BANKA SLOVENIJE

EVROSISTEM

ANNUAL REPORT

2018

Title of publication:
ANNUAL REPORT 2018
Year 29, September 2019

Published by:
BANK OF SLOVENIA
Slovenska 35
1505 Ljubljana
Tel: +386 1 4719000
Email: pr@bsi.si
http://www.bsi.si

The Annual Report is based on figures and information available by April 2019.

ISSN 1518-2103
(electronic edition)

BANKA SLOVENIJE

EVROSISTEM

ANNUAL REPORT

2018

CONTENTS

TABLES

DIAGRAMS

FIGURES

A WORD FROM THE GOVERNOR

Slovenia's economy was again significantly stronger than the overall euro area economy in 2018. Economic growth has outpaced overall euro area growth since the end of 2013. It stood at 4.5% in 2018. Annual inflation approached 2%, as its rise on 2017 was driven by energy prices and stronger domestic demand, which was reflected in higher service price inflation. It was nevertheless not far off the euro area average, which helped to maintain domestic exporters' price competitiveness on euro area markets. Despite the structural imbalances on the labour market, and slightly higher wage growth, the cost competitiveness of the domestic export sector also remained favourable. The balance of payments surplus remained large, external indebtedness continued to decline, firms and banks saw a further improvement in the quality of their balance sheets, and the fiscal position strengthened.

As a small, open economy, Slovenia is deeply affected by the international situation, particularly in the euro area, which has begun to deteriorate. The uncertainties in the international environment increased significantly: trade disputes and political tensions worsened, having slowed growth in global trade and industrial production even last year. This was reflected in the structure of domestic economic growth, as growth in industrial production and merchandise exports slowed. Because the Slovenian economy is highly integrated into the euro area, its business cycle is also aligned, and it is thus particularly vulnerable to potential shocks in foreign demand.

The situation in the domestic banking system improved again last year, although certain risks to financial stability are in evidence. The banks have high capital adequacy and favourable liquidity overall. The quality of the balance sheet is improving, although the process of cleaning up legacy non-performing assets is not yet complete: non-performing claims amounted to EUR 1.7 billion at the end of 2018, or 4% of the banks' total exposure. The Slovenian banking system's pre-tax profit exceeded EUR 500 million last year, while ROE stood at 11.1%. Here it should be noted that the profit was mostly the result of the net release of impairments and provisions, and would have been significantly lower had impairment and provisioning costs been at their long-term average. Lending risk is low, but there are indications of increased income risk and risk inherent in high real estate prices. Macroeconomic risks are now also being transmitted from the international environment. At the same time we are seeing lasting changes in firms' behaviour, as in the wake of high profits they are decreasingly turning to banks for financing, while the banks are increasingly looking to finance households. Given this situation, the Bank of Slovenia was even more vigilant in monitoring the robustness of the banking system.

Given the increased uncertainty in the international environment, and the signs of a cooling economy, monetary policy remained strongly expansionary in 2018. Thanks to the achievement of stable medium-term inflation at a level of close to but below 2%, the key interest rates in the euro area were left at a low level in 2018, and there was a commitment to keep them at this level for a longer period. The net asset purchases were ended at the end of last year, while the refinancing of maturing principal was maintained in full. Together with the changes in the financing models of banks, firms and households, monetary policy is a decisive factor in the rising excess liquidity at euro area banks, including Slovenian banks, while borrowing terms remain favourable for the private sector and euro area countries.

This was the environment in which the Bank of Slovenia acted to carry out its other statutory tasks. Our role in helping to shape and implement the euro area's common monetary policy is increasingly being extended to tasks inherent in a single supervisory system and a single resolution system; all three arrangements apply the principle of centralised decision-making and decentralised implementation. The actions of the Bank of Slovenia also extend into current developments at other international institutions such as the International Monetary Fund, the Bank for International Settlements and the European Banking Authority. The Bank of Slovenia participated in measures of an institutional nature at Eurosystem level, and continued its work on establishing the banking union. Alongside the first pillar of the banking union, namely the Single Supervisory Mechanism, the second pillar is also being put in place in the form of the Single Resolution Mechanism with the Single Resolution Fund. In the edifice being crafted by guardians of financial stability, the only lack of progress is in the third pillar of the banking union, namely the introduction of a European deposit guarantee fund, regarding which euro area countries have not yet reached a political consensus.

In its ordinary meetings and correspondence sessions the Governing Board of the Bank of Slovenia discussed issues in the area of banking supervision, economic and monetary policy, financial stability, financial statistics, payment and settlement systems, and cash operations. The Governing Board adopted and issued numerous pieces of secondary legislation, and granted numerous authorisations to supervised entities. The Bank of Slovenia's microprudential and macroprudential supervisory activities focused on monitoring and addressing risks in all areas of the operations of banks and savings banks, which included taking the requisite measures. There was a particular focus on preventing an adverse impact on financial stability from the high growth in residential real estate prices and the rapid growth in consumer loans.

The Bank of Slovenia's balance sheet total increased by EUR 1.9 billion in 2018. On the liability side, there was a sharp increase in government deposits and deposits by other clients, while there were also increases in balances in commercial banks' settlement accounts and in banknotes in circulation. On the asset side, there was an increase in securities purchases, driven by the expansionary monetary policy pursued by the Eurosystem. The aforementioned changes brought an increase in claims against the ECB from the Bank of Slovenia's TARGET2 position. The surplus of income over expenses amounted to EUR 63.4 million in 2018, down slightly on the previous year as a result of a decline in net income realised in financial operations, and an increase in negative revaluations from exchange rate differences and price changes at the end of the year and in the creation of net provisions for risks. Net interest income and other income were higher than in 2017. On the basis of the realised surplus the Bank of Slovenia contributed a total of EUR 15.9 million to the state budget.

The Bank of Slovenia's actions in 2018 saw it successfully fulfil its mandate as set out by law. As part of the European System of Central Banks, it participated in shaping monetary policy to ensure price stability, while this monetary policy also acted to encourage economic activity in Slovenia. The Bank of Slovenia also attended to financial stability in Slovenia, either independently, or in conjunction with the competent authorities at the European level.

We will work to consistently fulfil our mandate in the future.

Boštjan Vasle
Governor of the Bank of Slovenia

ABOUT THE BANK OF SLOVENIA

The Bank of Slovenia is the central bank of the Republic of Slovenia. It was established by the Bank of Slovenia Act, adopted on 25 June 1991. It has legal personality under public law, and freely and independently disposes of its own assets. The Bank of Slovenia is under exclusive state ownership, with autonomy in finances and governance. The Bank of Slovenia's financial statements are audited by an independent international auditor. The Bank of Slovenia's primary objective is price stability.

BANK OF SLOVENIA'S KEY A

MONETARY POLICY

The Bank of Slovenia pursues the Eurosystem's fundamental objective of maintaining price stability.

1,9% average headline inflation in 2018, as measured by the HICP.

€3,5b excess liquidity of the banking system at the end of 2018.

€40m of repayments by Slovenian banks from the first TLTRO, which was thus repaid in full.

3,2 tonnes gold in the Bank of Slovenia's reserves. Gold and gold receivables amounted to €115m at the end of 2018.

FINANCIAL STABILITY

The Bank of Slovenia co-designs, implements and oversees a system of prudential rules for safe and sound operations by banks and savings banks.

€531m pre-tax profit generated in 2018 by the banking system, whose balance sheet total stood at €38.8b at the end of December 2018.

4% NPE ratio in the banking system at the end of 2018 (down from 5.99% at the end of 2017).

2,2% growth in loans to non-financial corporations in December 2018.

18% total capital ratio of the banking system on a consolidated basis as at the end of the third quarter of 2018.

462
EMPLOYEES

53 % are women

€63,4m
SURPLUS OF INCOME OVER EXPENSES IN 2018

€70,7m surplus of income over expenses in 2017

51
MILLION TRANSACTIONS

executed by the Bank of Slovenia in 2018 for its 197 clients

AREAS OF WORK AND TASKS

PAYMENTS AND INFRASTRUCTURE

The Bank of Slovenia is responsible for ensuring that payment systems and securities settlement systems function undisrupted.

1.022.819 transactions with a total value of €368.65b were settled in the TARGET2-Slovenija payment system in 2018.

SEPA credit transfers — The Bank of Slovenia enabled exchange with more than 3,300 payment service providers across Europe.

€12,2b of transactions in securities settled by Slovenian market participants in T2S cash accounts in 2018.

24/7/365 firms and individuals across the EU are able to exchange euro payments via TIPS.

BANKNOTES AND COINS

The Bank of Slovenia ensures that the Slovenian market is supplied with authentic and fit currency.

€7,16b net total of cash issued into circulation by the end of 2018 by the Bank of Slovenia since the introduction of the euro.

1.779 counterfeit euro banknotes and 1,397 counterfeit euro coins withdrawn from circulation in 2018

€41,11m total value of tolar banknotes, coins and payment notes still in circulation

131,8 million banknotes and coins processed by the Bank of Slovenia in 2018

1 ECONOMIC DEVELOPMENTS

The title pages to each chapter of the Annual Report show images of coins issued by the Bank of Slovenia in 2018.

It issued a commemorative coin to mark World Bee Day, and collector gold, silver and bimetallic coins to commemorate the 100th anniversary of the end of the First World War.

