In 2016 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, the European Statistical Forum and other working groups from the relevant areas that are active within the European Commission and the Council of the EU. The EFC discussed the economic and financial situation in the EU, economic governance, the banking union, the deepening of economic and monetary union, the capital markets union, financial stability in the EU and issues related to the IMF. The European Statistical Forum is a strategic body that links two European statistical systems: the European Statistical System and the statistical system of the ESCB. A memorandum of understanding was signed between the two systems in November 2016 in connection with ensuring the quality of data included in the macroeconomic imbalances procedure. Other areas of activities in 2016 included globalisation, including in connection with the major revision to Ireland's GDP figures, participation in surveying and the elimination of inconsistencies between international economic relations data and financial accounts data. The Committee on Monetary, Financial and Balance of Payments Statistics (the operational and advisory body for cooperation between the two European statistical systems) primarily addressed the use and promotion of the legal entity identifier (LEI), inclusion in the IMF's new Special Data Dissemination Standard Plus (SDDS+), big data, and sectorisation, in particular bad banks, resolution funds and guarantee schemes.

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) in January, September and December 2016. The agenda included an in-depth review of the economic situation in Slovenia and the fulfilment of specific recommendations in accordance with the procedure for preventing and correcting macroeconomic imbalances. The European Commission presented the findings of the in-depth review in March 2016, and concluded that there are macroeconomic imbalances in Slovenia. **The vulnerabilities that need to be addressed are weaknesses in the banking sector, corporate indebtedness, lack of investment, and risks to long-term fiscal sustainability.** In July 2016 the Council of the EU adopted specific recommendations for Slovenia within the framework of the 2016 European Semester. These recommendations relate to the sustainability of public finances and the national fiscal framework, the pension and healthcare systems, the labour market, the restructuring of the banking sector, management oft state-owned entreprises, a better business environment and more effective public administration.

The vulnerabilities to which Slovenia is drawing the European Commission's attention are weaknesses in the banking sector, corporate indebtedness, lack of investment, and risks to long-term fiscal sustainability.

4.2.2 International Monetary Fund

The Bank of Slovenia is responsible for Slovenia's cooperation within the IMF, and the Governor of the Bank of Slovenia is a member of the IMF Board of

Governors. After the long-anticipated ratification of the quota and governance reforms by the US in December 2015, **Slovenia's quota at the IMF was increased to SDR 586.5 million in February 2016**,[78] where it remained at the end of 2016. A Bank of Slovenia delegation attended the spring and annual meetings of the IMF and the World Bank in 2016. The main themes of the meetings were current developments in the global economy and on international financial markets, the outlook and the potential policy responses.

Within the framework of the Bank of Slovenia's participation in the IMF's financial arrangements, in 2016 Slovenia received six repayments in the total amount of SDR 3.1 million on the basis of the bilateral agreement of 2010, which means that all outstanding IMF debt from the bilateral agreement has been repaid. In 2016 it was agreed that the Bank of Slovenia would participate in the conclusion of a new lending framework based on an extension of the agreement reached in October 2013.

Slovenia also participated in financial transactions under the Financial Transaction Plan (FTP) in 2016. Slovenia's reserve tranche position at the IMF increased relative to 2015 to stand at SDR 120.57 million at the end of December 2016 as a result of the payment of the increased quota in February. Slovenia received three repayments in the total amount of SDR 35.6 million in 2016 within the framework of its participation in the FTP.

An IMF mission was undertaken to Slovenia in March 2016, followed by a Staff visit in November.

An Article IV mission took place in Slovenia in March 2016, and IMF representatives conducted a Staff visit to Slovenia in November. The mission took place between 16 and 29 March, within the framework of which IMF representatives were briefed on the macroeconomic situation and conditions in the financial sector, issues in the management of public finances, and the institutional and legal framework for administering economic policy. Under the new mission chief for Slovenia, Nikolay Gueorguiev, IMF representatives made another Staff visit to Slovenia between 15 and 21 November 2016 for briefings on the situation in the economy.

An IMF mission was undertaken to Slovenia in March 2016, followed by a Staff visit in November.

4.2.3 Bank for International Settlements

The Governor of the Bank of Slovenia attends meetings of central bank governors of BIS members, which are held every two months. The meetings discuss developments in the global economy and on the financial markets. The governors' meetings are also an opportunity to exchange views on various central banking issues: the main issues in 2016 were liquidity support of central banks, interventions on the foreign exchange markets, recent regulatory changes, cyber risks and promotion of economic resilience. The Bank of Slovenia is a shareholder in the BIS, and a representative of the Governing Board of the Bank of Slovenia attended the annual general meeting of the BIS in Basel in June 2016.

In September 2016 the Governor of the Bank of Slovenia became a member of the Central Bank Governance Group, which operates under the aegis of the BIS.

In September 2016 the Governor of the Bank of Slovenia became a member of the Central Bank Governance Group, which operates under the aegis of the BIS.[79] The group was established in response to the increasing interest in issues in connection with the governance of central banks as public institutions. It focuses on the institutional and organisational setting in which central banks pursue monetary and financial policies. Members of the group, which is chaired by Stefan Ingves, governor of Sweden's central bank, normally meet on the occasion of the bimonthly meetings of governors of BIS member central banks. There are no public announcements of the resolutions passed. In addition to Stafan Ingves and Boštjan Jazbec, the Governor of the Bank of Slovenia, the group consists of Agustín Carstens (governor, Bank of Mexico), Lesetja Kganyago (governor, South African Reserve Bank), Philip Lowe (governor, Reserve Bank of Australia), Yves Mersch (Executive Board, ECB), Veerathai

[78] http://www.imf.org/external/np/exr/facts/sdr.htm.
[79] https://www.bis.org/cbgov/index.htm?m=2%7C293.

Santiprabhob (governor, Bank of Thailand), Janet Yellen (chair, Board of Governors of the Federal Reserve System), Zhou Xiaochuan (governor, People's Bank of China).

4.2.4 Organisation for Economic Co-operation and Development

Bank of Slovenia representatives attended sessions of certain committees and working groups of the OECD. They participated in meetings of the Committee on Financial Markets, the Working Group on International Investment Statistics, the Working Party on Financial Statistics and the Working Party on International Trade in Goods and Trade in Services Statistics. In December 2016 a Bank of Slovenia representative became a member of the working group for the Code of Liberalisation of Capital Movements.

As part of the preparations for the Economic Review of Slovenia, which is published by the OECD every two years, Bank of Slovenia representatives met a delegation of OECD experts in September 2016.

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

Figure 32: **Bank of Slovenia's cooperation with other institutions outside Slovenia**

5 BANK OF SLOVENIA'S REPORTING TO THE NATIONAL ASSEMBLY

The Bank of Slovenia reports on its work to the National Assembly of the Republic of Slovenia, and to the decision-making bodies of the ESCB.

The representative of National Assembly's committee on finance and monetary policy and the minister responsible for finance are regularly invited to meetings of the Governing Board of the Bank of Slovenia (they do not hold voting rights),[80] which ensures that the executive and legislative branches of government are briefed promptly on matters that are the responsibility of the Governing Board.

Another integral part of the Bank of Slovenia's reporting to the National Assembly is the **Bank of Slovenia's financial statements**, which are audited by an independent international auditor selected for a three-year period (Article 52 of the Bank of Slovenia Act) in accordance with Article 27(1) of the Statute of the ESCB and of the ECB, which stipulates that the accounts of the ECB and national central banks are audited by independent external auditors recommended by the Governing Council and approved by the Council. The auditors are authorised to inspect all the accounts and books of account of the ECB and the national central banks, and to obtain complete information about their operations. The Governing Board of the Bank of Slovenia selects and proposes a candidate to go forward to the final selection procedure following the prior collection of tenders at least six months before the expiry of the contract signed with the auditor.

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

Bank of Slovenia representatives attended **23 sessions of National Assembly committees and commissions** in 2016, most commonly the Commission for Public Finance Control (11 sessions), where they gave clarifications and answers to deputies' questions. Bank of Slovenia representatives attended and participated in four sessions of the National Council in 2016.

Bank of Slovenia representatives attended 23 sessions of National Assembly committees and commissions in 2016.

The Bank of Slovenia submitted more than 70,000 pages of documents to the Commission of Inquiry for identifying abuses in the Slovenian banking system and determining the causes and parties responsible for the second recovery of the banking system in independent Slovenia.

The Bank of Slovenia delivered more than 70,000 pages of documents to the National Assembly's commission of inquiry.

Table 10: **Documents submitted**

No.	Delivery date	Delivered to	No. of pages of documents delivered
1	4 Aug 2015	National Assembly	15,544
2	28 Sep 2015	National Assembly	7,662
3	22 Oct 2015	National Assembly	364
4	22 Jan 2016	National Assembly	5,862
5	21 Mar 2016	National Assembly	128
6	5 Apr 2016	National Assembly	2,284
7	27 May 2016	National Assembly	452
8	24 Jun 2016	National Assembly	76
9	19 Jul 2016	court	2,667
10	19 Sep 2016	National Assembly	1
11	28 Oct 2016	National Assembly	29,090
12	12 Jan 2017	National Assembly	8,890
	TOTAL		**73,020**

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 comprises five members: the Governor and four vice-governors. The Governor is the president of the Governing Board.[81]

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.

He/she executes the decisions of the Governing Board of the Bank of Slovenia, and issues individual and general bylaws of the Bank of Slovenia that are not the responsibility of the Governing Board. He/she may also issue guidelines for implementing regulations of the Governing Board.

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

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

[81] Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version] and 59/11) http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO2988.

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.

Two new vice-governors came onto the Governing Board in 2016.

The composition of the Governing Board changed in 2016. In place of the vice-governors Darko Bohnec and Stanislava Zadravec Caprirolo, whose terms of office expired, the National Assembly appointed two new vice-governors on 26 January 2016: Marko Bošnjak, whose term of office began on 5 March, and Dr Primož Dolenc, whose term began on 6 April. In December 2016 the National Assembly appointed Jožef Bradeško, whose term of office began on 1 March 2017, when Dr Mejra Festić's term as vice-governor came to an end.

Figure 33: **Governing Board of the Bank of Slovenia**

Pictured (from left): Marko Bošnjak, Irena Vodopivec Jean, Dr Boštjan Jazbec, Dr Mejra Festić, Dr Primož Dolenc

The **members of the Governing Board of the Bank of Slovenia** as at 31 December 2016 were:

- **Dr Boštjan Jazbec, Governor;**
- **Dr Mejra Festić, Vice-Governor;**
- **Irena Vodopivec Jean, Vice-Governor;**
- **Marko Bošnjak, Vice-Governor;**
- **Dr Primož Dolenc, Vice-Governor.**

Box 9: **Conferences attended by members of the Governing Board in 2016 (selected)**

Dr Boštjan Jazbec:
- Riksbank Macroprudential Conference, theme: *An exploration into the role of macroprudential regulations* (Stockholm, June 2016)
- Conference on small euro area countries, Central Bank of Malta; theme: *Performance after the crisis and challenges for the future* (Valletta, June 2016)
- Executive Seminar on Banking Resolution; Single Resolution Board, Florence School of Banking and Finance, European Commission; *Keynote Speech*; (Florence, July 2016)

- European Systemic Risk Board conference, theme: *Macroprudential policy stance* (Frankfurt, September 2016)

Irena Vodopivec Jean:
- Conference of bank associations of members of the V6 group, theme: *Overview of the Slovenian Banking System: Characteristics, Risks and Challenges* (Bled, June 2016)
- Center of Excellence in Finance (CEF) High Level Seminar on Central Bank Independence; theme: *Economic governance and central bank independence when entering the EU and the euro area – Slovenian experience* (Ljubljana, September 2016)
- Responsible lending and financial corporate restructuring conference, theme: *Review of the implementation of master restructuring agreements and difficulties in implementation* (Ljubljana, October 2016)

Marko Bošnjak:
- Bank performance in the current macroeconomic circumstances conference organised by the Bank of Slovenia, the Central Bank of Montenegro, and the University of Ljubljana Faculty of Economics, theme: *Banking union* (Budva, September 2016)
- Roundtable during bankers' day at Brdo, BAS, theme: *Bank performance in negative interest rate conditions* (Brdo pri Kranju, November 2016)

Dr Mejra Festić:
- BAS bank conference; theme: *Expected resolution mechanism and deposit guarantee scheme* (Ljubljana, June 2016)
- Bank performance in the current macroeconomic circumstances conference organised by the Bank of Slovenia, the Central Bank of Montenegro, and the University of Ljubljana Faculty of Economics, theme: *The insurance of bank deposits: lecture at the Bank of Slovenia* (Budva, September 2016)
- NE Slovenia on the economic map of Europe, Maribor Economists' Society, theme: *Lessons of the banking crisis and the banking union as the result* (Maribor, December 2016)

6.2.1 Functioning of the Governing Board of the Bank of Slovenia

The Governing Board of the Bank of Slovenia discussed 319 agenda items in 2016.