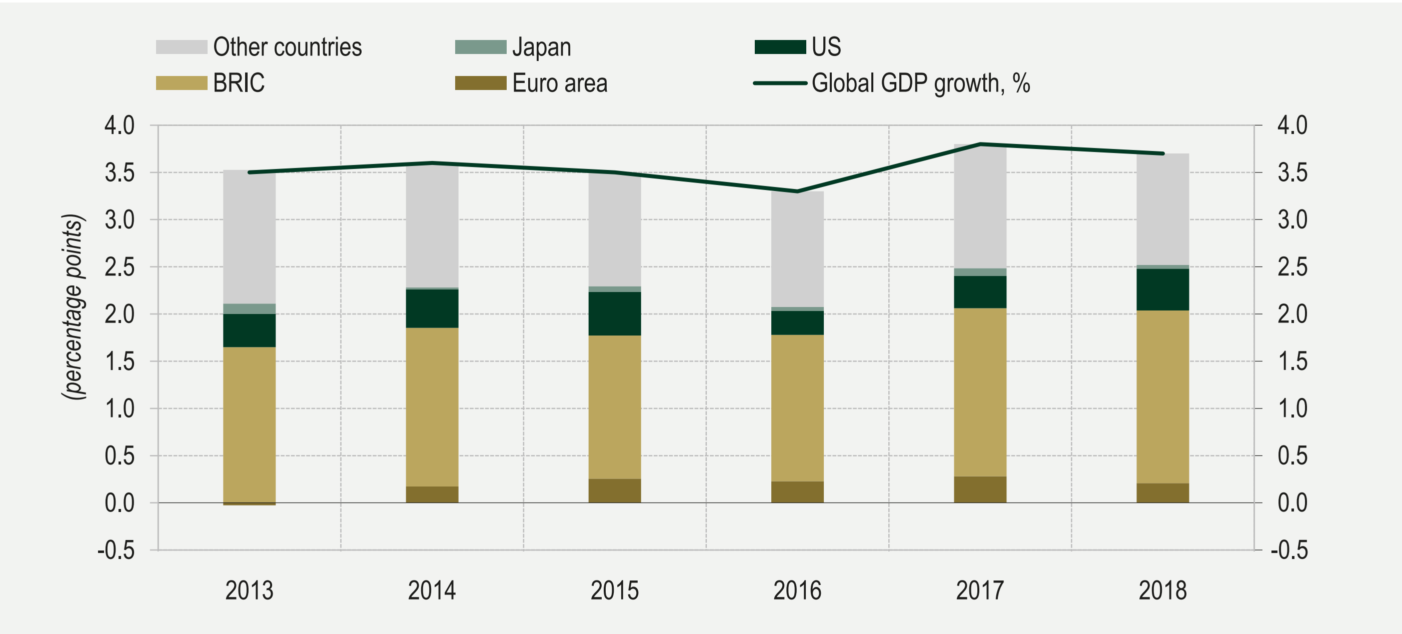

2018

1.1 INTERNATIONAL ENVIRONMENT

Global economic growth remained relatively high in 2018, despite rising uncertainties in international trade.

Global economic growth reached 3.7% in 2018, thus remaining above its average over the last decade. According to the IMF, it was down only 0.1 percentage points on the previous year, despite lower growth in certain economies in Europe and Asia. Growth in global trade was significantly down from its average in 2017, as was growth in industrial production. This was primarily attributable to uncertainties caused by the trade dispute between the US and China, Brexit negotiations, and political risks in certain European countries. Of the advanced economies, only the US saw economic growth strengthen, while the only slowdown in the BRIC countries[1] was recorded by China, where growth stood at 6.6%, the lowest rate in almost three decades. Economic growth in the euro area slowed to 1.8%, down 0.6 percentage points on the previous year. Germany and France both saw significant slowdowns, while Italy entered recession in the final quarter of the year. Economic sentiment in the euro area also declined in the final months of 2018, but nevertheless remained above its long-term average.

Figure 1: Contributions to growth in global GDP by various countries



Sources: IMF, Bank of Slovenia calculations

[1] Brazil, Russia, India and China.

Given the large divergence between the monetary policies of the Fed and the ECB, and the stronger economic growth in the US, the euro gradually slid against the US dollar in 2018. The Fed raised its key interest rate four times over the course of the year, while the ECB ended its net bond purchases under the APP at the end of the year, but left its key interest rates unchanged. The price of a barrel of Brent crude rose significantly in 2018, by 30.6% in US dollar terms, while growth in other commodity prices was significantly lower, at 0.9%. Inflationary pressures in the international environment eased towards the end of the year as oil prices and other commodity prices fell sharply, while the impact on inflation in certain economies was partly mitigated by falls in their currencies against the US dollar.

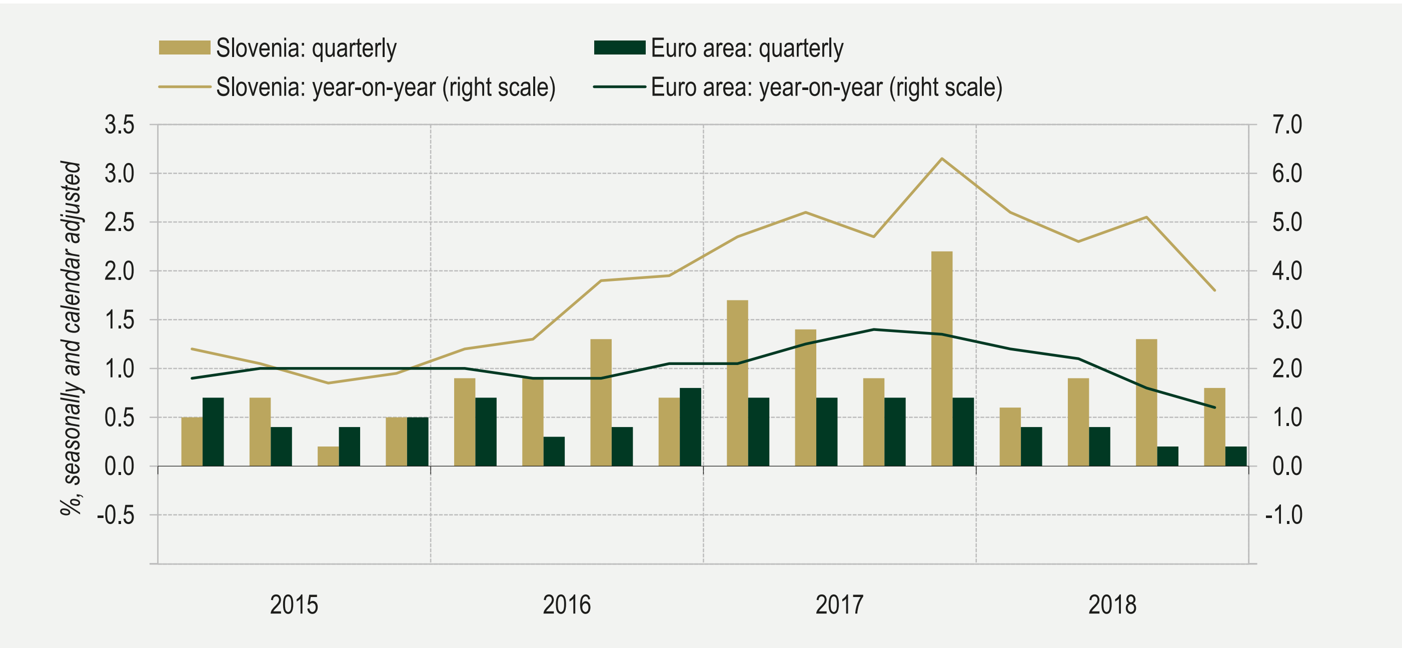
Despite the relatively favourable macroeconomic performance in 2018, the outlook for the global economy deteriorated. The leading international institutions have cut their global economic growth forecasts for 2019 to around 3.2%, while growth in the euro area is forecast to barely exceed 1%. This is attributable to weaker growth in global trade, industrial production and investment, as well as in the downturn in the economic climate caused by rising trade and political tensions. Central banks have already responded to the worsening economic situation, which improved the financial conditions, while fiscal policy is also becoming more expansive. Unemployment nevertheless remains low in major economies, and wages are gradually strengthening, which is improving the conditions for growth in private consumption. Global economic growth is forecast to strengthen to around 3.4% in 2020, while economic growth in the euro area is forecast to strengthen to approximately 1.5%, albeit only under the condition of an easing in trade tensions and renewed international cooperation on economic policy. At the global level, private-sector debt is a cause for concern: according to the OECD, the global stock of issued corporate bonds is approaching USD 13 trillion, almost double the figure a decade ago, while debt quality is deteriorating.

1.2 SLOVENIAN ECONOMY

Economic growth slowed last year as a result of weaker growth in foreign demand.

Economic growth in Slovenia slowed slightly last year, but continued to significantly outpace overall growth in the euro area. It stood at 4.5%, down 0.4 percentage points on 2017, but still 2.6 percentage points more than the euro area average.[2] The sharpest slowdown was seen in industry and exports, as the uncertainties in international trade escalated, and growth in the main trading partners slowed. Consequently there was also a slowdown in growth in value added in services, which is strongly correlated with merchandise exports, and in growth in investment in machinery and equipment. By contrast, domestic demand factors strengthened. At the same time high employment growth and stronger wage growth brought an increase in private consumption. The government sector also made a stronger contribution to domestic demand than in 2017, as growth in final consumption and investment strengthened. As a result of faster growth in domestic consumption, the contribution made to GDP growth by net trade declined sharply, but remained positive. GDP is forecast to slow to 3.2% this year, with the main risks on the downside, as the situation in the international environment remains highly uncertain.

Figure 2: Comparison of GDP growth between Slovenia and the euro area



Sources: Eurostat, Bank of Slovenia calculations

[2] Here it should be noted that the economic growth in 2018 was mostly the result of a strong carry-over effect, as growth during the year was significantly lower than a year earlier.

Employment growth remained strong last year, despite the slight slowdown in economic growth. Headline employment increased by 3.0% last year according to the national accounts figures, about the same as in 2017. Growth in labour productivity stood at just 1.5%, down 0.4 percentage points on the previous year. This is indicative of the ongoing problems with raising productivity in the economy seen since the beginning of the new cycle of economic growth in late 2013. The surveyed unemployment rate had fallen to 4.4% by the final quarter of last year, the lowest figure since the final quarter of 2008, and one of the lowest figures in the euro area. In addition to the fall in unemployment and the rise in the employment rate, the employment growth was increasingly attributable to the increased hiring of foreign nationals. They largely filled the gap in supply on the domestic labour market, and accounted for more than half of the overall growth in the workforce in employment in the second half of the year. This curbed growth in labour costs, alongside the relatively low inflation and the prevalence of hiring in sectors with below-average pay. Nominal growth in the average wage stood at 3.4%, up 0.7 percentage points on the previous year.

Growth in labour productivity slowed further last year.

The external competitiveness of the Slovenian economy remained relatively solid last year. The appreciation of the euro in the early part of the year brought a slight deterioration in price competitiveness,[3] albeit less than in the majority of other euro area countries, but it also remained more favourable than its long-term average. Slovenian exporters succeeded in maintaining their favourable competitive position vis-à-vis euro area partners seen in the three previous years, while the position vis-à-vis numerous partner countries outside the euro area also remained favourable over the long term. Wage growth increased slightly last year, but did not deviate significantly from growth in labour productivity. Growth in real unit labour costs was thus low, and below the average in the euro area.

The current account surplus narrowed in 2018, but remained large. It amounted to 5.6% of GDP, 0.5 percentage points less than in 2017. The narrowing was attributable to a narrower merchandise trade surplus, as growth in domestic demand strengthened last year while growth in merchandise exports slowed. The slowdown was particularly evident in the second half of the year, when exports were strongly hit by the slowdown in economic growth in the euro area. Nominal merchandise exports increased by 9.3% in 2018, 4.7 percentage points less than in 2017. Merchandise imports increased by 11.6% over the same period, driven by strong domestic demand. The merchandise trade surplus thus amounted to 2.5% of GDP, 1.2 percentage points less than in 2017. The maintenance of the large current account surplus was attributable to high growth in exports of a wide spectrum of services, which widened the surplus of trade in services, and a further decline in interest payments on government debt, which narrowed the deficit in primary income.