The members of the Governing Board convened at **21 meetings** and **14 correspondence sessions** in 2016.

The **Governing Board discussed a total of 319 agenda items in 2016**, mostly in the area of banking supervision (125), economic and monetary policy, financial stability and statistics (56), and payment and settlement systems and cash operations (37).

The Governing Board discussed economic developments on eight occasions in 2016.

The representative of the National Assembly committee responsible for finance and monetary policy and the minister responsible for finance were invited[82] to all meetings of the Governing Board. **The committee chair attended six times in 2016, while the finance minister attended three times.**

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

Table 11: **Detailed information about meetings of the Governing Board of the Bank of Slovenia in 2015 and 2016**

	Total number of agenda items		Number of items in area **Economic and monetary policy, financial stability and statistics**		Number of items in area **Banking supervision**		Number of items in area **Payment and settlement systems, and cash operations**		Other	
	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**
Ordinary meetings	313	**292**	61	**50**	115	**117**	45	**35**	92	**90**
Correspondence sessions	22	**27**	2	**6**	17	**8**	0	**2**	11	**11**

The more important matters discussed by the Governing Board in 2016 included the changes approved to the general terms and conditions of the implementation of the monetary policy framework, regulations on the application of guidelines by European supervisory authorities, and the introduction of two macroprudential instruments for the real estate market in the form of recommendations for banks pursuant to the Macroprudential Supervision of the Financial System Act.

The Governing Board adopted multiple **regulations** in 2016, **conducted 34 procedures to grant authorisations**, and **issued decisions on extraordinary measures**, details of which are given below.

The Governing Board adopted multiple regulations in 2016, and conducted 34 procedures to grant authorisations.

6.2.1.1 Regulations (secondary legislation)

The Governing Board of the Bank of Slovenia adopted regulations in 2016 pursuant to the following:

- Banking Act (ZBan-2),
- Bank of Slovenia Act,
- Bank Resolution Authority and Fund Act,
- Deposit Guarantee Scheme Act,
- Resolution and Compulsory Winding-Up of Banks Act,
- Payment Services and Systems Act,
- Central Credit Register Act, and
- Decree implementing the Regulation on improving securities settlement in the European Union and on central securities depositories.

Secondary legislation and other regulations in the Bank of Slovenia's areas of work are published on its website.[83] Details of the **regulations adopted in the**

[83] See the Laws and Regulations section of the website (https://www.bsi.si/en/laws-and-regulations.asp?MapaId=69). Regulations in the area of banking supervision are available in the

area of banking supervision for banks and savings banks are given below. They mostly relate to the streamlining of bank reporting, thereby reducing the reporting burden faced by banks.

Table 12: **Regulations in the area of banking supervision**

Regulation	Publication in Official Gazette	Content
Regulation on the exercise of options and discretions under European Union law	No. 28/16	With the establishment of the Single Supervisory Mechanism, as the competent authority for conducting macroprudential supervision of significant banks the ECB also assumed the power of decision-making in connection with the exercise of options and discretions available under EU law that fall under the competence of supervisors. Because the ECB rules[84] for the exercise of individual options and discretions entered into force for significant banks on 1 October 2016, it was necessary to amend the previous Bank of Slovenia regulation on options and discretions. It was decided on the basis of analysis that it was reasonable to also follow the ECB approach for less significant banks, thereby ensuring equal business conditions for all banks within the Slovenian banking system.
Regulation on reporting by monetary financial institutions	No. 21/16	The Bank of Slovenia issued the original regulation in December 2015 as part of a package of regulations created by the overhaul of the reporting system for reason of the establishment of a broader credit register of business entities. It was necessary to update the regulation in 2016 because of the arrangements for reporting final write-offs, and in order to rectify deficiencies identified in the implementation of the new reporting requirements. Under the new requirements banks reported for the first time according to the situation as at 30 September 2016.
Regulation amending the regulation on the calculation of the institution-specific countercyclical capital buffer rate for banks and savings banks and Regulation amending the regulation on the reporting of individual facts and circumstances of banks and savings banks	No. 42/16	The main reason for the revision of the two regulations was the change in the method of reporting: a changeover from reporting in paper form to an electronic reporting methods via a B2B system. The main benefits of the latter are better security in the transmission of the data from banks, and the ability to conduct more effective further processing by the Bank of Slovenia. Banks have been reporting electronically under the two regulations since 30 June 2016.
Regulation amending the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks	No. 49/16	The amendment of the regulation reduced the frequency of bank reporting on the conclusion of MRAs and their implementation from quarterly to semi-annually, while at the same time the reporting forms were upgraded to obtain better-structured data on the progress and success of the implementation of MRAs.

Banking Supervision section under Laws and Regulations (https://www.bsi.si/en/laws-and-regulations.asp?MapaId=84).

[84] Regulation (EU) 2016/445 of the European Central Bank of 14 March 2016 on the exercise of options and discretions available in EU law (ECB/2016/4)

Regulation on the documentation for demonstrating fulfilment of the conditions for appointment as a member of the governing body of a bank or savings bank	No. 49/16	The amendments to the previous regulation were the result of practical findings in the implementation of the process of assessing the suitability of members of the governing bodies of banks by the Bank of Slovenia. Updates were made to the requirements regarding the documentation for demonstrating fulfilment of the conditions for appointment and the questionnaire used in the assessment of the fulfilment of the conditions for appointment as a member of the governing body. The deadline for submitting documentation in connection with newly appointed members of bank supervisory boards to the Bank of Slovenia was also extended.
Regulation amending the Regulation on the minimum requirements for ensuring an adequate liquidity position at banks and savings banks.	No. 79/16	The amendment to the regulation abolished daily reporting of plans of liquidity flows in the form of the Liquidity flows report, which was in force from April 2014. Given the profoundly expanded EU framework for supervisory reporting, in addition to the daily report on liquidity ratios there are also considerable alternative resources available for monitoring the liquidity position of individual banks, namely the monthly report on the fulfilment of liquidity coverage requirements, the annual report on funding plans, and the monthly report with additional metrics for monitoring liquidity.
Guidance in connection with the application of the principle of proportionality in the exercise of remuneration policy	Published online (in Slovene) at https://www.bsi.si/zakoni-in-predpisi.asp?MapaId=1878	In the guidance the Bank of Slovenia set the lower limit on variable remuneration below which there is no need to defer the variable remuneration or pay it in financial instruments. These rules apply to employees whose professional actions have a significant impact on the risk profile at banks. The lower limit is set at EUR 50,000, and includes the level of variable remuneration that the Bank of Slovenia believes can be deemed a negligible factor in risk take-up by such employees. Banks that are part of a banking group may apply the lower limit determined at group level as the lower limit on variable remuneration.

In 2016 the Bank of Slovenia again issued several regulations on the application of guidelines in the areas of banking supervision, bank recovery and early intervention, on the basis of EBA guidelines:

- Regulation on the application of the Guidelines specifying the conditions for group financial support under Article 23 of Directive 2014/59/EU;
- Regulation on the application of the guidelines entitled Limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013;
- Regulation on the application of the Guidelines on the remuneration benchmarking exercise;
- Regulation on the application of the Guidelines on the data collection exercise regarding high earners;
- Regulation on the application of the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013;
- Regulation on the application of the Guidelines on communication between competent authorities supervising credit institutions and the

statutory auditor(s) and the audit firm(s) carrying out the statutory audit of credit institutions;

- Regulation on the application of the Guidelines on the application of simplified obligations under Article 4(5) of Directive 2014/59/EU;
- Regulation on the application of the Guidelines on stress tests of deposit guarantee schemes under Directive 2014/49/EU;
- Regulation on the Guidelines on complaints-handling for the securities (ESMA) and banking (EBA) sectors (Official Gazette of the Republic of Slovenia, No. 47/15);
- Regulation on the application of the Recommendations on the equivalence of confidentiality regimes (Official Gazette of the Republic of Slovenia, No. 66/15) and Regulation amending the Regulation on the application of the Recommendations on the equivalence of confidentiality regimes (Official Gazette of the Republic of Slovenia, No. 2/17);
- Regulation on the application of the Guidelines on product oversight and governance arrangements for retail banking products (Official Gazette of the Republic of Slovenia, No. 81/16);

6.2.1.2 Licensing

Since the establishment of the Single Supervisory Mechanism, the ECB has been 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).[85]

The Governing Board conducted 34 procedures to grant authorisations in 2016. Of the 24 authorisations issued in 2016, 14 were issued by the ECB. One request for the granting of an authorisation was denied, and in four cases the procedure for granting the authorisation was suspended. Five procedures for the granting of an authorisation were incomplete at the end of 2016. In 2015 the Bank of Slovenia conducted 24 procedures for the granting of an authorisation, and issued 11 authorisations.

The most common authorisations granted in 2016 were to perform the function of a member of a bank's management board (14 in all), followed by five authorisations to acquire a qualifying holding, three authorisations to provide financial services, and two authorisations to merge a bank with another bank.[86]

The most common authorisations granted were to perform the function of a member of a bank's management board (14 in all)

Table 13: **Authorisations in 2016**

LICENSING	Number of procedures		Number of authorisations granted		Number of rejected /denied requests for authorisation)		Suspended procedures		Incomplete procedures
GRANTING OF AUTHORISATIONS	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2016

[85] For more details on the two categories of banks, see Section 3.6 Banking supervision.
[86] Granted authorisations are listed on the Bank of Slovenia website at http://www.bsi.si/nadzor-bank.asp?MapaId=2065.

Qualifying holding	3	**7**	1	**5**	0	**0**	0	**1**	1
Member of management board	13	**20**	6	**14**	2	**1**	0	**2**	3
Banking and financial services	3	**5**	1	**3**	0	**0**	0	**1**	1
Mergers and demergers	4	**2**	3	**2**	0	**0**	0	**0**	0
Opinions for SMA under ZIFI	1	**0**	-	-	-	-	-	-	0
Total	24	**34**	11	**24**	2	**1**	0	**4**	5

Source: Bank of Slovenia

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 48 procedures for assessing the suitability of members of bank supervisory boards in 2016.** The Bank of Slovenia completed three procedures and nine ECB procedures with a positive assessment, while ten procedures were suspended and 26 procedures continued into 2017.

The Bank of Slovenia completed 12 procedures for assessing the suitability of members of bank supervisory boards with a positive

Table 14: **Assessment of suitability and fitness of members of supervisory boards in 2016**

	Number of procedures		**Number of positive assessments**		**Number of measures imposed**		**Suspended procedures**		**Incomplete procedures**
ASSESSMENT OF SUPERVISORY BOARD MEMBERS	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2016
For significant banks	7	**26**	4	**9**	-	-	1	**3**	14
For less significant banks and savings banks	9	**22**	2	**3**	2	**0**	1	**7**	12
Total	16	**48**	6	**12**	2	**0**	2	**10**	26

Source: Bank of Slovenia

Within the framework of supervisory measures in the area of licensing, **the Governing Board of the Bank of Slovenia prohibited one shareholder from exercising all rights deriving from all bank shares in 2016.**[87]

[87] The measures imposed are disclosed on the Bank of Slovenia website (in Slovene) at http://www.bsi.si/nadzor-bank.asp?MapaId=1819.

The Bank of Slovenia also issued 17 decisions to terminate authorisations in 2016: the largest number (13 in all) related to the performance of the function of a member of a bank's management board, followed by two each for a qualifying holding and the provision of financial services, while the ECB issued three notifications of the termination of an authorisation to provide banking services.

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

The Bank of Slovenia received 18 notifications in 2016 of the direct provision of services in Slovenia by banks of Member States (up from 14 in 2015). 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 2016**, the same as in 2015.

6.2.1.3 Extraordinary measures

On 9 February 2016 the Governing Board of the Bank of Slovenia issued a decision on the termination of special administration at Factor banka and Probanka, because the special administrations had met the objectives of the extraordinary measures imposed to strengthen the stability of the financial system. The banks' orderly wind-down processes begun on 6 September 2013 were thus completed, all depositors of the two banks having been repaid. The **conditions for the termination of the two banks' authorisations to provide banking services were thus met** by law, thereby terminating the Bank of Slovenia's power to exercise the powers of the supervisory board and general meeting of the two banks. The decisions were delivered to the two banks on 10 February 2016.

On 9 February 2016 the Governing Board of the Bank of Slovenia issued a decision on the termination of special administration at Factor banka and Probanka.