The current account surplus amounted to 5.6% of GDP in 2018.

[3] Price competitiveness is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP), relative to 37 trading partners.

The surplus in the financial account of the balance of payments, through which the Slovenian economy is a net financer of the rest of the world, widened further in 2018, while net external debt continued to decline significantly. Slovenia's net financing of the rest of the world amounted to 5.2% of GDP[4] in 2018, 0.2 percentage points less than in 2017. At the level of the total economy, capital primarily flowed to the rest of the world via net other assets (6.0% of GDP), largely as a result of the placement of currency and deposits in accounts in the rest of the world, and partly via the ongoing repayment of debt to the rest of the world. There was also a significantly smaller net outflow of investments in securities (1.6% of GDP), which was partly the result of inflows related to the privatisation of one of the domestic systemically important banks and reduced investment in foreign securities. The flow in investments in securities was merely just over a quarter of that recorded in the previous year, while the net inflow of direct investment into the Slovenian economy almost doubled to reach 2.0% of GDP last year. Slovenia's net external debt amounted to EUR 4.1 billion or just 9.0% of GDP at the end of 2018, 9 percentage points less than at the end of 2017. This was the sixth consecutive annual decline, which left it 33 percentage points less than at the end of 2012. For the third consecutive year the government sector alone was a net debtor vis-à-vis the rest of the world, although its debt stood at 35.2% of GDP, 5 percentage points less than at the end of 2016. The private sector increased its net creditor position slightly further against the rest of the world.[5]

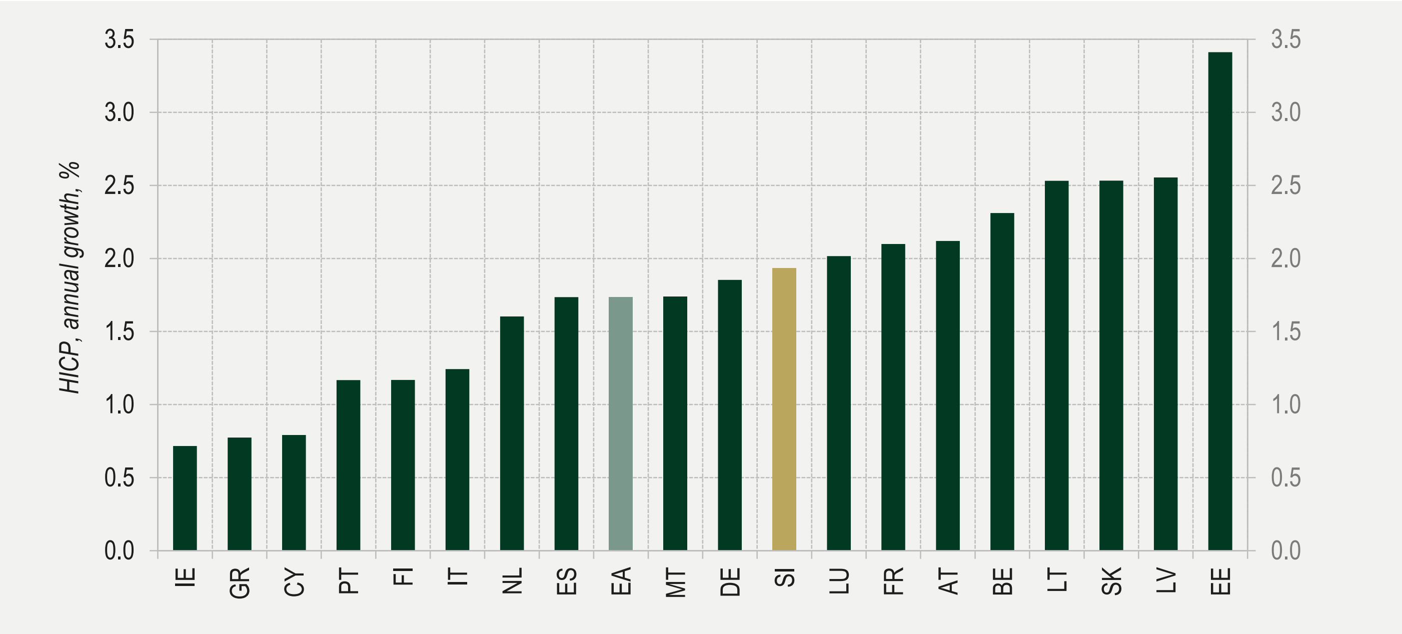
Inflation rose slightly in 2018, thus approaching its target rate.

Headline inflation as measured by the HICP averaged 1.9% in 2018, 0.3 percentage points more than in the previous year, and slightly above the euro area average. Both domestic and foreign factors played a part in the rise in inflation relative to the previous year. The increased contributions to inflation by energy prices in Slovenia and in the euro area overall were the result of rising oil prices on the global market. The contribution by services prices also increased significantly from 2017, which was attributable to cost pressures in addition to demand factors. Core inflation excluding energy and food prices averaged just 1.0% in 2018, comparable to the euro area average.

[4] Expressed as ratio of the sum of the current account and capital account to GDP in current prices. The net financing has been seen since 2012, during which time it has averaged 4.3% of GDP each year.

[5] The external debt includes debt financial instruments alone, while the financial account records flows in all financial instruments (debt and equity).

Figure 3: Inflation in euro area countries in 2018



Sources: Eurostat, Bank of Slovenia calculations

There was a general government surplus in 2018. It amounted to 0.7% of GDP, and was primarily attributable to the strong economy and the further reduction of the interest burden, while a number of austerity measures were still in place. Growth in general government expenditure strengthened to 4.7%, driven primarily by increased investment, but nevertheless remained slower than growth in general government revenues, which stood at 6.3%. The general government debt as a ratio to GDP declined slightly for the third consecutive year to reach 70.1% by the end of last year. Slovenia has thus again achieved a better budget position and smaller government debt than the euro area average. The required yield on 10-year government bonds remained close to a record low level during the year, in reflection of the ECB's continuing monetary policy stimulus and Slovenia's favourable macroeconomic indicators. The risk premium as measured by the spread in 10-year Slovenian government bonds over the German benchmark increased during the year, primarily as a result of the rising tensions in international trade and political tensions. The increase was moderate, at 35 basis points.

2 BANKING SYSTEM

DAN ČEBEL

The Bank of Slovenia regularly publishes information about bank performance on its website,[6] and twice a year issues a more extensive report on risks in the financial system.[7] These reports examine developments and risks in the Slovenian banking system in detail. The highlights of the performance of the banking system in 2018 are given below.

At the end of 2018 there were 12 banks, three savings banks and two branches of foreign banks (credit institutions) operating in Slovenia. The banks held a market share of 93.6% of the banking system[8] in terms of the balance sheet total. There was one branch fewer than in the previous year. This continued the trend seen over several years of a fall in the number of credit institutions in Slovenia. There was also a major ownership change in the banking system: the process of privatising a 65% holding in Nova Ljubljanska banka d.d. was carried out in the second half of the year. This reduced the proportion of equity in the Slovenian banking system held by the government to 31%, and saw the proportion held by foreign investors increase to just over 62%. The remainder remains under the ownership of other domestic investors.

The banking system's balance sheet total increased in 2018.

The Slovenian banking system's balance sheet total increased to EUR 38.8 billion in 2018, equivalent to almost 85% of GDP. On the funding side, last year's increase was largely attributable to deposits by the non-banking sector, household deposits in particular, while the banks continued to pay down their liabilities on wholesale markets. On the investment side, the main increase was in loans to the non-banking sector and in highly liquid assets, with a lesser increase in investments in securities, which remained almost unchanged from the end of 2017 as a proportion of the balance sheet total. The banks held more than a third of their assets in safe, highly liquid forms.

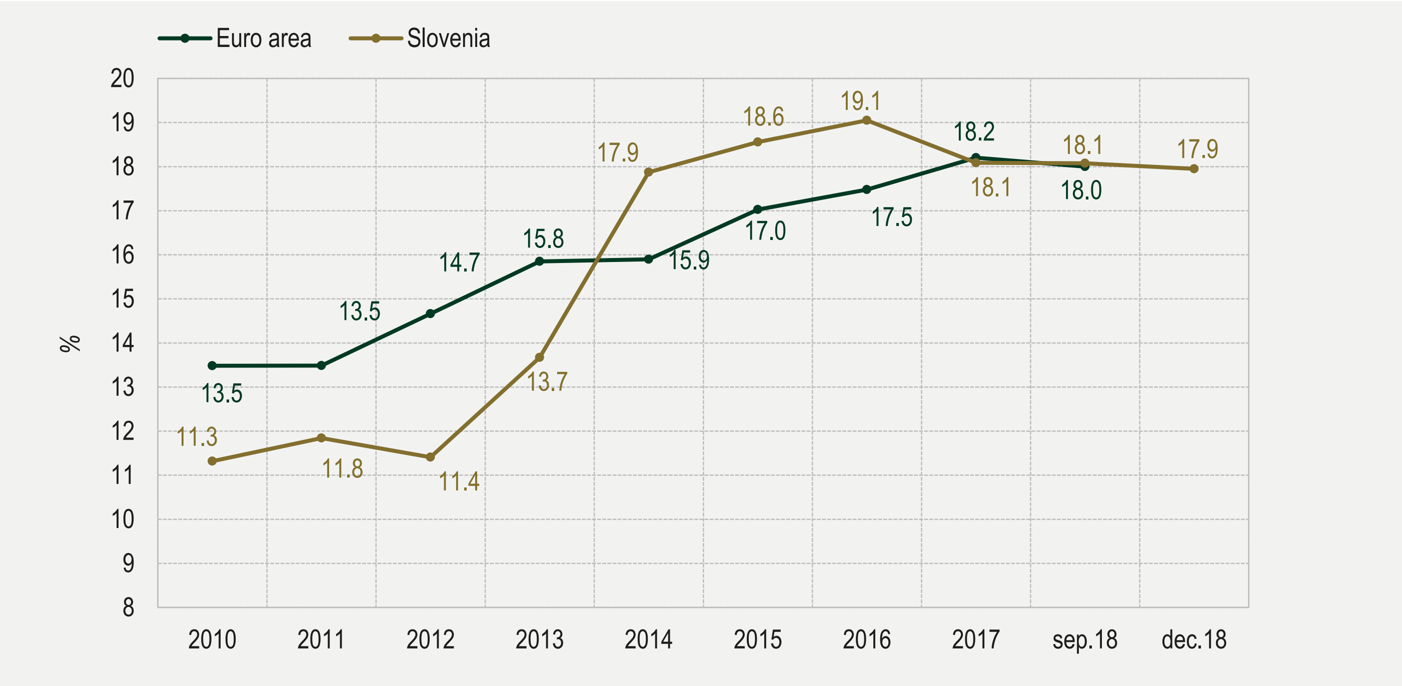
The **banking system remained well-capitalised** in 2018, although there are considerable variations from bank to bank. The total capital ratio of the banking system on a consolidated basis stood at just over 18% as at the end of the third quarter of 2018, and thus remained above the average total capital ratio in the euro area. The banks mainly increased their regulatory capital via retained earnings, and less via recapitalisations. There was an increase in risk-weighted assets, driven primarily by increased lending activity to households and corporates. The small domestic banks and savings banks have the weakest capital position, despite recapitalisations in 2018. Capital adequacy is also gradually declining at banks that are more active in lending, but do not adjust their regulatory capital adequately to keep pace with the credit portfolio.

[6] The monthly report on bank performance is available on the website at https://www.bsi.si/en/publications/monthly-report-on-bank-performance.

[7] The Financial Stability Review is available on the website at https://www.bsi.si/en/publications/financial-stability-review.

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

Figure 4: Total capital ratio at banks and comparison with the euro area, consolidated figures

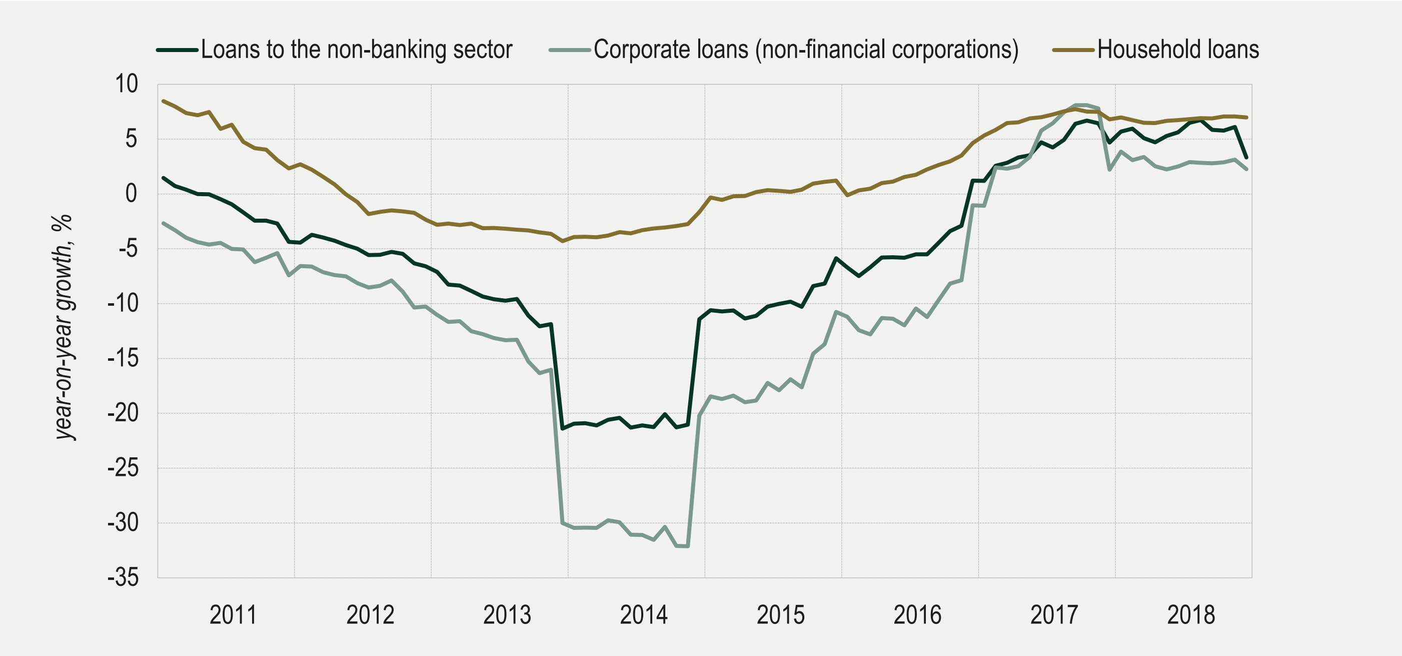


Sources: Bank of Slovenia, ECB Statistical Data Warehouse

Growth in loans to the non-banking sector was positive for the third consecutive year, but the year-on-year rate slowed sharply in December to just over 3%. The increase in loans to the non-banking sector in 2018 was primarily driven by household lending. Year-on-year growth in loans to non-financial corporations mostly held at between 2% and 3% last year. Despite firms' favourable access to financing at banks, and the improvement in their financial position compared with several years ago, growth in bank loans remained low, partly because of changes in the structure of the economy since before the crisis, but primarily because of a change in the way that firms are financing themselves, as internal financial resources[9] and trade credits have gained in importance. Household loans recorded year-on-year growth of 7% in December, and were the largest factor in last year's increase in loans to the non-banking sector. Consumer loans and housing loans both recorded relatively stable growth last year: the year-on-year rates stood at almost 12% and almost 5% respectively in December. The persistence of the high growth in consumer loans was attributable to the buoyant economy, the improvement in the labour market and increased confidence, and the banks' increased focus on lending of this type. Growth in housing loans in 2018 was comparable to that in 2017. Rising real estate prices, the improvement in the situation on the labour market and growth in household disposable income all acted to drive stable growth in housing loans.

[9] Non-financial corporations (S.11) generated record net profit of EUR 4.6 billion last year, which means that they generated significant (free) cashflow and consequently have less need for (bank) financing.

Figure 5: Year-on-year growth in loans to non-banking sector



Source: Bank of Slovenia

Non-performing exposures (NPEs) declined again in 2018. The stock of NPEs had declined to EUR 1.7 billion by the end of 2018, taking the NPE ratio across the banking system to 4%, down 2 percentage points on the end of 2017. Asset quality improved in all segments, although it remains weakest in the non-financial corporations segment, where the largest NPEs are concentrated in the amount of EUR 1.2 billion, while household loans remained low risk despite the rapid growth in lending. The assessment is that the banks have seen a significant decline in credit risk in general over recent years. Credit risk is nevertheless thought to have remained significant in corporate exposures, thanks to the aforementioned NPEs, while the rapid growth in consumer lending represents a potential source of risk. A considerable amount of supervisory activity is therefore focused on further reducing remaining NPEs, as a reversal in the economic cycle could stall or even reverse the process of the improvement in credit portfolio quality.

The Slovenian banking system's liquidity position remains favourable. Funding risk is increasing as the maturity gap between assets[10] and liabilities[11] widens, but is assessed as medium. The banks had highly liquid assets in the amount of 12% of their balance sheet total at their disposal at the end of 2018 in the form of cash on hand and deposits at the central bank, and also had secondary liquidity at their disposal in the amount of a fifth of the balance sheet total. In the event of major demand for liquidity, they have a solid pool of eligible collateral that is free, which grants them access to additional funding at the Eurosystem, while the Bank of Slovenia's analysis

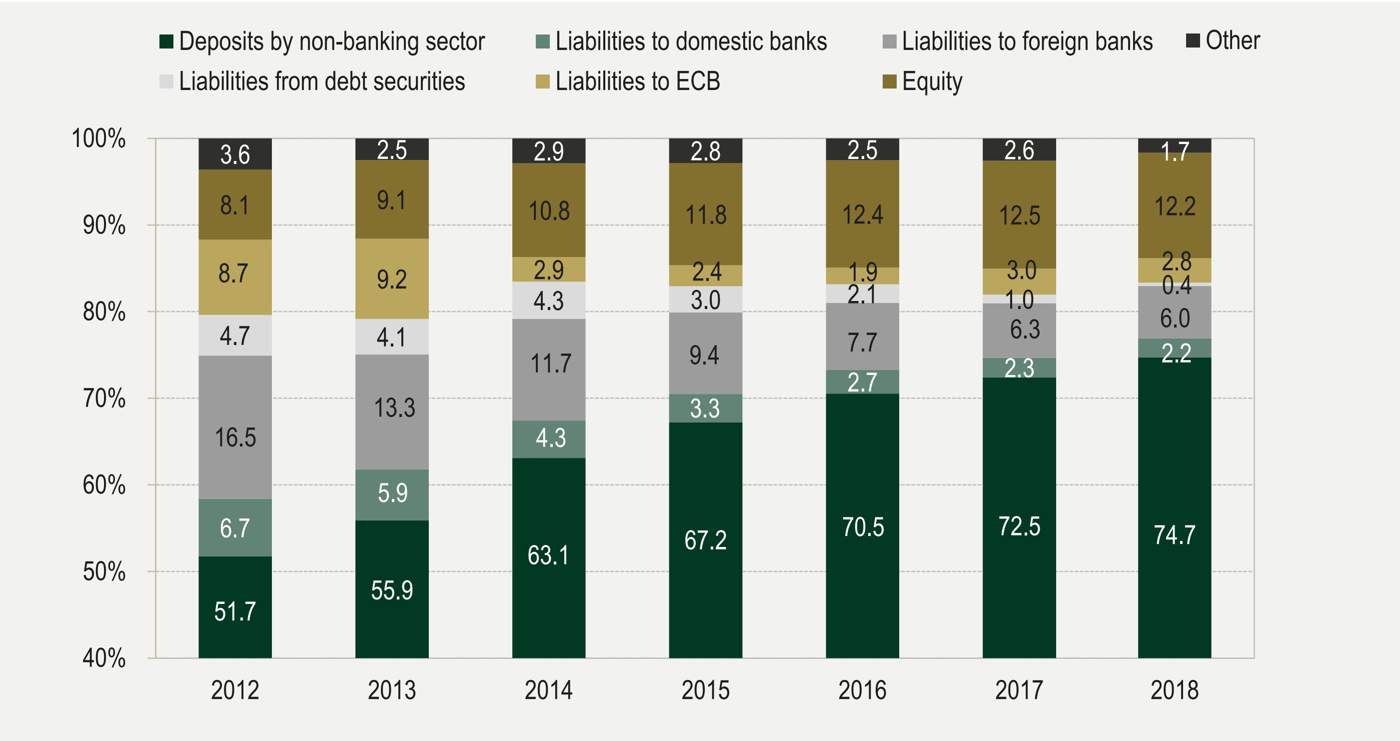
[10] The average maturity of bank assets has been increasing in recent years as a result of lengthening maturities on new loans, and stands at almost 71 months.