The Governing Board also approved **the two banks' audited annual reports for the 2015 financial year** and **the audited interim reports as at 1 January 2016**. According to the audited annual report for 2015, as at 31 December 2015 Factor banka had EUR 1.3 million of equity and EUR 16 million of unexploited recapitalisation capacity in accordance with the European Commission state aid decision, while Probanka had negative equity of EUR 9.9 million and EUR 60 million of unexploited recapitalisation capacity in accordance with European Commission state aid decision of 18 December 2013.

Procedures in connection with the governance of the two undertakings, including a decision on their planned absorption into the BAMC, **fall under the competence of the owner, namely the Republic of Slovenia**.

In May 2016 the Bank of Slovenia issued a report on the wind-down of Factor banka and Probanka,[88] which provides a detailed description of the process of the orderly wind-down of the two banks between 2013 and 2016.

6.2.2 Working bodies

The Bank of Slovenia had **28 different working bodies** in 2016, comprising commissions, committees and task forces. The most important working bodies were:

The Bank of Slovenia had 28 different working bodies in 2016.

- Investment Committee (president: Dr Primož Dolenc);

[88] The report is published online (in Slovene) at http://www.bsi.si/publikacije-in-raziskave.asp?MapaId=1779.

- Operational Risk Committee (president: Dr Primož Dolenc);
- Audit Committee (president: Dr Dušan Zbašnik until 20 December, then Dr Marko Hočevar);
- Commission of the Governing Board of the Bank of Slovenia for Research Work (president: Dr Mejra Festić);
- Project Work Committee (president: Irena Vodopivec Jean);
- Licensing Commission (president: Marko Bošnjak);
- Liquidity Commission (president: Tomaž Košak);
- Ad Hoc Resolution Task Force (head: Peter Kupljen).

6.2.2.1 Investment Committee

The Bank of Slovenia's own financial assets (investments that are not related to the implementation of Eurosystem monetary policy) are managed at the strategic, tactical and operational levels for the purpose of strengthening capital. The Investment Committee plays an intermediate-level role in asset management, which is manifested in the annual proposal for the strategic allocation of assets (subject to approval by the Governing Board), the monthly approval of comparative 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 exposure and currency exposure of the Bank of Slovenia's financial assets and the target currency structure.

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 financial assets also set out the terms for securities lending and other activities. The adopted credit risk management criteria allow investments in financial instruments carrying sovereign, 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 sovereign 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 paper 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 2016. **The value of the Bank of Slovenia's financial assets stood at EUR 3,862 million as at 31 December 2016** (2015: EUR 3,805 million), of which EUR 3,255 million comprised assets denominated in euros (2015: EUR 3,171 million). The remaining EUR 607 million (2015: EUR 634 million) was denominated in foreign currencies.

The value of the Bank of Slovenia's financial assets stood at EUR 3,862 million as at 31 December 2016.

6.2.2.2 Operational Risk Committee

The Operational Risk Committee is responsible for oversight and guidelines definition 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 security policy, operational risk management policy and business continuity policy at the Bank of Slovenia. The committee met in three sessions in 2016. The most important activitiy conducted by the committee in 2016 was the coordination of the operational risk management process at the Bank of Slovenia. The process consists of criticality analysis of the 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 operational risk point of view . In the area of business continuity, the committee monitored the preparation and execution of 25 business continuity drills prepared and executed at the organisational units with the most critical business processes from the point of view of availability. Within the framework of the monitoring and coordination of policy, the committee adopted a standard policy of operational risk management and business continuity, and amendments to the security policy for the Bank of Slovenia information system.

The Operational Risk Committee monitored the preparation and execution of 25 business continuity drills.

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. It 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 seven times in 2016. It discussed the external auditor's report on the audited financial statements, and proposed them to the Governing Board for adoption. It also monitored the implementation of internal audit recommendations, thereby contributing to risk management.

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

The commission's tasks include promoting the development of research work by Bank of Slovenia staff by means of secondment and the financing of specialist and other postgraduate studies, 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, and encouraging students of Slovenian universities in producing high-quality dissertations and theses for master's degrees and doctorates.

Via the commission the Bank of Slovenia seconded one staff member to doctoral studies in 2016. The commission approved the publication of two papers in Bank

The Bank of Slovenia prize for the best master's degree dissertation and doctoral thesis was awarded to eight recipients in 2016.

of Slovenia Working Papers.[89] The Bank of Slovenia prize for the best master's degree dissertation and doctoral thesis was awarded to eight recipients in 2016.[90]

6.2.2.5 Project Work Committee

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

The Project Work Committee completed six projects in 2016.

The following projects were completed in 2016:

- Upgrade of the PPBS2 application (application for executing Bank of Slovenia payments) and epi@BS (online bank for Bank of Slovenia clients),
- Automation of reporting and informatisation of cash operations,
- Informatisation of project work at the Bank of Slovenia,
- Renovation of the lobby of the Bank of Slovenia building,
- Changeover to the single supervisory system,
- Deposit guarantee scheme and fund and bank resolution fund (phase 2).

The committee met in eight ordinary sessions in 2016, and approved three applications for projects and development tasks, namely the upgrade of the ICAS internal rating system, the establishment of the compliance function and business process, and the construction of a reporting system for the purposes of financial reporting and controlling, which is to begin in 2017.

6.3 Report on the performance of the Bank of Slovenia in 2016

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

6.3.1 Balance sheet developments in 2016

Balance sheet total amounted to EUR 12.7 billion as at 31 December 2016, up EUR 2.4 billion on the end of 2015. The most significant change on the asset side was in net purchases of securities for the implementation of monetary policy, in the amount of EUR 3.5 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 ensure financial stability. There was a decline of EUR 0.7 billion in claims against the Eurosystem from adjustments in euro banknotes. These claims represent the difference between the value of banknotes allocated to the Bank of Slovenia as the legal issuer of 0.45% of all banknotes in circulation in the Eurosystem, and the value of banknotes actually placed into circulation by the Bank of Slovenia.

[89] Bank of Slovenia Working Papers: http://www.bsi.si/iskalniki/research.asp?MapaId=1829.
[90] Prize works (in Slovene): http://www.bsi.si/publikacije-in-raziskave.asp?MapaId=136.

On the liability side there were increases in current account balances of banks (by EUR 0.6 billion), euro deposits by the government and other clients (by EUR 0.3 billion) and banknotes in circulation (by EUR 0.2 billion). The aforementioned developments brought a change in the Bank of Slovenia's position against the ECB from cross-border transactions with other national central banks and the ECB via the TARGET2 system, which moved from net claims against the ECB at the end of 2015 (in the amount of EUR 0.2 billion) to net liabilities to the ECB at the end of 2016 (EUR 1.2 billion).

6.3.2 Financial results in 2016

The main source of the Bank of Slovenia's income is interest on monetary policy instruments and portfolios, and on its own investments in securities. Net interest income amounted to EUR 78.0 million in 2016, up EUR 20.0 million on the previous year. This was mainly attributable to an increase in the stock of monetary policy portfolios, and negative interest rates on deposits by credit institutions, the government and other clients.

The net gain realised on the sale of securities and foreign exchange positions amounted to EUR 12.7 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 1.2 million in 2016, and were the result of market prices of securities and exchange rates at the end of 2016 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 33.9 million for covering expenses from currency risk, interest rate risk, credit risk, price risk and other risks.

Net fees and commission (EUR 6.1 million), income from participating interests (EUR 6.4 million), the net result of pooling of Eurosystem monetary income (EUR 19.8 million) and other income (EUR 2.5 million) amounted to EUR 34.8 million in 2016.

Operating costs amounted to EUR 33.1 million. The Bank of Slovenia generated a surplus of income over expenses in the amount of EUR 57.3 million in 2016. The surplus will be distributed in accordance with Articles 50 and 50a of the Bank of Slovenia Act.

The Bank of Slovenia generated a surplus of income over expenses in the amount of EUR 57.3 million in 2016.

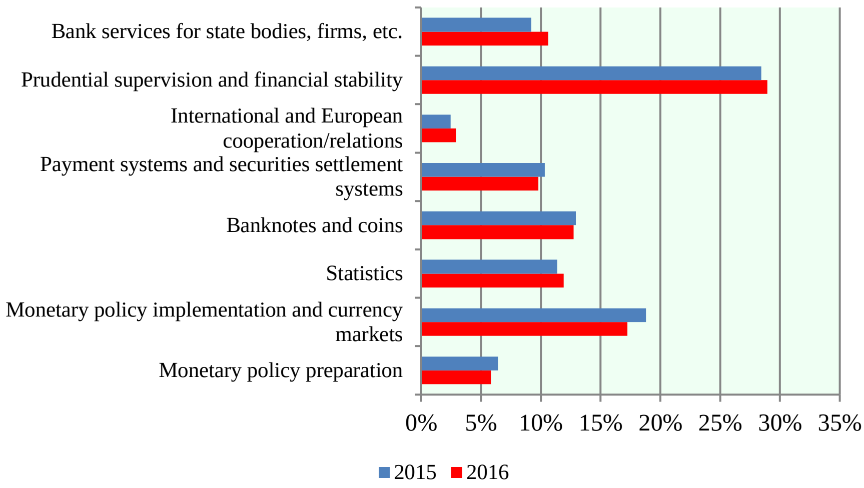
Table 15: **Bank of Slovenia's contributions to Slovenia's state budget, in EUR million**

Year	Surplus	Statutory contributions to state budget	Contribution to state budget
2012	131.9	33.0	108.9
2013	50.4	12.6	46.8
2014	74.8	18.7	60.0
2015	54.0	13.5	40.5
Total	**311.1**	**77.8**	**256.2**

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 34 illustrates the allocation of costs by task 8in percentage). In addition to direct costs, these include the imputed indirect costs of support functions (information technology, accounting, legal services and similar internal services).

Figure 34: **Costs by individual task**



Source: Bank of Slovenia

Operating costs amounted to EUR 33.1 million in 2016, up EUR 2.4 million on the previous year.

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 22.2 million (up from EUR 20.2 million in 2015). The increase was the result of upgrades to key Bank of Slovenia functions, in particular the establishment of the Central Credit Register and the strengthening of the supervisory function, which was reflected in a rise in the average headcount calculated from hours worked. The rise was also attributable to changes in the staff qualifications breakdown, and 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.

The sum of banknote printing costs, amortisation and depreciation of non-current assets and other costs was broadly unchanged from 2015.

Table 16: **Year-end balance sheet, 2012 to 2016, in EUR million**

Assets	**2012**	**2013**	**2014**	**2015**	**2016**
1. Gold and gold receivables	129	89	101	100	112
2. Claims on non-euro-area residents denominated in foreign currency	592	578	734	685	591
3. Claims on euro area residents denominated in foreign currency	269	209	139	220	260
4. Claims on non-euro-area residents denominated in euro	782	784	1,022	1,059	1,217
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	3,982	3,337	1,098	901	714
6. Other claims on euro area credit institutions denominated in euro	49	379	230	51	201
7. Securities of euro area residents denominated in euro	3,774	2,995	2,552	4,999	8.274
8. General government debt denominated in euro	-	-	-	-	-

9. Intra-Eurosystem claims	2,839	2,216	4,774	1,948	956
10. Items in course of settlement	-	-	-	-	-
11. Other assets	227	226	204	291	340
Total assets	**12,643**	**10,813**	**10,854**	**10,254**	**12,666**

Liabilities	**2012**	**2013**	**2014**	**2015**	**2016**
1. Banknotes in circulation	3,947	4,136	4,615	4,892	5,085
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	1,320	2,068	1,434	1,627	2,249
3. Other liabilities to credit institutions denominated in euro	18	14	8	4	3
4. Debt certificates issued	-	-	-	-	-
5. Liabilities to other euro area residents denominated in euro	1,039	1,756	2,847	1,743	2,018
6. Liabilities to non-euro-area residents denominated in euro	12	15	10	16	20
7. Liabilities to euro area residents denominated in foreign currency	75	73	94	60	78
8. Liabilities to non-euro-area residents denominated in foreign currency	-	-	-	-	-
9. Counterpart of special drawing rights allocated by the IMF	252	241	257	275	275
10. Intra-Eurosystem liabilities	4,409	1,024	-	-	1,223
11. Items in course of settlement	-	-	-	-	-
12. Other liabilities	109	96	114	155	147
13. Provisions	330	402	409	423	457
14. Revaluation accounts	156	69	116	122	151
15. Capital and reserves	844	866	874	882	903
16. Surplus of income over expenses for the current year	132	50	75	54	57
Total liabilities	**12,643**	**10,813**	**10,854**	**10,254**	**12,666**

Source: Bank of Slovenia

Table 17: **Profit and loss account for 2012 to 2016, in EUR million**

	2012	**2013**	**2014**	**2015**	**2016**
1. Net interest income	251	127	69	58	78
2. Net result of financial operations, write-downs and risk provisions	-134	-53	11	-0	-22
3. Net income from fees and commissions	4	3	4	3	6
4. Other income	37	23	22	23	29
5. Operating costs	-26	-50	-31	-31	-33
Surplus of income over expenses for the current year	**132**	**50**	**75**	**54**	**57**

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 and of the ECB (Article 27.1) and the Bank of Slovenia Act. For the purposes of auditing the external auditor has access to all bylaws, accounts and information about transactions at the Bank of Slovenia. The auditor's report is an integral part of the Bank of Slovenia's financial statements.

6.3.4.1 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 risks

The Bank of Slovenia is exposed to financial risks inherent in its own portfolio of investments and its monetary policy portfolios. The Bank of Slovenia manages the risks inherent in its own portfolio of investments by means of its investment policy, which is largely set out by the Regulation on the method of management of the financial assets of the Bank of Slovenia and the Criteria for managing the financial assets of the Bank of Slovenia. The aforementioned

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

documents define the level of acceptable risks, and introduce the strategic asset allocation (SAA) as the central guidance of investment policy. This is optimised once a year and, having regard for all limits, pursues the objective of optimising the expected return while keeping risk to an acceptable level. For the purposes of early warning of increased risk the Bank of Slovenia follows market developments and various market indicators and monitors announcements by rating agencies and regulatory changes on a daily basis, and has put in place a reporting process and preparations for risk mitigation measures.

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

6.3.4.3 Operational risk

The Bank of Slovenia holds certification of the compliance of its information security management system with the requirements of the ISO 27001 information security standard.

Operational risk is the risk of loss 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. It includes the areas of operational risks, business continuity, information security, and physical and technical security. As part of operational risk management, a criticality assessment was made of all of the Bank of Slovenia's business processes from the perspective of impact on business objectives, reputation and financial assets. Operational risks were identified and assessed for the most critical business processes, and the causes and potential reasons for their realisation were analysed. Risk management plans were formulated for the risks that exceed the acceptable level, and activities to mitigate, accept, avoid or transfer existing risks were envisaged. To ensure business continuity the Bank of Slovenia has put in place an alternate location to provide technological support for business processes and a backup location that allows for the most time-critical business processes to continue uninterrupted. A secure, reliable information system is of vital importance to the undisrupted and effective execution of the Bank of Slovenia's business processes. The Bank of Slovenia therefore regularly monitors and employs advanced technological solutions to ensure a high level of data protection. The Bank of Slovenia holds certification of the compliance of its information security management system with the requirements of the ISO 27001 information security standard. As part of Slovenia's critical infrastructure, the Bank of Slovenia participated in the drafting of the bill for a Critical Infrastructure Act.

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 on financial assets, on the realisation of business objectives and on reputation.

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

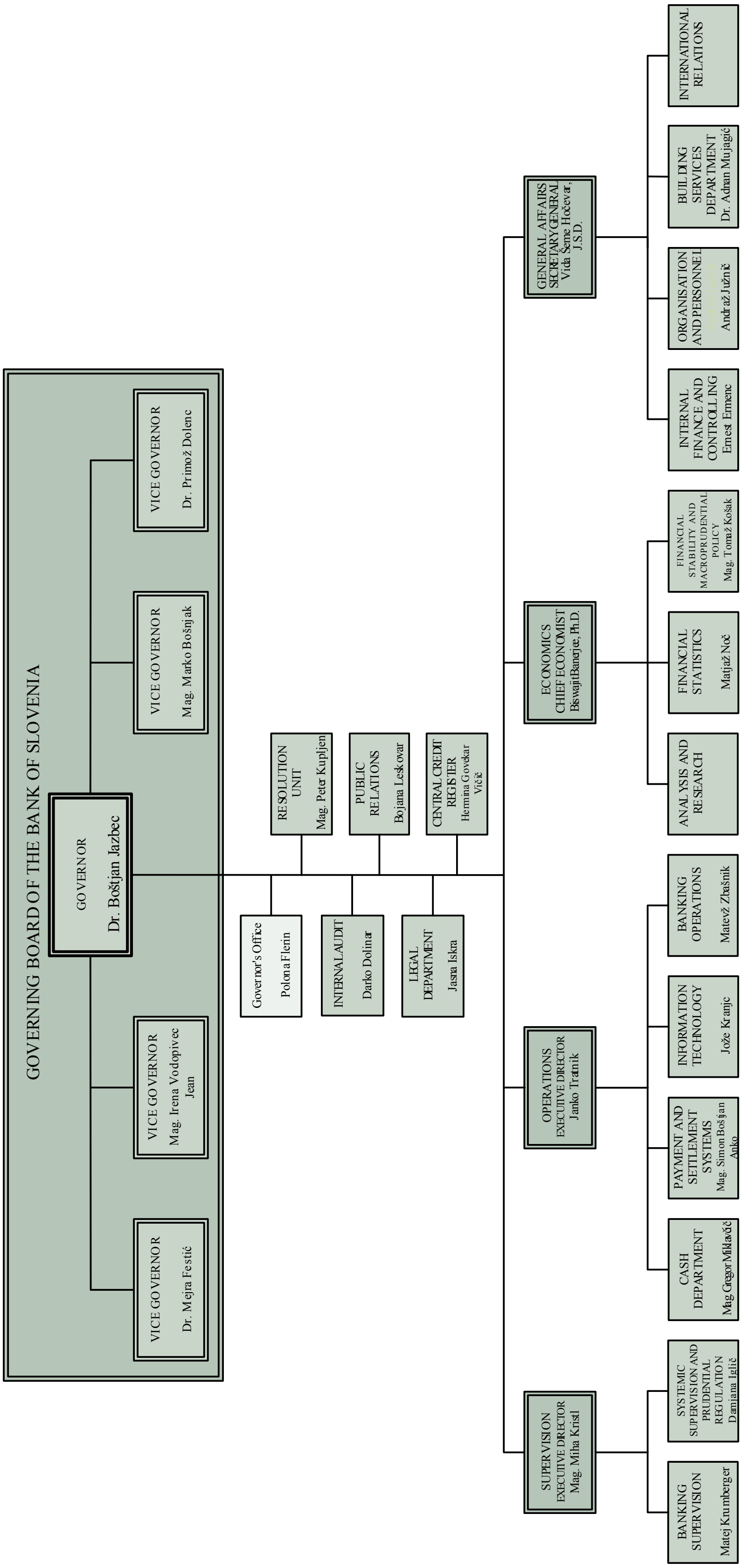
The Bank of Slovenia's reputation does not depend solely on internal risk management factors, but has recently, particularly since the bank recovery process carried out in 2013 and 2014, been strongly dependent on opinions expressed by various interest groups, particularly in the media. The functioning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

The Bank of Slovenia's proactive approach to strengthening its reputation is expressed in its efforts to act as transparently possible, which has been reflected in the addition of extra content to this annual report.

The Bank of Slovenia's proactive approach to strengthening its reputation is expressed in its efforts to act as transparently as possible.

6.3.5 Organisational structure of the Bank of Slovenia

Figure 35: **Organisational structure of the Bank of Slovenia, 31 December 2016**



6.3.6 Staff

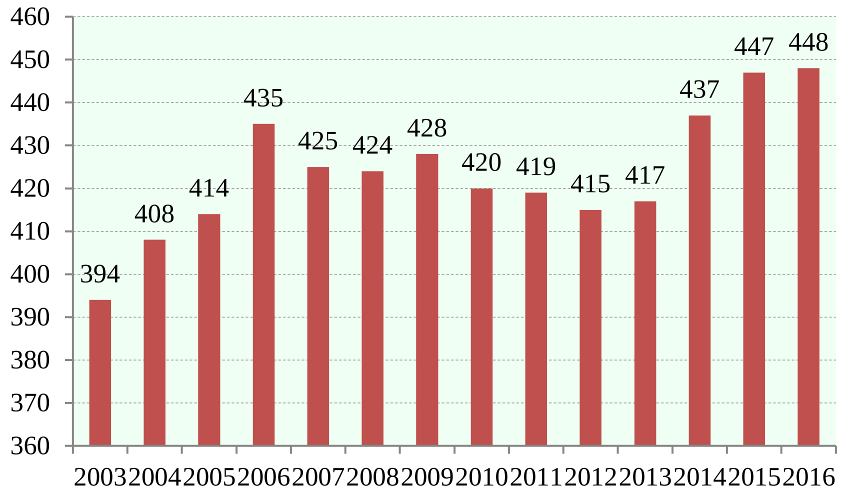
In its HR development the Bank of Slovenia follows the Strategy of the Bank of Slovenia for 2015-2020, which defines effective and efficient functioning and operations as one of the fundamental objectives, with flexible organisation and highly motivated staff. The Bank of Slovenia employs various HR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

In 2016 the Bank of Slovenia introduced a new pay system including a system of rewarding on-the-job performance in connection with targeted management, updated the competency model, and invested in HR development and training.[91] It also earned the *Moje delo* award for the employer with the best reputation in the sector. The Bank of Slovenia attends to the international mobility of its staff,[92] and links with the school system and younger generations

The **Bank of Slovenia had 448 employees as at 31 December 2016**, of whom 91% were on permanent contracts. The headcount was up one, or 0.2%, on the previous year.

The headcount stood at 448 in 2016, up one on the previous year.

Figure 36: **Headcount by year**



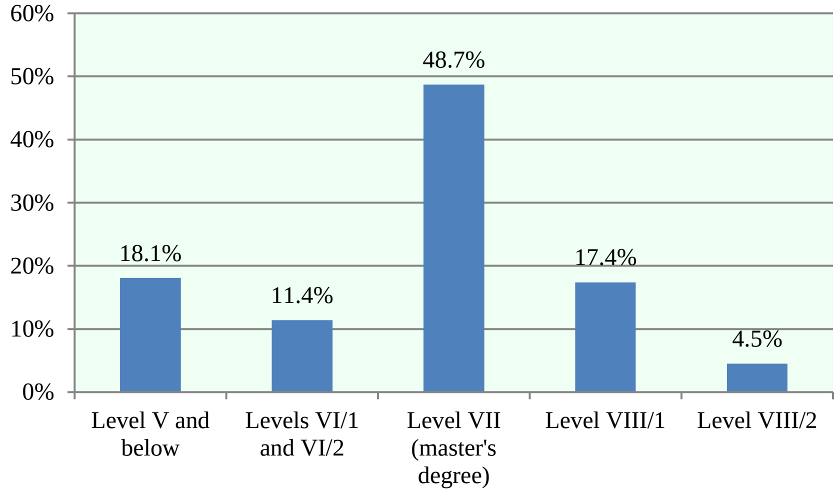
Source: Bank of Slovenia

The gender breakdown was relatively equal (53% of the employees are women).

[91] The Bank of Slovenia earmarked approximately EUR 240,000 for education and training in 2016, which is 3% of the bank's total material costs (2015: EUR 350,000).
[92] It currently has 14 staff members involved in various forms of collaboration within the framework of the ESCB, on secondment from their employment at the bank.

Some 70.6% of staff at the Bank of Slovenia held a Level VII qualification or higher at the end of 2016.

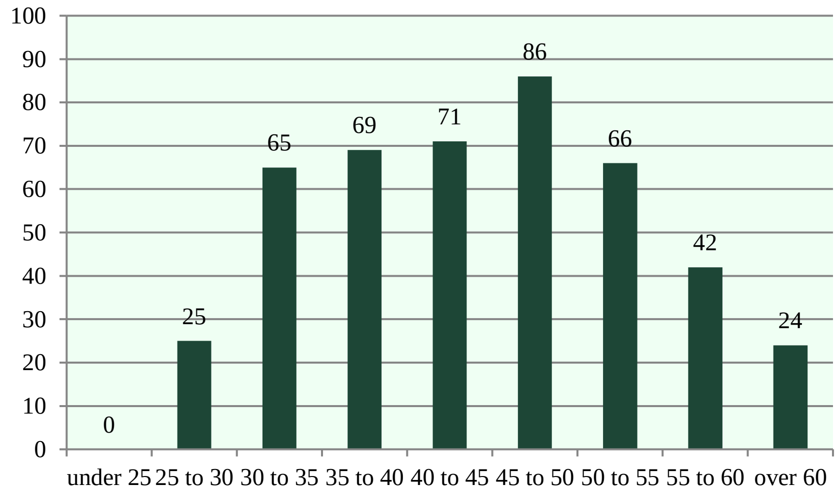
Figure 37: **Breakdown of staff qualifications at the Bank of Slovenia as at 31 December 2016**



Source: Bank of Slovenia

The average age of a staff member was 44 years and five months.