[11] The average maturity of bank liabilities has been declining in recent years, as a result of shortening deposit maturities caused primarily by the increase in the share of bank funding accounted for by sight deposits, and stands at just over 11 months (two months less than in 2017).

suggests that the probability of large-scale deposit switching between banks or even deposit flight from the banking system is low over the short term. The banking system's liquidity coverage ratio remains well above the regulatory requirement.

Deposits by the non-banking sector, the most important source of financing for the banking system, strengthened in 2018. They accounted for three-quarters of total funding, the banks having further reduced their wholesale funding and liabilities to the Eurosystem. Last year the increase in deposits by the non-banking sector again sufficed to fund lending to the non-banking sector. The increase in deposits by the non-banking sector was primarily driven by household deposits, while growth in deposits by non-financial corporations slowed, as firms earmarked more of their cashflow for current operations, financial restructuring and investment than for saving. The extremely low interest rates are a factor in the rise in sight deposits, which now account for almost three-quarters of total deposits by the non-banking sector.

Figure 6: Breakdown of bank funding



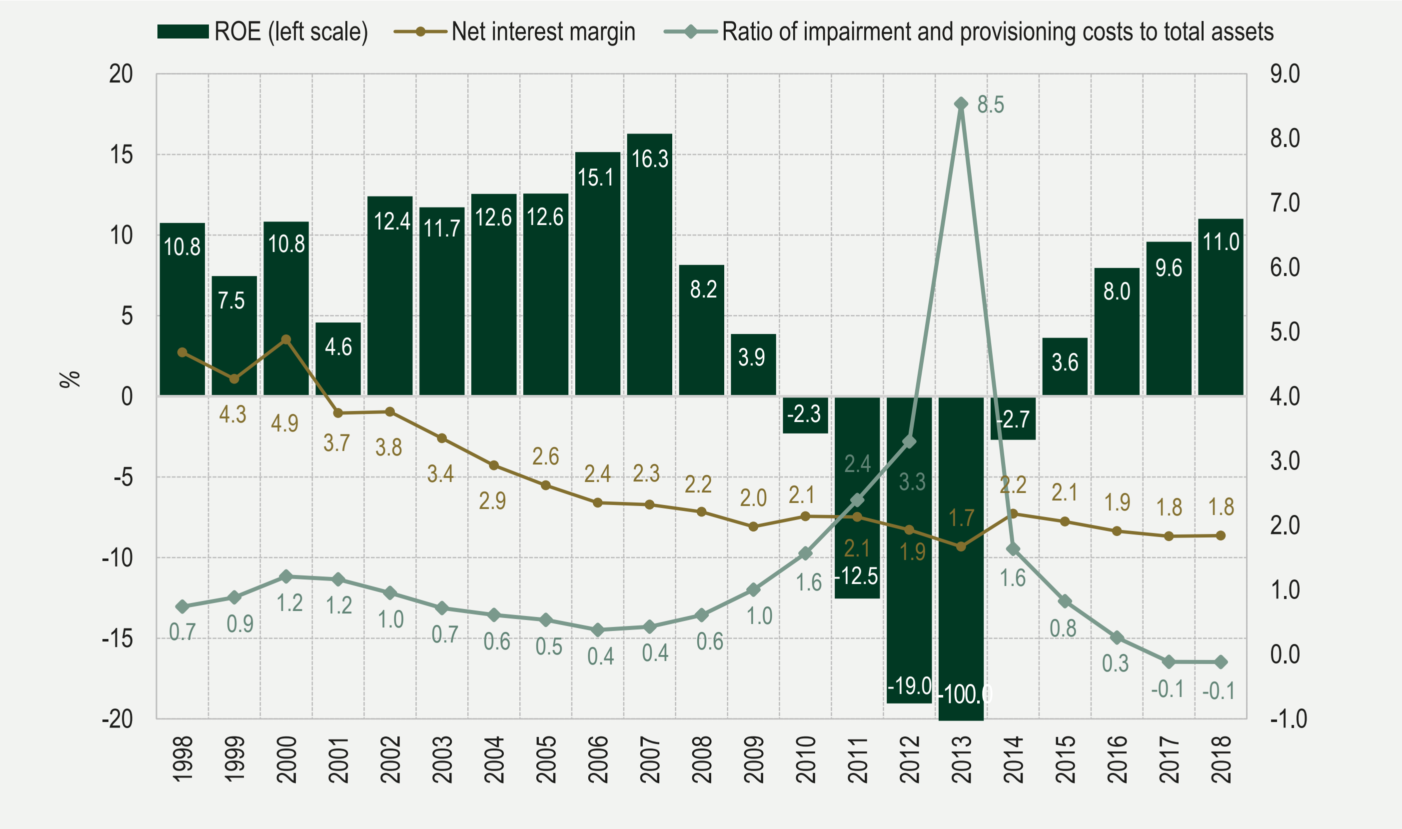
Source: Bank of Slovenia

The banks recorded a pre-tax profit of EUR 531 million in 2018, as the trend of decline in net interest income came to an end. Year-on-year growth in net interest income reached almost 3% in 2018. The increase in interest income was the result of increased lending activity, while the decline in interest expenses was driven by the rise in sight deposits. Net non-interest income was up 14% on the previous year. The proportion of gross income accounted for by net interest income declined slightly, to 58%, while operating costs were down on the previous year. The Bank of Slovenia's assessment is that income risk currently remains medium, but is one of the key systemic

The banks generated a record level of pre-tax profit in 2018, however a considerable part of this was due to a net release of impairments and provisions.

risks over the medium term. There was a net release of impairments and provisions last year for the second consecutive year. The improvement in the quality of the credit portfolio, the resolution of non-performing loans and the improved economic environment all had a favourable impact for the second consecutive year on the banking system's performance. However, had the ratio of impairment and provisioning costs to gross income been at its long-term average, the pre-tax profit in 2018 would have been just 40% of that actually recorded.

Figure 7: ROE, net interest margin on interest-bearing assets, and ratio of impairment and provisioning costs to total assets

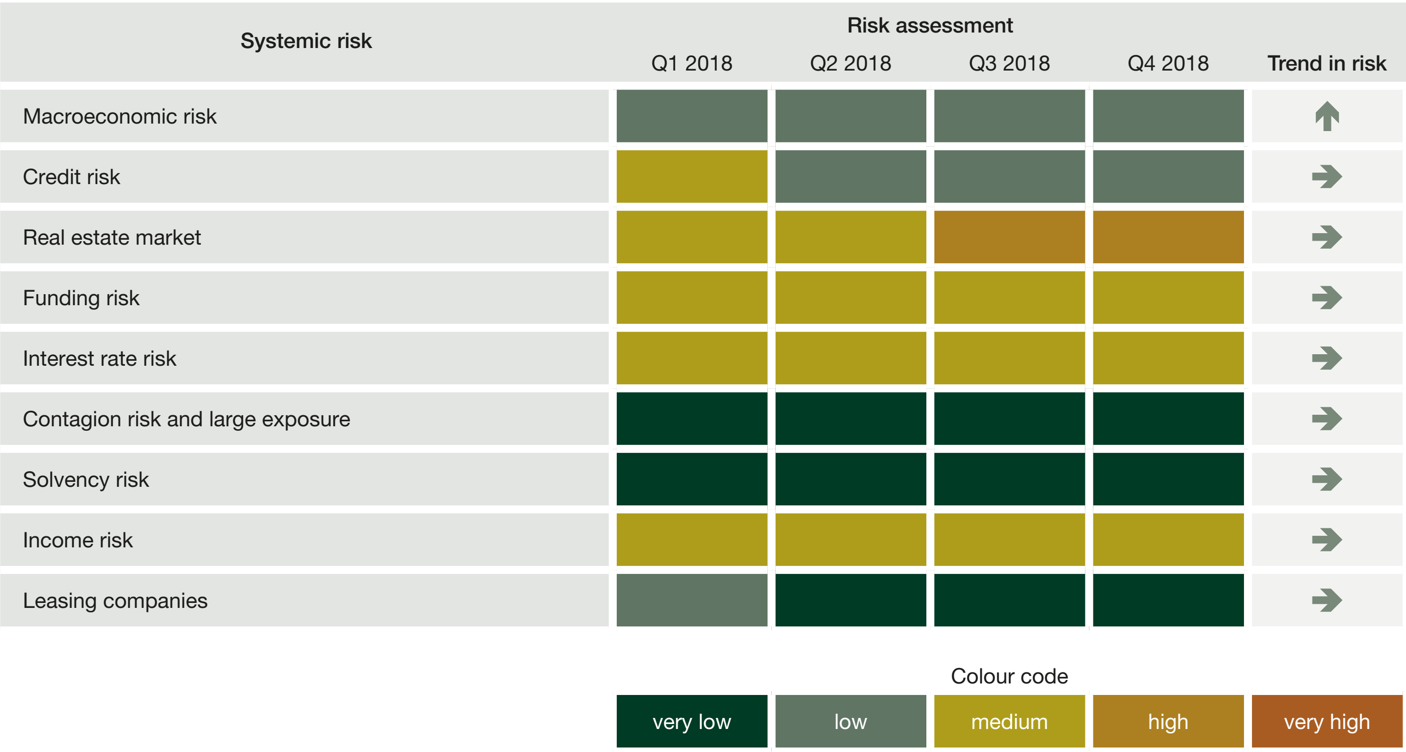


Source: Bank of Slovenia

The Bank of Slovenia's general assessment is that the majority of risks to financial stability remain very low or medium, but that the risks inherent in the real estate market are increasing, as illustrated in Figure 8. This is attributable to the high growth in residential real estate prices, which picked up pace in 2018, particularly in Ljubljana and Koper, and was the highest of all euro area countries. There is not yet any confirmation of overvaluation from the indicators and model assessments of price developments, but the pace of the growth is unfavourable. In the final quarter of 2018 prices exceeded their nominal peak from ten years earlier for the first time, although they are still down in real terms. Analysis indicates that the price rises have followed a period of undervaluation, and constitute a recovery phase, although further rises in residential real estate prices could lead to overvaluation. A large fall in prices on the residential real estate market would reduce the value of real estate collateral at the banks, while a simultaneous deterioration in the economic situation would raise unemployment, and with it probability of default.

This time the banking system is less exposed to risks from the real estate market than during the last financial crisis, but in 2016 the Bank of Slovenia nevertheless introduced a macroprudential recommendation for the housing loans market.[12] The measure was introduced to prevent excessive growth in lending and the relaxation of credit standards, and thus the build-up of systemic risks to financial stability. In recent years the Bank of Slovenia has also introduced other macroprudential instruments aimed at preventing the spread of potential systemic risks in the banking system.[13]

Figure 8: Bank of Slovenia's overview of risks to the Slovenian banking system, 2018



Source: Bank of Slovenia

In addition to monitoring the traditional risks in the financial system as described, guardians of price and financial stability are increasingly focusing on the rising risks inherent in climate change. They involved lasting structural changes, which are bringing numerous known and unknown risks to the financial system. These risks partly derive from the direct exposure of the financial system and its clients to climate change, while the urgent transition to a low-carbon economy and society also brings additional risks. The rising risks related to digitalisation, most notably cyber risk and the risk to critical (financial) infrastructure, have a similar non-cyclical structural nature.

The risks inherent in climate change are becoming more and more relevant to the financial system.

[12] Given the trends and rise in risks in the consumer loans segment, the recommendation was extended into this area in October 2018.

[13] For more on these instruments, see the Financial Stability Review.

3 IMPLEMENTATION OF THE BANK OF SLOVENIA'S TASKS

3.1 BANK OF SLOVENIA'S MANDATE AND INSTITUTIONAL FRAMEWORK

The Bank of Slovenia fulfils its mandate independently and within the framework of the European System of Central Banks, based on four pillars of activity:

- **Monetary policy** relates to the central bank decisions that exert an influence on prices and the availability of money in the economy, thereby exerting an effect on the chosen target of the monetary policy. Under the Bank of Slovenia Act, price stability is the Bank of Slovenia's primary objective, and it is also the primary objective of the European System of Central Banks, of which the Bank of Slovenia is part. Maintaining price stability is monetary policy's greatest contribution to economic growth and to job creation. The Eurosystem target is to maintain growth in prices of goods and services (i.e. inflation) at close to but below the 2% mark over the medium term.
- **Microprudential supervision** is part of the Bank of Slovenia's mandate relating to the maintenance of financial stability. The objective of the 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 financial system through effective action.
- **Macroprudential policy:** the purpose of macroprudential policy is to mitigate the effects of financial cycles and to increase the resilience of the financial system to disruptions. Macroprudential policy identifies, monitors and assesses systemic risks to financial stability, and adopts the requisite measures for the prevention and mitigation of systemic risks. The ultimate objective of macroprudential policy is to contribute to safeguarding the stability of the financial system as a whole, including strengthening the resilience of the financial system, and preventing and mitigating the build-up of systemic risks, thereby ensuring a viable and sustained contribution to economic growth from the financial sector.
- **Bank resolution and deposit guarantee scheme:** The Bank of Slovenia's basic mission in this context is ensuring the orderly resolution of a bank or banks in (serious) difficulties, minimising the consequences to the economy and the public finances. The aim of establishing a resolution mechanism is transferring the burden of any bank resolution to the banking sector (and not to the public finances), thereby reducing the moral hazard and increasing confidence in banks on the part of the public and investors. The Bank of Slovenia is at the same time the operator of the deposit guarantee scheme, whose basic objective is to protect depositors and to maintain their confidence in the banking system. A sound and effective deposit guarantee scheme is one of the important conditions for the maintenance of financial stability in a country.

- **The Bank of Slovenia also performs certain other tasks**, such as issuing cash, operating payment systems, managing the official foreign exchange reserves and other Bank of Slovenia assets, potentially acting as the payment and/or fiscal agent of the state or as a representative of the state at international monetary organisations, managing accounts for the state, government bodies and public-sector entities, attending to financial, monetary, banking and balance of payments statistics, and managing the central credit register.

The Bank of Slovenia's actions in 2018 were again fixed within an institutional framework at the European level, particularly in the following tasks:

- **In managing the Eurosystem and the European System of Central Banks (ESCB), a key part of which is the implementation of monetary policy and the pursuit of the Eurosystem's primary objective (i.e. price stability),** the Bank of Slovenia worked with the ECB's decision-making bodies in the manner set out in the Treaty on the Functioning of the European Union[14], the Statute of the ESCB and of the ECB[15], and the Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB[16]. The Governor of the Bank of Slovenia is, by function, one of the members of the Governing Council, which is the main decision-making body of the ECB and is responsible for taking the most important strategic decisions that are key to the functioning of the Eurosystem.
- **In the area of microprudential supervision and the setting of rules for banks and other supervised entities**, the Bank of Slovenia actively worked within the framework of the Single Supervisory Mechanism (SSM)[17] and the European Banking Authority[18] (EBA). The SSM is one of the three pillars of the banking union, whose task is carrying out direct supervision of significant banks and bank groups in the euro area, and is also responsible for carrying out indirect supervision of less significant banks through the introduction of standard rules for conducting supervision in participating countries. The EBA is an independent EU authority whose purpose is ensuring effective and consistent prudential regulation and supervision in the European banking sector by putting in place a single European banking rulebook. The vice-governors of the Bank of Slovenia are members of the most senior decision-making bodies of the SSM and the EBA.

---

[14] Treaty on the European Union and the Treaty on the Functioning of the European Union: https://www.ecb.europa.eu/ecb/legal/1341/1342/html/index.en.html.

[15] Statute of the European System of Central Banks and of the European Central Bank: https://www.ecb.europa.eu/ecb/legal/1341/1343/html/index.en.html.

[16] Rules of Procedure of the Governing Council, the General Council and the Executive Board of the ECB: https://www.ecb.europa.eu/ecb/legal/1001/1009/html/index.en.html.

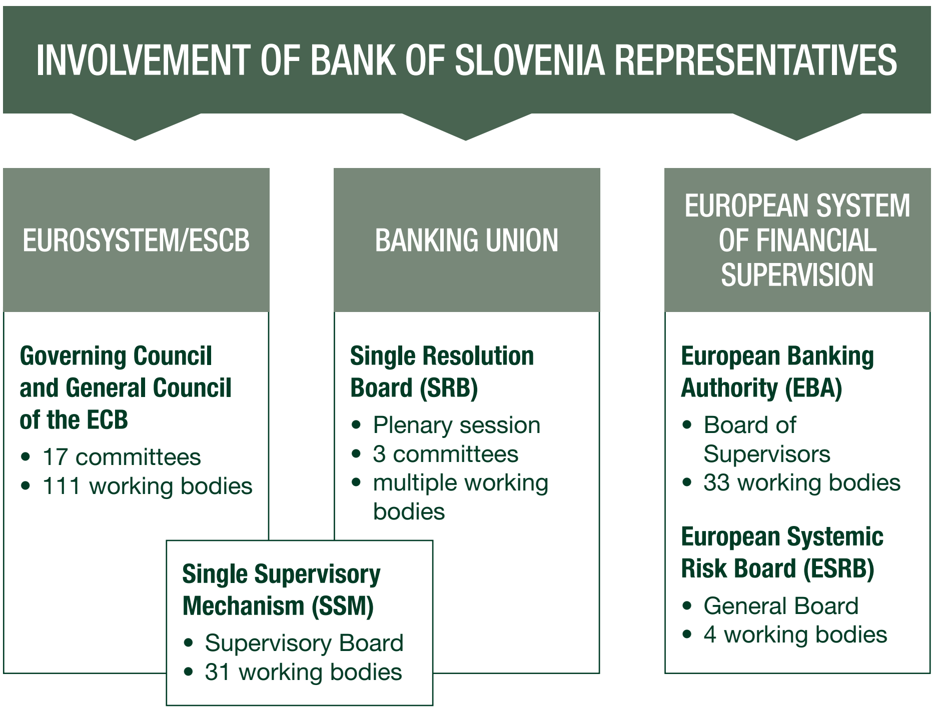
[17] For more on the SSM, see https://www.bankingsupervision.europa.eu/home/html/index.en.html.

[18] For more on the EBA, seehttp://www.eba.europa.eu/.

- **In the area of macroprudential supervision,** the Bank of Slovenia worked within the institutional framework of the ECB and the European Systemic Risk Board (ESRB), which is responsible for the macroprudential supervision of the financial system in the EU. The objective of the ESRB's work is preventing and mitigating systemic risks to financial stability in the EU, while its tasks include defining risks on the basis of which it may issue recommendations for remedial measures. The Governor of the Bank of Slovenia (by function) and one of the vice-governors are members of the General Board.
- **In the area of bank resolution,** the Bank of Slovenia works within the framework of the Single Resolution Mechanism (SRM), which is responsible for drawing up resolution plans and analysing the resolvability of systemically important banks or groups, and for using the resolution fund. Its objective is to put in place a single European rulebook and resolution processes, and to minimise the resolution costs and asset devaluation if a bank failure occurs. Like the SSM, the SRM operates at the pan-European national level by working with the national competent authorities, in this case the national resolution authorities. The centralised application of resolution powers has been assigned to the Single Resolution Board, whose membership includes a representative of national resolution authorities (one of the vice-governors in the case of the Bank of Slovenia), and to the national resolution authorities, where the rules on the establishment and operation of the SRM in Member States are applied directly.

The Bank of Slovenia's actions are also related to its collaboration with other authorities and institutions in Slovenia, the EU and further afield. For more on this, see Section 4.

Diagram 1: Institutional framework for the functioning of the Bank of Slovenia at the end of 2018



3.2 MONETARY POLICY

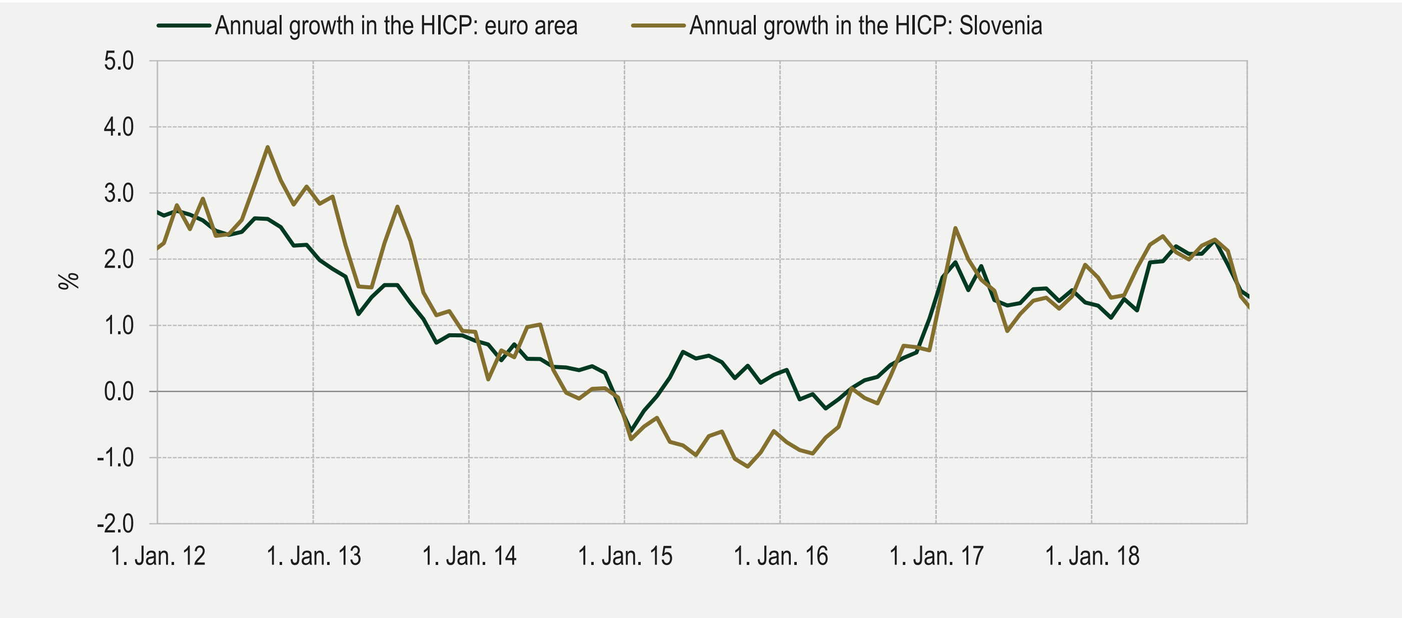
The monetary policy stance in 2018 continued to stimulate inflation and economic growth in the euro area, by ensuring favourable financing conditions.