Figure 38: **Breakdown of age of staff at the Bank of Slovenia as at 31 December 2016**



Source: Bank of Slovenia

6.4 Court proceedings

Court proceedings in 2016 primarily related to the extraordinary measures implemented by the Bank of Slovenia in the banking system in 2013 and 2014, which included the extinction of subordinated claims against banks that were resolved through state aid. **On 19 October 2016 the Constitutional Court** ruled that the provisions of the Banking Act (ZBan-1) that provided for the extinction of the subordinated claims and allowed for claims for damages to be exercised in connection with the holder of the claims were **not unconstitutional**. At the same time the court found that the arrangements for the procedure for exercising potential claims for damages in the ZBan-1 were not in accordance with the constitution, and instructed the legislator to rectify the unconstitutionality within six months.

As this report was being drafted the Bank of Slovenia had 42 pending disputes where it is the defendant on account of the aforementioned extraordinary measures. The majority (32) consist of civil disputes, five of which feature the Bank of Slovenia as a secondary party.

As this report was being drafted the Bank of Slovenia had 42 pending disputes on account of the aforementioned extraordinary measures, mostly civil cases.

As a result of orders issued by the examining magistrate in connection with the police investigation of the Bank of Slovenia premises in July 2016, the Bank of Slovenia filed a suit with the Administrative Court for reason of prejudice of its rights, and a constitutional complaint and motion to assess the constitutionality of the Criminal Procedure Act with the Constitutional Court, because it was not afforded effective protection of its rights during the investigative procedures. The Bank of Slovenia acted identically and for identical reasons in the case of an order by the examining magistrate that required the submission of certain documents to the National Assembly's commission of inquiry.

7 PRIORITIES IN 2017

7.1 Banking supervision

Banking supervision in connection with significant banks (SIs) will be conducted in 2017 via established practices of collaboration with the ECB. The plan of supervisory activities is aligned with the procedures within the framework of the SSM and annual supervisory review and evaluation process (SREP) at each bank, while the joint supervisory teams (JSTs) are responsible for the activities. In planning the supervision of less significant banks, which is conducted by the Bank of Slovenia, the starting priority tasks are the same (the SREP), and the specifics are taken into account.

Supervisory activities in 2017 will be conducted via:

- **ongoing supervisory activities** for all banks in Slovenia (SIs and LSIs), which are focused in particular on the larger banks and banks with a higher risk profile or weaker control environment. In addition to the prescribed supervisory activities (SREP, oversight of banks' regular reports and other documentation, regular meetings with banks and external auditors, regular supervisory reports), activities in 2017 will focus on analysis and monitoring of credit risk, monitoring of operational risk and oversight of internal governance systems.

- **on-site inspections**, which at significant banks will mainly focus on credit risk and the internal capital adequacy assessment process (ICAAP), and at less significant banks will focus on operational risk, credit risk and interest rate risk.

7.2 Effective implementation of macroprudential policy

In 2017 the process of implementing macroprudential policy will focus on monitoring (regular reporting of) the effects of the macroprudential instruments/measures already introduced (e.g. the countercyclical capital buffer[93]), and analysing the possibility of introducing new instruments in the area of liquidity risk management and bank balance sheet structure from the perspective of macroprudential needs. The dynamics of the activation of the instrument are dependent on the economic recovery, the financial cycle and structural systemic risks.

The following activities are envisaged in connection with the development of macroprudential supervision tools/models:

- the development of a model for conducting macro stress tests in the Slovenian banking system;
- the development of a system of indicators for identifying systemic risks and their prioritisation (the risk dashboard);
- the development of the early warning system (EWS) on the basis of the risk dashboard for the banking system;
- the initial development of model-based assessment of the transmission channels of macroprudential instruments.

7.3 Implementation of IFRS 9

As of 1 January 2018 banks and savings banks will be required to administer their accounts in accordance with the new IFRS 9, which is replacing IAS 39 and brings **major changes in the accounting of financial instruments**, in particular in the classification and measurement of financial assets (including new treatment of embedded derivatives), the creation of impairments and provisions, and hedge accounting.

In 2016 the Bank of Slovenia called on banks to submit action plans in connection with the application of IFRS 9, to make quarterly progress reports and to complete the EBA questionnaire, which should provide for a preliminary assessment of the impact of IFRS 9 on banks' financial statements andown funds. The results revealed the banks to still be in the phase of examining and designing the requisite processes, for which reason they will provide new impact assessments in 2017. Due to the successful transition to IFRS 9, there will be further activity in the overhaul of secondary legislation in connection with books of account, annual reports, credit risk management and reporting.

7.4 Licensing of consumer credit providers for real estate

Pursuant to the new Consumer Credit Act (the ZPotK-2), in 2017 the Bank of Slovenia will begin licensing two new types of entity in the area of consumer credit for real estate, namely providers of consumer credit in the form of finance leasing of real estate (who are under bank ownership of at least 20% or have total

[93] For more on the instrument, see http://www.bsi.si/en/financial-stability.asp?MapaId=1886.

assets of more than EUR 50 million) and credit intermediaries for consumer credit for real estate. The aim is primarily to increase the level of consumer protection in the area of consumer lending for real estate via incentives for sustainable credit provision and taking.

7.5 Overhaul of key regulations

In the development and implementation of regulations there will be a particular focus on the following in 2017:

- activities in connection with the **revisions to the CRR / CRD IV**, which were issued in 2013 and transpose the content of Basel II into EU banking legislation;
- a comprehensive overhaul of secondary legislation in the **area of credit risk**;
- regulatory activities in connection with the implementation of the CRD IV and the EBA guidelines in the **area of internal governance** (establishment of the framework with regard to the risk propensity of banks, education and training, cooperation in the supervision of banks in the area of internal governance);
- the issue of secondary legislation pursuant to the **new Consumer Credit Act** (the ZPotK-2);
- a detailed handbook for the effective management and workout of NPLs to micro, small and medium-size enterprises (MSMEs)[94] **at banks was published in March 2017. The handbook will subsequently be included in a package of secondary legislation in the area of credit risk.**

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

The Bank of Slovenia will sign a **memorandum of understanding with the Office for Money Laundering Prevention** in 2017.

The focus in the area of AML/CFT in 2017 will be on the implementation of the new Prevention of Money Laundering and Terrorist Financing Act (the ZPPDFT-1), which was adopted in late 2016, and on the emerging EBA guidelines and technical standards, the aim of which is the standard interpretation and implementation of requirements from the perspective of AML/CFT across the entire EU.

The Moneyval assessment, an assessment carried out by the aforementioned committee within the framework of the Council of Europe, whose purpose is determining whether Slovenia is consistently implementing the FATF international recommendations in the area of AML/CFT, will be completed in 2017. The final report on the adequacy and effectiveness of the AML/CFT system in Slovenia will be discussed at the Moneyval plenary meeting in May.

[94] The Handbook for Effective Management and Workout of MSME NPLs is published online at http://www.bsi.si/en/publications.asp?MapaId=2195.

7.7 Upgrade of SISBON and inclusion of new users

The Central Credit Register Act (the ZCKR) envisages significant changes in the content of data reporting to the SISBON system (the database of personal indebtedness), as a result of which it will be necessary to adjust the application and the reporting framework for members of the SISBON system.

Another of the most important tasks will be ensuring all the necessary activities and procedures for the timely inclusion of new members in the SISBON system. In accordance with the ZCKR, all leasing companies that provide factoring services, the BAMC, the Housing Fund, the Eco Fund, etc. must be included in SISBON. The assessment is that approximately 35 new members will join SISBON in 2017.

7.8 Preparation of bank resolution plans

By the end of 2017 the Bank of Slovenia will put in place resolution plans for all banks whose resolution is the responsibility of the Bank of Slovenia, will participate in the preparation of resolution plans for significant banks under ECB supervision (two updates to plans, one initial plan), and via internal resolution groups will participate in updating the plans of banking groups with bank members in Slovenia (six plans).

After obtaining data on the liabilities of individual banks, in the second half of 2017 the Bank of Slovenia will conduct analysis of the data on the available MREL (the **minimum requirement for own funds and eligible liabilities**) for banks whose resolution is the responsibility of the Bank of Slovenia. The first rough estimate of the MREL for these banks will be given by the end of the year.

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

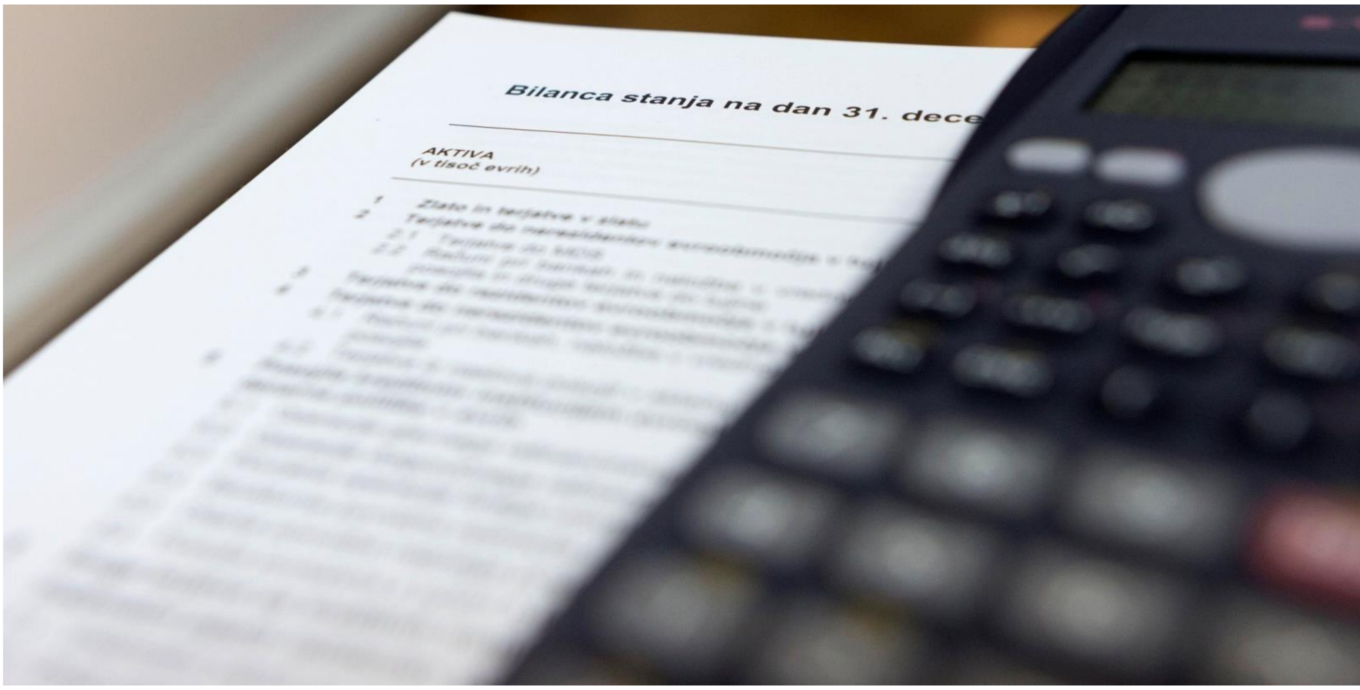
In 2017 KDD and the Bank of Slovenia will begin using T2S as the Eurosystem's single technical platform for the settlement of securities transactions. The functioning of T2S is based on a harmonised legal basis, and the use of the ISO 20022 communications standard and standardised T2S services, for which reason adaptations are required in the Slovenian environment. The extent of these adaptations depends on the gap between the methods used by T2S and current Slovenian market practice. The migration of the Slovenian market to T2S requires technical, operational and legal adaptations on the part of the Bank of Slovenia (administration of cash accounts in T2) and KDD (administration of securities accounts in T2S), and revisions to Slovenian legislation in the area of securities.

7.10 An improvement in the accessibility and understanding of statistical data for internal and external users.

The changeover to the IMF's new Special Data Dissemination Standard (**SDDS+**) is planned by the end of 2017. The Bank of Slovenia agreed the timeframe for the publication of data with SURS and the Ministry of Finance in 2016. Everything necessary for the changeover to the new standard will be prepared in 2017: the preparation of the required data, the preparation of the SDMX files, and the publication of the data online.

7.11 Informatisation of DSBS office operations

Early 2017 saw the completion of the first phase of the project, which also encompassed the informatisation of the entire management of meetings of the Governing Board of the Bank of Slovenia as the supreme governing body. The second phase of the project, which encompasses the establishment of a central reception point and the informatisation of the entire office operations in each organisational unit, will begin in 2017. A standardised and secure process of producing and coordinating documents up to the final version at individual organisational units will allow for simultaneous work by multiple users on the same matters and documents, and will improve information security, reducing the risk of loss and unauthorised access to documents. The completion of the second phase of the DSBS project will ultimately entail the implementation of one of the largest organisational and process changes in the Bank of Slovenia's operations, which will have an impact on the work of virtually all staff members.



8 BANK OF SLOVENIA'S FINANCIAL STATEMENTS FOR 2016

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

The Bank of Slovenia Act requires the Bank of Slovenia to prepare financial statements 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.

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This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Bank of Slovenia

Opinion

We have audited the financial statements of Bank of Slovenia, which comprise the balance sheet as at December 31 2016, the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those rules are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank of Slovenia in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Slovenia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of the Governing Board of the Bank of Slovenia and audit committee for the financial statements

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

In preparing the financial statements, Governing Board is responsible for assessing the Bank of Slovenia ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with audit rules, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank of Slovenia internal control;

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▸ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Governing Board;

▸ conclude on the appropriateness of the Governing Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank of Slovenia's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank of Slovenia to cease to continue as a going concern;

▸ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the Governing Board of the Bank of Slovenia and audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ljubljana, 13.03.2017

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

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

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

Basic principles
The financial statements are prepared in conformity with the provisions governing the Eurosystem's accounting and reporting procedures, which follow accounting principles, harmonized by Community law 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;
- 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;

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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 2016 plus the European Central Bank (ECB). The term 'Eurosystem' refers to the nineteen NCBs of the member states participating in the Monetary Union, plus the ECB on the same date.

[3] OJ L 347, 20.12.2016, p. 37-86.

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

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

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

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

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

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

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

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

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

Other securities
Marketable securities (other than 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 2016, mid-market prices on 30 December 2016 were used.

Marketable securities classified as held-to-maturity, non-marketable securities and illiquid equity shares are valued at amortised cost 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 with the month after acquisition, so as to write off the cost of the assets over their estimated economic lifetime at the following annual percentage rates:

	2016	2015
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 the appraised value, obtained by an external certificated valuer (the Bank of Slovenia revalues these properties once every 5 years; the last revaluation was performed in year 2014). This revaluation method represents the deviation from generally accepted accounting principles and follows the prudence concept.

ESCB capital key
The capital key is essentially a measure of the relative national size of EU member countries and is a 50:50 composite of GDP and population size. The key is used as the basis for allocation of each NCB's share 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, which together comprise the Eurosystem, issue euro banknotes[4]. 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[5].

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 remunerated intra-Eurosystem balances. These claims or liabilities[6] 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).

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

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

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

From the cash changeover year[7] 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[8] 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 (SMP), (b) the third covered bond purchase programme (CBPP3), (c) the asset-backed securities purchase programme (ABSPP) and (d) the public sector purchase programme (PSPP) is due to the euro area NCBs in the financial year in which it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year by means of an interim distribution of profit[9]. It is distributed in full unless it is higher than the ECB's net profit for the year, and subject to any decisions by the Governing Council to make transfers to the provision for foreign exchange rate, interest rate, credit and gold price risks. The Governing Council may also decide to 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 the Bank of Slovenia Act, after introduction of the euro as the Republic of Slovenia's currency, the Governing Board of the Bank of Slovenia may, with the intention of maintaining the real value of assets, take a decision to create general provisions for anticipated exchange rate, interest rate and price risks. Provisions may not be created if, 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 also for the creation of provisions for credit risks was 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 at a given confidence level (99%) and for a given holding period (one year). ES is defined as an expected portfolio loss in the same period selected taking into account only the losses equal or greater to VaR figure at the same confidence level and the unchanged investment structure. In 2016, the Bank of Slovenia also created provisions based on the calculation of interest sensitivity gap for the first time. This risk arises from the growing imbalances between the short-term liabilities and long-term investments as a result of the implementation of the Eurosystem monetary policy operations.

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

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

[9] 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.

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[10] and give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are netted out and then assigned to the ECB on a daily basis, leaving each NCB with a single net bilateral position vis-a-vis the ECB only.

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

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

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

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net asset 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 from 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.

Reclassification
With a view to harmonise the reporting of interest income and expense, it was agreed in 2016 at the Eurosystem level that positive and negative interest stemming from monetary policy operations should be netted on a balance sheet (sub-) item level. This results in a reclassification in the net interest income and a restatement of 2015 comparative figures.

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

The comparable amounts for 2015 have been adjusted as follows:

(000 EUR)	Published in 2015	Adjustment owing to reclassification	Restated amount for 2015
Interest income	59,457	-114	59,343
Interest expense	-1,490	114	-1,376

The reclassification had no impact on the net profit reported for 2015.

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

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

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

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

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

Since spot and forward amounts in foreign currencies are converted to euro at the same exchange rate, foreign exchange swaps do not influence Profit and Loss 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 is not included in the net profit available for distribution. Revaluation accounts may only be used to cover a shortfall deriving from unrealised negative valuation effects as a result of exchange rate and price movements.

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

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

Balance Sheet as at 31 December 2016

ASSETS (thousands of euro)		Note number	31 December 2016	31 December 2015
1	**Gold and gold receivables**	1	**112,364**	**99,591**
2	**Claims on non-euro area residents denominated in foreign currency**	2	**591,479**	**685,232**
2.1	Receivables from the IMF		360,840	367,178
2.2	Balances with banks and security investments, external loans and other external assets		230,639	318,054
3	**Claims on euro area residents denominated in foreign currency**	3	**260,150**	**219,623**
4	**Claims on non-euro area residents denominated in euro**	4	**1,216,697**	**1,058,674**
4.1	Balances with banks, security investments and loans		1,216,697	1,058,674
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	**714,000**	**901,380**
5.1	Main refinancing operations		15,000	-
5.2	Longer-term refinancing operations		699,000	901,380
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	**201,346**	**50,797**
7	**Securities of euro area residents denominated in euro**	7	**8,273,907**	**4,999,371**
7.1	Securities held for monetary policy purposes		6,469,414	2,978,571
7.2	Other securities		1,804,493	2,020,800
8	**General government debt denominated in euro**		**-**	**-**
9	**Intra-Eurosystem claims**	8	**955,777**	**1,948,379**
9.1	Participating interest in ECB		82,199	82,199
9.2	Claims equivalent to the transfer of foreign reserves		200,221	200,221
9.3	Claims related to promissory notes backing the issuance of ECB debt certificates*		-	-
9.4	Net claims related to the allocation of euro banknotes within the Eurosystem		673,357	1,406,543
9.5	Other claims within the Eurosystem (net)		-	259,416
10	**Items in course of settlement**		**-**	**-**
11	**Other assets**	**9**	**340,205**	**290,533**
11.1	Coins of euro area		467	1,324
11.2	Tangible and intangible fixed assets		37,386	34,485
11.3	Other financial assets		53,168	53,107
11.4	Off-balance sheet instruments revaluation differences		4,102	207
11.5	Accruals and prepaid expenses		146,807	100,113
11.6	Sundry		98,277	101,297
12	**Loss for the year**		**-**	**-**
Total assets			**12,665,925**	**10,253,580**

* Only an ECB balance sheet item

LIABILITIES (thousands of euro)		Note number	31 December 2016	31 December 2015
1	**Banknotes in circulation**	10	**5,084,865**	**4,891,682**
2	**Liabilities to euro area credit institutions related to monetary policy operations denominated in euro**	11	**2,249,251**	**1,627,183**
	2.1 Current accounts (covering the minimum reserve system)		2,249,251	1,627,183
	2.2 Deposit facility		-	-
	2.3 Fixed-term deposits		-	-
	2.4 Fine-tuning reverse operations		-	-
	2.5 Deposits related to margin calls		-	-
3	**Other liabilities to euro area credit institutions denominated in euro**	12	**3,159**	**4,348**
4	**Debt certificates issued**		**-**	**-**
5	**Liabilities to other euro area residents denominated in euro**	13	**2,017,679**	**1,742,822**
	5.1 General government		1,948,770	1,729,704
	5.2 Other liabilities		68,909	13,118
6	**Liabilities to non-euro area residents denominated in euro**	14	**19,538**	**15,885**
7	**Liabilities to euro area residents denominated in foreign currency**	15	**77,801**	**59,600**
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	**275,163**	**274,774**
10	**Intra-Eurosystem liabilities**		-	-
	10.1 Liabilities equivalent to the transfer of foreign reserves*	17	1,223,142	-
	10.2 Liabilities related to promissory notes backing the issuance of ECB debt certificates		-	-
	10.3 Net liabilities related to the allocation of euro banknotes within the Eurosystem		-	-
	10.4 Other liabilities within the Eurosystem (net)		1,223,142	-
11	**Items in course of settlement**		**-**	**-**
12	**Other liabilities**	18	**146,797**	**155,359**
	12.1 Off-balance sheet instruments revaluation differences		36,178	45,081
	12.2 Accruals and income collected in advance		12,971	11,265
	12.3 Sundry		97,647	99,013
13	**Provisions**	19	**457,167**	**423,247**
14	**Revaluation accounts**	20	**151,224**	**122,383**
15	**Capital and reserves**	21	**902,811**	**882,278**
	15.1 Capital		8,346	8,346
	15.2 Reserves		894,465	873,932
16	**Profit for the year**		**57,329**	**54,018**
Total liabilities			**12,665,925**	**10,253,580**

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2016

thousands of euro	**Note number**	**2016**	**2015**
1.1 Interest income*		81,300	59,343
1.2 Interest expense *		-3,283	-1,376
1 Net interest income	25	**78,017**	**57,967**
2.1 Realised gains/losses arising from financial operations		12,694	24,878
2.2 Write-downs on financial assets and positions		-1,209	-3,756
2.3 Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks		-33,920	-21,131
2 Net result of financial operations, write-downs and risk provisions	26	**-22,434**	**-9**
3.1 Fee and commission income		8,563	6,183
3.2 Fee and commission expense		-2,482	-2,692
3 Net income from fees and commissions	27	**6,080**	**3,491**
4 Income from equity shares and participating interests	28	6,446	5,114
5 Net result of pooling of monetary income	29	19,805	15,111
6 Other income	30	2,512	3,021
Total net income		**90,426**	**84,695**
7.1 Staff costs		-22,164	-20,218
7.2 Administrative expenses		-7,248	-6,840
7.3 Depreciation of tangible and intangible fixed assets		-1,694	-1,422
7.4 Banknote production services		-1,108	-1,188
7.5 Other expenses		-883	-1,008
7 Total operating expenses	31	**-33,098**	**-30,677**
8 Profit for the year	32	**57,329**	**54,018**

* Amounts for 2015 have been adjusted due to the netting of interest arising from monetary policy operations (see 'Reclassification' in accounting policies).

The notes on pages 15 to 36 form an integral part of the financial statements.

The unaudited financial statements were approved by the Governing Board on 21 February 2017 and these audited financial statements were approved by the Governing Board on 29 March 2017 and were signed on its behalf by:

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

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

Notes to the balance sheet

1. Gold and gold receivables

With the exception of gold stocks held at the Bank of Slovenia, the Bank of Slovenia's gold holdings consist of deposits with foreign banks. In the annual accounts gold 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 30 December 2016. This price, notified by the ECB, amounts to EUR 1,098.046 per ounce of fine gold compared with EUR 973.225 on 31 December 2015. Unrealised positive valuation effects of EUR 63.0 million were disclosed under the liability balance sheet item ‘Revaluation accounts’.

	000 EUR	Fine troy ounces
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
Revaluation of gold stock as at end of 2016	12,773	-
Balance as at 31 December 2016	112,364	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 Slovenia’s quota in the IMF and the IMF’s EUR holdings with the Bank of Slovenia. In 2016 the US ratified the reforms of quotas and governance of the IMF (Resolution 66-2 on the reform of quotas and governance (14th quota review)), which resulted in the quotas' increase of all IMF member states.

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 five currencies (USD, GBP, JPY, EUR and CNY[11]).

All claims are shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.2746 (31 December 2015: SDR 1 = EUR 1.2728) 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’.

[11] IMF included china juan renminbi (CNY) in the basket of SDR currencies as of 1 October 2016.

	31 December 2016		31 December 2015		Change	
	000 SDR	**000 EUR**	**000 SDR**	**000 EUR**	**000 SDR**	**000 EUR**
Quota	586,500	747,553	275,000	350,020	311,500	397,533
Less IMF holdings of EUR	-465,932	-593,877	-196,717	-250,381	-269,216	-343,496
Reserve tranche in the IMF	120,568	153,676	78,283	99,639	42,284	54,037
Loan to the IMF	-	-	3,100	3,946	-3,100	-3,946
SDR Holdings	162,533	207,164	207,097	263,594	-44,565	-56,430
Total	**283,100**	**360,840**	**288,481**	**367,178**	**-5,380**	**-6,339**

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 2016.