The monetary policy stance remained expansionary in 2018.

Monetary policy measures encompassed the maintenance of the ECB's key interest rates at a low level, ongoing net securities purchases (APP) in a reduced volume, and the maintenance of forward guidance with regard to the level of key interest rates.

In October 2017 the Governing Council of the ECB decided to reduce its net securities purchases, in light of the continued strengthening of economic growth and its confidence in the gradual convergence on the inflation target. Monthly purchases were consequently reduced from EUR 60 billion to EUR 30 billion between January and September 2018.

Figure 9: Inflation in Slovenia and the euro area, 2012 to 2018



Source: Bloomberg

In June 2018 the Governing Council decided that the gradual ending of net securities purchases was appropriate as inflation approached its target level. Accordingly it reduced the monthly purchases in the final quarter of the year to EUR 15 billion.

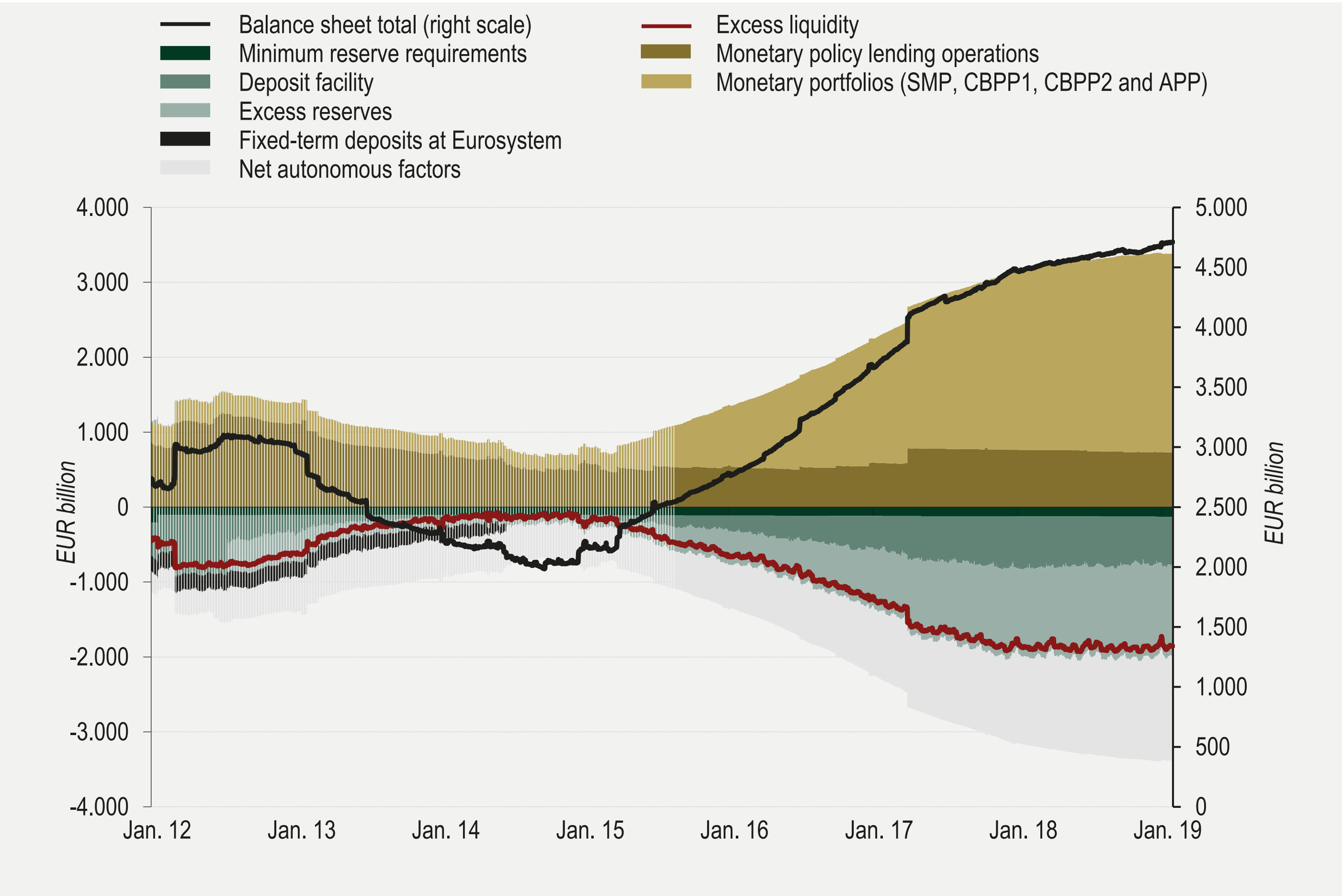
In December 2018 the Governing Council took the decision to close the net securities purchases at the end of 2018. At the same time it reiterated its forward guidance with regard to the reinvestment of the principal from maturing securities purchased in the APP. Accordingly the Eurosystem intends to continue reinvesting the principal from maturing securities in full for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

3.2.1 Excess liquidity and low interest rates

By the end of the net securities purchases in December 2018, the Eurosystem's balance sheet total had passed EUR 4,700 billion, while excess liquidity had risen to EUR 1,900 billion.

By the end of the net securities purchases within the framework of the APP in December 2018, the Eurosystem's balance sheet total had passed EUR 4,700 billion (see Figure 10). The excess liquidity,[19] which during the year was remunerated at the negative deposit facility rate (-0.4%), fluctuated around EUR 1,900 billion (see Figure 10). It was increased by the net securities purchases within the framework of the APP, while the fluctuations were mainly caused by net autonomous factors, i.e. items in the Eurosystem balance sheet that are not related to the implementation of monetary policy, but nevertheless affect bank liquidity.[20] The most notable among them were deposits by non-banking customers of the Eurosystem, e.g. non-residents and the euro area public sector.

Figure 10: Simplified Eurosystem consolidated balance sheet



Source: ECB

[19] Excess liquidity is the liquidity that the banks hold in excess of their needs deriving from autonomous factors and the minimum reserve requirements. It is defined as the sum of the deposit facility at the Eurosystem 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 lasted six or seven weeks in 2018) on the basis of the Regulation of the ECB on the application of minimum reserves.

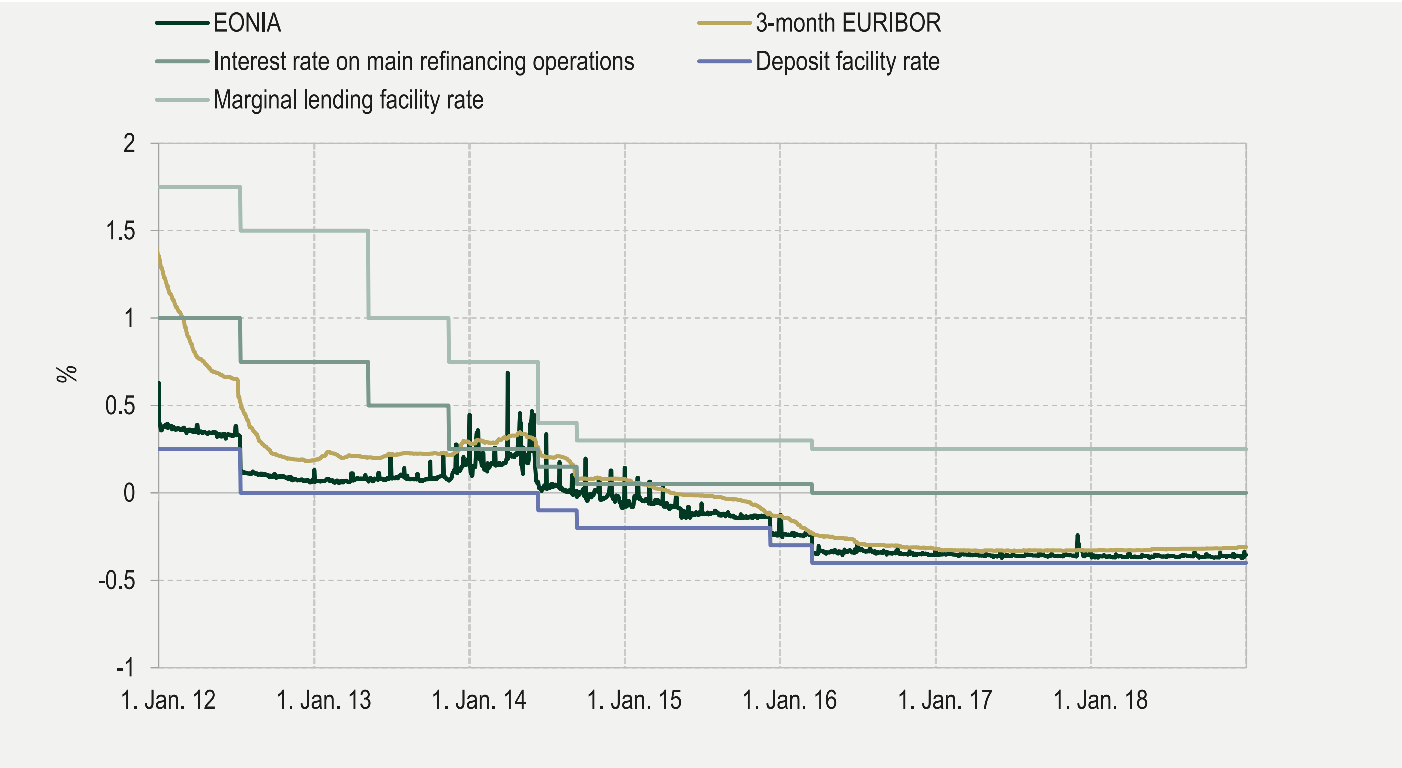
[20] Autonomous factors include issued banknotes, deposits by public sector entities at the central bank and financial assets of the central bank that are not a consequence of the monetary policy implementation (e.g. foreign reserves). An increase in autonomous factors on the asset side of the central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

In Slovenia the excess liquidity of the banking system increased to EUR 3.5 billion in 2018. Owing to the high liquidity, low interest rates that did not compensate for risk of lending to other banks on the money market, and the increase in the proportion of sight deposits by the non-banking sector, the banks retained a large proportion of their liquidity surpluses in accounts at the Bank of Slovenia. The banks' excess reserves exceeded EUR 3.2 million at the end of 2018, or 12 times their calculated minimum reserve requirements. Excess reserves across the euro area amounted to EUR 1,200 billion at the end of 2018, or nine times the minimum reserve requirements.