Breakdown of foreign currency assets by type of investment:

	31 December 2016	31 December 2015	Change
	000 EUR	**000 EUR**	**000 EUR**
Current accounts	1,481	4,273	-2,791
Time deposits	39,655	17,452	22,203
Securities	189,503	296,329	-106,826
Total	**230,639**	**318,054**	**-87,415**

Breakdown of foreign currency assets by currency:

	31 December 2016	31 December 2015	Change
	000 EUR	**000 EUR**	**000 EUR**
USD	230,177	315,347	-85,170
CHF	189	2,498	-2,308
GBP	78	70	8
Other currencies	195	139	56
Total	**230,639**	**318,054**	**-87,415**

Breakdown of securities according to their residual maturity:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	26,397	106,794	-80,396
>1 year and ≤5 years	127,094	137,931	-10,837
> 5 years	36,012	51,605	-15,593
Total	**189,503**	**296,329**	**-106,826**

3. Claims on euro area residents denominated in foreign currency

The foreign currency assets held with euro area residents are invested in sight deposits, time deposits and securities in foreign currencies. Foreign currency assets are shown at their euro equivalent as calculated on the basis of market exchange rates on 31 December 2016.

Breakdown of foreign currency assets by type of investment:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Current accounts	78	8	70
Time deposits	31,211	84,229	-53,017
Securities	228,860	135,385	93,475
Total	**260,150**	**219,623**	**40,528**

Breakdown of foreign currency assets by currency:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
USD	260,150	219,623	40,528
Total	**260,150**	**219,623**	**40,528**

Breakdown of securities according to their residual maturity:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	68,831	77,997	-9,167
>1 year and ≤5 years	160,030	57,388	102,642
Total	**228,860**	**135,385**	**93,475**

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 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Current accounts	0	0	0
Time deposits	113,900	102,000	11,900
Securities	1,102,797	956,674	146,123
Total	**1,216,697**	**1,058,674**	**158,023**

Breakdown of securities according to their residual maturity:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	259,221	294,677	-35,456
>1 year and ≤5 years	820,809	661,997	158,812
>5 years	22,767	-	22,767
Total	**1,102,797**	**956,674**	**146,123**

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 595,873 million (2015: EUR 558,989 million), of which the Bank of Slovenia holds EUR 714 million (2015: EUR 901 million). In accordance with Article 32.4 of the Statute of the ESCB and the ECB, losses from monetary policy operations, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

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

Main refinancing operations are executed through liquidity providing reverse transactions with a frequency and a maturity of normally one week, on the basis of standard tenders. Since October 2008, these operations were conducted at fixed rate with full allotment.

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

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Main refinancing operations	15,000	-	15,000
Longer term refinancing operations	699,000	901,380	-202,380
Total	**714,000**	**901,380**	**-187,380**

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 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Current accounts	1,756	2,797	-1,041
Time deposits	199,590	48,000	151,590
Total	**201,346**	50,797	**150,549**

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.

[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, Decision of the European Central Bank of 3 November 2011 on the implementation of the second covered bond purchase programme (ECB/2011/17), OJ L 297, 16.11.2011, p. 70-71 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.

In 2016 the Eurosystem programmes constituting the expanded asset purchase programme (APP)[15], i.e. the third covered bond purchase programme (CBPP3), the ABSPP[16] and PSPP[17], were supplemented with the corporate sector purchase programme (CSPP)[18] as a fourth component. Under this programme, NCBs may purchase investment-grade euro-denominated bonds issued by non-bank corporations established in the euro area.

From April 2016 until March 2017, the combined monthly APP purchases by the NCBs and the ECB increased from EUR 60 billion to EUR 80 billion on average. In December 2016, the Governing Council decided to continue the net APP purchases after March 2017 at a monthly pace of EUR 60 billion until the end of December 2017 or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. If, in the meantime, the outlook becomes less favourable, or if financial conditions become inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intends to increase the programme in terms of size and/or duration. The net purchases will be made alongside reinvestments of the principal payments from maturing securities purchased under the APP.

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

The amortised cost of these securities held by Bank of Slovenia, as well as their market value[19] (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 2016		**31 December 2015**		**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	28,052	30,675	28,095	31,513	-44	-837
Second covered bond purchase programme	-	-	-	-	-	-
Third covered bond purchase programme	967,161	970,948	651,721	645,782	315,440	325,166
Securities market programme	219,003	243,923	287,975	319,427	-68,972	-75,504
Public sector purchase programme	5,255,199	5,401,575	2,010,780	2,024,375	3,244,419	3,377,200
Total	**6,469,414**	**6,647,122**	**2,978,571**	**3,021,097**	**3,490,843**	**3,626,024**

[15] Further details for the APP can be found on the ECB’s website.

https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

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

[17] Under this programme, the ECB and the NCBs may purchase, in the secondary market, euro-denominated securities issued by euro area central, regional or local governments, recognised agencies located in the euro area and international organisations and multilateral development banks located in the euro area.

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

[19] 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.

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

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	356,770	99,494	257,277
>1 year and ≤5 years	2,095,352	1,168,954	926,399
> 5 years	4,017,291	1,710,123	2,307,168
Total	**6,469,414**	**2,978,571**	**3,490,843**

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

The total Eurosystem NCB's holding of SMP, CBPP3 and ABSPP securities and PSPP securities issued by International or supranational institutions, located in the euro area, amounts to EUR 519,328 million (2015: EUR 341,374 million), of which the Bank of Slovenia holds EUR 2,220 million (2015: EUR 940 million). In accordance with Article 32.4 of the Statute of the ESCB and the ECB, losses from holdings of SMP, CBPP3 and ABSPP securities and 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 2016 on securities purchased under the SMP, CBPP, ABSPP, PSPP and CSPP, the Governing Council identified two impairment indicators, related to the holdings of ABSPP and CBPP securities. The Governing Council considered that the identified impairment indicators had not affected the estimated future cash flows. No impairment losses were therefore recorded at the year-end for the Bank of Slovenia's holdings of securities under the ABSPP and CBPP. Furthermore, no impairment losses were recorded in respect of the other securities purchased under SMP, CBPP, ABSPP, PSPP and CSPP.

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

Breakdown of securities per portfolio:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Marketable securities other than those held to maturity	1,776,502	1,994,327	-217,825
Held-to-maturity securities	27,991	26,473	1,518
Total	**1,804,493**	**2,020,800**	**-216,307**

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

Breakdown of other securities according to their residual maturity:

	31 December 2016	31 December 2015	Change
	000 EUR	**000 EUR**	**000 EUR**
≤ 1 year	295,322	851,567	-556,245
>1 year and ≤5 years	1,153,592	903,890	249,702
> 5 years	355,580	265,343	90,236
Total	**1,804,493**	2,020,800	**-216,307**

8. Intra-Eurosystem claims

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

The subscribed and paid up capital of the 28 European central banks in the capital of the ECB on 31 December 2016 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 Națională a României	2.6024	281,709,984	10,564,124	
Sveriges Riksbank	2.2729	246,041,586	9,226,559	
Bank of England	13.6743	1,480,243,942	55,509,148	
Total non-euro area NCBs	**29.6085**	**3,205,122,218**	**120,192,083**	
Total euro area and non-euro area NCBs	**100.0000**	**10,825,007,070**	**7,740,076,935**	

In accordance with the Article 49.2 of the Statute of the ESCB and the ECB and the legal acts adopted by the Governing Council of the ECB, the Bank of Slovenia also made a contribution of EUR 36.7 million to the ECB's foreign exchange, gold and security price revaluation accounts and to the ECB's provision for foreign exchange rate, interest rate and gold price risks in year 2007. The payment was made in two parts. As a result of a difference between the euro equivalent of foreign reserve assets to be transferred to the ECB at current exchange rates and the claim of the Bank of Slovenia in accordance with its capital key (disclosed under asset item 9.2), the amount of EUR 7.6 million was used as the advance contribution to the ECB reserves, provisions and provisions equivalent to reserves on 3 January 2007. The rest of the contribution was paid after the approval of the ECB's 2006 Annual Accounts by the Governing Council of the ECB in March 2007.

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

	31.12.2016
	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 represents the Bank of Slovenia's claims arising from the transfer of foreign reserve assets to the ECB, when the Bank of Slovenia joined the Eurosystem. The remuneration of these claims is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for main refinancing operations, adjusted to reflect a zero return on the gold component.

Sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem' consists of the claims and liabilities of the Bank of Slovenia vis-à-vis the Eurosystem relating to the allocation of euro banknotes within the Eurosystem (see ‘Banknotes in circulation’ and ‘Intra-ESCB balances/Intra-Eurosystem balances’ in the notes on accounting policies)[20]. The decrease of the net claim in comparison to 2015 (of EUR 733,2 million) was due to increase in banknotes put into circulation by the Bank of Slovenia in 2016 (increase of 26.6% compared to 2015), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 3.9% compared to 2015). 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, of which the total balance is recorded either on the asset or liability side: 1) the position of the Bank of Slovenia vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB; 2) the position vis-à-vis the ECB in respect of pooling and allocation of monetary income within the Eurosystem pending settlement; and 3) the Bank of Slovenia’s position vis-à-vis the ECB in respect of any amounts receivable or refundable, including the amount due to the Bank of Slovenia from the ECB in respect of the ECB’s interim profit distribution. The sum of all three components shows a net liability as at the end of 2016 (see 'Other liabilities within the Eurosystem (net)' in the notes to the balance sheet).

[20] 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'.

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Due from ECB in respect of TARGET2 balances	-	240,319	-240,319
Due from ECB in respect of monetary income	-	15,111	-15,111
Due from ECB in respect of the ECB interim profit distribution	-	3,986	-3,986
Total	**-**	**259,416**	**-259,416**

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 2015	**30,331**	**23,110**	**53,441**
Additions	828	3,847	4,675
Disposals	0	1,506	1,506
At 31 December 2016	**31,160**	**25,450**	**56,610**
Depreciation			
At 31 December 2015	**611**	**18,344**	**18,955**
Disposals	232	1,538	1,771
Charge for the year	0	1,502	1,502
At 31 December 2016	**844**	**18,380**	**19,224**
Net book value			
At 31 December 2015	**29,720**	**4,766**	**34,485**
At 31 December 2016	**30,316**	**7,070**	**37,386**

As at 31 December 2016 an amount of EUR 12.4 million relating to investment properties in Austria is included in land and buildings (2015: 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 2016 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 2016. This consists mainly of interest income which is due in the subsequent financial year.

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

10. Banknotes in circulation

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

During 2016, the total value of banknotes in circulation within the Eurosystem increased by 3.9%. According to the allocation key, the Bank of Slovenia had euro banknotes in circulation worth EUR 5,084.9 million at the end of the year (compared with EUR 4,891.7 million at the end of 2015). The value of euro banknotes actually issued by the Bank of Slovenia in 2016 increased by 26.6% from EUR 3,485.1 million to EUR 4,411.5 million. As this was less than the allocated amount, the difference of EUR 673.4 million (2015: EUR 1,406.5 million) is shown under asset sub-item 9.4 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Total value of euro banknotes put into circulation by the Bank of Slovenia	4,411,508	3,485,139	926,369
Liability resulting from the ECBs share of euro banknotes in circulation	-442,221	-425,420	-16,801
Claim according to Bank of Slovenia's weighting in the ECB's capital key	1,115,578	1,831,964	-716,385
Total banknotes in circulation	**5,084,865**	**4,891,682**	**193,183**

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

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
EUR 5	-60,766	-49,014	-11,752
EUR 10	645,077	540,619	104,457
EUR 20	4,234,682	3,928,453	306,229
EUR 50	-356,148	-919,717	563,568
EUR 100	-846,347	-932,127	85,781
EUR 200	-226,889	-242,411	15,522
EUR 500	1,021,901	1,159,336	-137,435
Total value of euro banknotes put into circulation by the Bank of Slovenia	**4,411,508**	**3,485,139**	**926,369**

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 1 January 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 deposit facility rate. In case of positive deposit facility rate, the reserves held in excess of the minimum requirements are not remunerated.

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	2,249,251	1,627,183	622,068
Total	**2,249,251**	1,627,183	**622,068**

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 and by deposit guarantee fund.

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Government sight deposits and special funds	1,870,371	1,676,458	193,913
Other public sector deposits	78,399	53,246	25,153
Total	**1,948,770**	1,729,704	**219,066**

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

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. At the end of 2016, the liability is shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.2746 (31 December 2015: SDR 1 = EUR 1.2728) 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 2016 is solely due to valuation effects, i.e. the depreciation of the euro against the SDR.

17. Intra-Eurosystem liabilities

Sub-item 10.4 'Other liabilities within the Eurosystem (net)' represents the sum of three components, of which the total balance is recorded either on the asset or liability side: 1) the position of the Bank of Slovenia vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB; 2) the position vis-à-vis the ECB in respect of pooling and allocation of monetary income within the Eurosystem pending settlement; and 3) the Bank of Slovenia’s position vis-à-vis the ECB in respect of any amounts receivable or refundable, including the amount due to the Bank of Slovenia from the ECB in respect of the ECB’s interim profit distribution.

	31 December 2016	**31 December 2015**	**Change**
	000 EUR	**000 EUR**	**000 EUR**
Due to ECB in respect of TARGET2 balances	1,247,690	-	1,247,690
Due to ECB in respect of monetary income	-19,805	-	-19,805
Due to ECB in respect of the ECB interim profit distribution	-4,743	-	-4,743
Total	**1,223,142**	**-**	**1,223,142**

The year-end net transfers via TARGET2 had a credit balance of EUR 1,247.7 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 19.8 million at year-end (see 'Net result of pooling of monetary income' in the notes to the profit and loss account).

In 2016, following a decision by the Governing Council, the amount due to euro area national central banks with respect to the ECB’s interim profit distribution was EUR 966 million (see 'ECB profit distribution' in accounting policies). The related amount due to the Bank of Slovenia as at 31 December 2016 was EUR 4.7 million (see 'Income from equity shares and participating interests' in the profit and loss account).

18. 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 2016. This consists mainly of interest expenditure which is due in the new financial year or later but was incurred in the financial year just ended.

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

19. Provisions

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Provisions for employees and for known risks	13,867	13,047	820
Provisions for general risks	443,300	410,200	33,100
Total	**457,167**	**423,247**	**33,920**

Provisions for employees and for known risks

Provisions for post-employment benefits include provisions for severance pay and long-service awards and are calculated in accordance with IAS 19 – Employee benefits. The latter consider the stipulations of the Bank of Slovenia collective agreement, expected future salary increase, employee turnover and a rate to discount future obligations. Provisions are calculated based on actuarial assumptions as at 31 December 2016.

Provisions for known risks relate to potential liabilities of the Bank of Slovenia stemming from on- and off-balance sheet positions. Provisions for potential liabilities streaming from off-balance sheet positions were calculated on the basis of Value-at-Risk assessment (VaR).

With regard to potential liabilities arising from administrative disputes relating to emergency measures in the banking system in the years 2013/2014, a special law is under preparation, which will enable the enforcement of any damage to the holders of subordinated debt. The Bank of Slovenia has not created any provisions for this purpose at the end of 2016.

Provisions for general risks

Taking into account the Bank of Slovenia's exposure to interest rate risk, exchange rate risk, price and credit risks, general provisions for losses and credit events arising from these risks could be created. In 2016, the total exposure to those risks has increased significantly due to APP securities purchases (see 'Securities of euro area residents denominated in euro' in the notes to the balance sheet).

20. 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 the case of valuation of securities, positive valuation effects of EUR 29.5 million arose from the valuation of EUR denominated portfolio (2015: EUR 14.0 million) and EUR 1.1 million from the valuation of USD denominated assets (2015: EUR 1.1 million).

In the case of foreign currency positions, positive valuation effects of EUR 49.6 million arose from the valuation of USD position and EUR 8.1 million from the valuation of SDR position (2015: EUR 46.3 million from the valuation of USD position and EUR 10.8 million from the valuation of SDR position). The average acquisition cost of foreign currencies at the end of 2016 was USD 1.3076 for EUR and EUR 1.1872 for SDR (2015: USD 1.3401 for EUR and EUR 1.1628 for SDR), while the market rate was USD 1.0541 for EUR and EUR 1.2746 for SDR (2015: USD 1.0887 for EUR and EUR 1.2728 for SDR).

In the case of gold the acquisition cost is EUR 482.688 per fine ounce of gold at the end of 2016 (2015: EUR 482.688), compared to the market price at the end of 2016, which was EUR 1,098.046 per fine ounce of gold (2015: EUR 973.225). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 63.0 million (2015: EUR 50.2 million).

	31 December 2015	31 December 2016	Change
	000 EUR	000 EUR	000 EUR
Price effect	30,556	15,125	15,431
- securities in foreign currencies (asset items 2 and 3)	1,059	1,141	-82
- securities in euro (asset items 4 and 7)	29,497	13,983	15,514
Exchange rate effect	57,698	57,062	636
Gold valuation effect	62,970	50,197	12,773
Total	**151,224**	**122,383**	**28,841**

21. Capital and reserves

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

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

The composition of reserves is the following:

	31 December 2016	31 December 2015	Change
	000 EUR	000 EUR	000 EUR
Initial capital of the Bank of Slovenia	8,346	8,346	-
General reserves	688,034	667,516	20,518
Special reserves for foreign exchange differences	174,214	174,214	-
Special reserves – price risk (gold)	19,736	19,736	-
Revaluation reserves	12,482	12,467	15
Total reserves	**902,811**	882,278	**20,533**

Notes to the off-balance-sheet items

22. Foreign currency swaps

As at 31 December 2016, the forward foreign currency position arising from EUR/foreign currency swap transactions amounted to EUR 186.6 million (2015: EUR 240.3 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 2016		31 December 2015		Change	
	000 Foreign currency	000 EUR	000 Foreign currency	000 EUR	000 Foreign currency	000 EUR
Forward liabilities in USD	196,700	186,605	261,600	240,287	-64,900	-53,682
Total	**196,700**	**186,605**	261,600	240,287	**-64,900**	**-53,682**

23. Securities lending

As at 31 December 2016, securities with a market value of EUR 360 million (31 December 2015: EUR 264 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 as well as government, bank and corporate bonds.

24. 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 2016:

- obligation under the IMF's statutes to provide currency on demand in exchange for SDRs up to three times the amount that the Bank of Slovenia received gratuitously from the IMF, which was equivalent to EUR 618.3 million as at 31 December 2016 (31 December 2015: EUR 560.7 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 2015: EUR 910.0 million);

- a contingent liability of EUR 172.8 million, equivalent to the Bank of Slovenia's share of the maximum of EUR 50 billion reserve assets that the ECB may request the euro area NCBs to transfer under Article 30.1 of the Statute of the ESCB and of the ECB (31 December 2015: 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 (31 December 2015: EUR 600 million).

Notes to the profit and loss account

25. Net interest income

Interest income

Interest income consists of interest income from foreign reserve assets and euro-denominated portfolio and interest income from euro denominated claims and liabilities. Euro denominated claims include monetary policy instruments, foreign reserve assets transferred to the ECB, net claim arising from the allocation of banknotes within the Eurosystem and TARGET2 balances. Negative interest expense generated by liabilities related to credit institutions and government accounts and deposits is also disclosed under interest income. Positive and negative interest accrued on the current accounts of credit institutions and longer-term refinancing operations are disclosed in the net amount.

	2016	2015	Change
	000 EUR	**000 EUR**	**000 EUR**
Interest income			
Gold	**402**	**436**	**-34**
Current accounts and deposits	**534**	**430**	**104**
- in foreign currency	527	265	262
- in euro	7	165	-158
Securities	**64,749**	**49,313**	**15,436**
- in foreign currency	5,312	4,112	1,200
- in euro	59,437	45,201	14,236
IMF	**302**	**177**	**125**
Monetary policy operations	**1**	**1,159**	**-1,158**
- main refinancing operation	1	12	-11
- longer-term refinancing operations	-	1,147	-1,147
- other refinancing operations	0	0	0
Intra Eurosystem claims	**164**	**1,559**	**-1,394**
- claims arising from the transfer of foreign reserves to the ECB	18	86	-69
- net claims related to the allocation of banknotes within the Eurosystem	140	905	-765
- TARGET2 balances	6	568	-561
Other interest income	**15**	**15**	**0**
Negative interest expense	**15,133**	**6,254**	**8,878**
- current accounts of credit institutions	8,027	2,561	5,466
- government and other clients accounts and deposits	7,106	3,693	3,413
Total	**81,300**	**59,343**	**21,956**

Interest expense

Interest expense arises from the liabilities in form of government accounts and deposits, TARGET2 balances and interest expense related to foreign currency swaps. Positive and negative interest accrued on the current accounts of credit institutions and longer-term refinancing operations are disclosed in the net amount.

	2016	2015	Change
	000 EUR	000 EUR	000 EUR
Interest expense			
Current accounts and deposits	**497**	**104**	**393**
- in foreign currency	255	104	151
- in euro	242	0	241
IMF	**201**	**121**	**80**
Intra Eurosystem liabilities	**29**	**59**	**-30**
- TARGET2 balances	29	59	-30
Foreign currency swaps	**2,290**	**1,092**	**1,198**
Negative interest income	**29**	**59**	**-30**
- longer-term refinancing operations	29	59	-30
Total			

26. 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 2016 below the average cost of the respective currencies or securities. The valuation losses in 2016 mostly occurred on EUR and USD denominated securities.

In 2016 provisions for known risks arising from on-balance sheet positions were created in the amount of EUR 3.1 million. The greater part of the increase relates to additional provisions for employees in accordance with IAS 19 - Employee Benefits as a result of lower interest rate used to discount future liabilities (0.83% compared by 3.5% in 2015). Provisions for risks arising from off-balance sheet positions were released by EUR 2.3 million.

Transfer to provisions for general risks in the amount of EUR 33.1 million represents the net amount of additional provisions, created for potential losses from interest rate, price, exchange rate and credit risks and interest rate sensitivity gap (see 'Provisions' in the notes to the balance sheet).

	2016	2015	Change
	000 EUR	**000 EUR**	**000 EUR**
Realised gains/losses			
Gold	0	2	-2
Currency position	6,582	10,764	-4,182
Securities	6,112	14,112	-8,000
Total	**12,694**	**24,878**	**-12,184**
Write-downs			
Currency position	-70	-183	112
Securities	-1,138	-3,573	2,435
Total	**-1,209**	**-3,756**	**2,547**
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks			
Provisions for known risks	-820	2.169	-2,989
Provisions for general risks	-33,100	-23,300	-9,800
Total	**-33,920**	**-21,131**	**-12,789**
Total	**-22,434**	**-9**	**-22,425**

27. Net income from fees and commissions

Fees and commissions receivable mainly arise from payment and settlement services, supervisory and regulatory functions, managing the Central Credit Register, managing the resolution fund, processing of cash and from securities lending transactions.

28. Income from equity shares and participating interests

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

Also included under this caption is the amount due to the Bank of Slovenia with respect to the ECB's interim profit distribution totalling EUR 4.7 million (2015: EUR 4.0 million) (see 'ECB profit distribution' in the notes on accounting policies).

29. Net result of pooling of monetary income

This item contains the net result of pooling of monetary income for 2016, amounting to an income of EUR 19.8 million compared to the income of EUR 15.1 million in the previous year.

	2016	2015	Change
	000 EUR	**000 EUR**	**000 EUR**
Net monetary income pooled by the Bank of Slovenia	28,823	28,972	-149
Net monetary income allocated to the Bank of Slovenia	48,630	44,079	4,551
Monetary income reallocation for the year	**19,807**	**15,107**	**4,700**
Corrections to monetary income reallocation of previous years	**-2**	**3**	**-5**
Total	**19,805**	**15,111**	**4,695**

The monetary income of the Eurosystem national central banks is allocated in accordance with the decision taken by the Governing Council of the ECB[21]. The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income deriving from the earmarkable assets held against its liability base.

Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled 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 of the reasons 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, each Eurosystem NCB's share of the earmarkable assets and of the liability base usually deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by the Bank of Slovenia in the amount of EUR 28.8 million and reallocated to the Bank of Slovenia in the amount of EUR 48.6 million is the net result arising from the calculation of monetary income.

30. Other income

Other income includes income from non-bank services like rental income, sales of fixed assets, numismatics and other income.

31. Operating expenses

Staff costs

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

The Bank of Slovenia employed 448 employees as at 31 December 2016 (31 December 2015: 447 employees). The average number of employees, calculated from the number of hours worked, stood at 434 employees (2015: 414 employees).

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

In accordance with the contract between the Bank of Slovenia and the Trade union from March 2002 the Bank of Slovenia's employees have been included into Voluntary supplementary pension insurance, which is defined as a contribution plan. Staff costs include contribution of the Bank of Slovenia for Voluntary supplementary pension insurance of EUR 0.6 million (2015: EUR 0.6 million).

In 2016 the remuneration of the Governing board members of the Bank of Slovenia was of EUR 0.7 million (2015: EUR 0.8 million). The amount for 2015 includes the contractual obligations due to expiration of the mandate of the Bank of Slovenia Board member.

Administrative expenses

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

Depreciation of tangible and intangible fixed assets

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

Banknote production services

Expenses for banknotes production services include mainly the expenses related to the production and transportation. The additional quantity of banknotes to be printed is determined on the basis of assessed needs for banknotes in circulation and for the maintenance of adequate volume of stock in the Eurosystem, distributed to individual NCB according to its capital key and denomination structure.

Other expenses

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

32. 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 57.3 million (2015: EUR 54.0 million). Appropriation of the financial result will be performed in accordance with the Article 50 of the Bank of Slovenia Act.