Amid high excess liquidity and increased demand for high-quality securities to meet the regulatory requirements, interest rates in the euro area money market remained at low, negative levels. The EURIBORs were in negative territory for all maturities. EONIA fluctuated around -0.36% for most of the time, 4 basis points above the interest rate on the deposit facility (see Figure 11). Interest rates in the secured (repo) market were low, below the deposit facility rate.

Interest rates in the euro area money market remained at low, negative levels.

Figure 11: Interest rates of the ECB and the interbank money market, 2012 to 2018



Sources: Bloomberg, ECB

Box 1: Ongoing reforms to euro benchmark interest rates

The aim of the reforms to euro benchmark interest rates such as EONIA and EURIBOR is to comply with the Benchmarks Regulation[21] to ensure the accuracy, soundness and integrity of benchmark interest rates and the processes for setting them, and thereby providing greater protection for consumers and investors.

The European Money Markets Institute (EMMI), which administers EONIA and EURIBOR, mostly satisfied the requirements with regard to governance, control and supervision. The small volume of trading, particularly in unsecured bank deposits at maturities longer than overnight (one day), makes it difficult for it to meet the criteria with regard to input data and the methodology for calculating the benchmark interest rates. EMMI announced in February 2018 that reforming EONIA would not achieve compliance with the regulation, on account of the insufficient volume of transactions and the high concentration at an excessively small number of reporting banks. With regard to EURIBOR, EMMI continued its efforts in 2018 to calculate interest rates using a hybrid methodology, where other interest rate sources could be taken into account alongside transactions.

I. Euro short-term rate (€STR), the new risk-free overnight interest rate

In September 2017 the ECB announced its intention to develop an overnight interest rate by the end of 2019 to serve as a backstop to market initiatives. The overnight rate is one of the most important interest rates in the euro area money market, and also has a role in the transmission of monetary policy.

The ECB's role in the development of the new overnight rate became decisive after the EMMI announced that reforming EONIA would not be successful. The calculation of the new interest rate will be based on statistical reporting from the money market,[22] and the methodology published in June 2018.

There are methodological differences between EONIA and the €STR. EONIA is an overnight interest rate calculated on the basis of unsecured euro banks' deposits *provided* to other banks. The €STR is an overnight interest rate calculated on the basis of unsecured euro deposits *received* from banks and *non-banking financial institutions* (insurance corporations, investment funds, pension funds, etc.), taking into account that the trading volume in the interbank market alone are not sufficient for calculating reliable daily interest rates. EONIA is based on voluntary reporting by

[21] Regulation (EU) 2016/1011 of the European Parliament and of the Council on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds.

[22] The collection of statistics began in July 2016 on the basis of ECB Regulation concerning statistics on the money markets (ECB/2018/48).

banks, and their willingness has declined over the years. The €STR is based on statistical reporting, which at the end of 2018 included the fifty largest euro area banks in terms of balance sheet total. Another difference between the two interest rates is that the €STR is published one business day after the transactions included in the calculation, while EONIA is published on the same business day.

EONIA will remain in use until the end of 2021, when it will be replaced by the €STR. Between 2 October 2019, when the ECB begins publishing the €STR, and the end of 2021, EONIA will be calculated as the €STR plus a fixed spread of 8.5 basis points.[23]

II. Other work to reform benchmark interest rates

The Working Group on Euro Risk-Free Rates (WGRFR) was established in February 2018. The group includes market participants, and functions with the support of the European Securities and Markets Authority (ESMA), Belgium's Financial Services and Markets Authority (FSMA), the European Commission and the ECB, who participate in the working group as observers, with the ECB providing its secretariat. The group aims to identify and approve risk-free interest rates that could serve as an alternative to current benchmarks. The group publishes its material on the ECB website, and makes use of public consultations to obtain the widest possible range of opinions about its proposed solutions.

The WGRFR proposed the €STR as the basis for creating alternatives for contracts that currently refer to EURIBOR (fallbacks) by adding a maturity premium derived from the yield curve for overnight index swaps. In the public consultation launched in December 2018, it proposed several possible solutions for setting the maturity premium.

[23] The fixed spread is equal to the difference betweenEONIA and the pre-€STR (calculated using the €STR methodology) between 17 April 2018 and 16 April 2019. A basis point is one hundredth of a percentage point.

3.2.2 Open market operations

The TLTRO-II remained a significant source of funding for the euro area banking system.

The Eurosystem did not make any changes to the monetary policy loans regularly offered to banks during 2018. Given the high excess liquidity created by the APP and the TLTRO-II,[24] the one-week main refinancing operations and the three-month longer-term refinancing operations had a side role in the implementation of monetary policy and in the funding of banks in Slovenia and across the euro area.

It was a different situation with the TLTRO-II. Banks that participated in the second series were informed of the final interest rate on the four-year operations in 2018, which depended on their increase in lending to the private sector (excluding mortgage loans). The average weighted interest rate for all participating banks stood at -0.365%, while banks with an adequate increase or a smaller fall in lending to the private sector were able to borrow money at -0.40%. A small number of participating banks opted in 2018 to repay the TLTRO-II before maturity. They repaid loans in the total amount of EUR 17.8 billion, reducing the stock of loans to EUR 719 billion at the end of the year. Given the attractiveness of the long-term loan, Slovenian banks did not opt for early repayment, and their stock of borrowing at the end of 2018 was unchanged from the end of 2017, at EUR 1.1 billion.

The banks repaid the TLTROs[25] in full in 2018. Slovenian banks made EUR 40 million of repayments, while the total repayments at Eurosystem level amounted to EUR 16 billion.

3.2.3 Asset purchase programme

The stock of the PSPP stood at EUR 2,102 billion at the end of 2018.

In 2018 the Eurosystem continued its net securities purchases under the asset purchase programme (APP), which included the public sector purchase programme (PSPP) and three private sector purchase programmes: the asset-backed securities purchase programme (ABSPP), the third covered bond purchase programme (CBPP3) and the corporate sector purchase programme (CSPP). The stock of APP bonds stood at EUR 2,570 billion at the end of 2018 (at amortised cost), of which the PSPP accounted for 82%.

In 2018 the APP again included the reinvestment of principal payments from securities purchased in the past and maturing during the year. The reinvestment of the principal payments from maturing securities will continue for an extended period of time past the date when it starts raising the key ECB interest rates, for which reason the stock of APP securities on the Eurosystem balance sheet will not yet being falling. The reinvestment of principal from maturing securities within the framework of the PSPP amounted to EUR 117 billion in 2018.

[24] The TLTRO-II (Targeted Longer-Term Refinancing Operations) are non-standard four-year loan operations offered to banks by the Eurosystem between June 2016 and March 2017.

[25] The TLTROs are non-standard lending operations offered to banks by the Eurosystem on a quarterly basis between September 2014 and June 2016. They matured in September 2018.

The Bank of Slovenia purchased Slovenian government bonds and SID banka bonds under the PSPP, but did not make any purchases within the frameworks of the ABSPP, the CBPP3 or the CSPP during the year. The stock of APP bonds held by the Bank of Slovenia amounted to EUR 10 billion at the end of 2018.

Because the APP resulted in the Eurosystem holding an increasing proportion of securities, it simultaneously lent them to maintain liquidity on the secondary and repo securities markets. To ease market participants' access to securities, the ECB and several national central banks, including the Bank of Slovenia, accepted cash collateral for securities lending in the maximum total amount of EUR 75 billion, in addition to other securities. The Bank of Slovenia's securities lending was again available to market participants through two channels in 2018: via Deutsche Bank as its agent, and within the framework of the automated Securities Lending and Borrowing programme of Euroclear Bank, a custodian bank.

3.2.4 US dollar lending

The banks' demand for one-week US dollar lending remained low in 2018: less than USD 1 billion was lent on average in each individual operation. Slovenian banks have not participated in US dollar operations since 2009.

3.2.5 Bank of Slovenia as the lender of last resort[26]

According to the Bank of Slovenia Act, one of the Bank of Slovenia's key objectives is to strive to ensure financial stability. Within this framework the Bank of Slovenia may act as a lender of last resort, i.e. in exchange for collateral it lends to a solvent bank or savings bank in liquidity difficulties. The Bank of Slovenia did not approve any such loans in 2018, and there was no demand for them.

[26] Banks in the euro area may obtain a loan from the central bank not solely via monetary policy operations, but in exceptional circumstances also in the form of a loan of last resort, known as Emergency Liquidity Assistance (ELA). The procedures, which set out the role of the Governing Council of the ECB in ELA, are described at https://www.ecb.europa.eu/pub/pdf/other/201402_elaprocedures.en.pdf?f0cae72c9838301505831a640aa5305.

The ECB conducts microprudential supervision of significant banks (in collaboration with the Bank of Slovenia), while the Bank of Slovenia supervises less significant banks directly.

3.3 MICROPRUDENTIAL 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, AML, etc.) **in timely fashion, and ensuring the stability of the banking system and the financial system through effective action**.

The establishment of the SSM saw supervision of significant institutions (SIs) in the EU[27] transferred to the ECB in 2014, although in operational terms this supervision is conducted via joint supervisory teams (JSTs[28]). The national supervisory authorities, including the Bank of Slovenia, actively participate in all operational supervisory activities for all European SIs. The final supervisory decisions are taken for these banks by the ECB, while representatives of the ECB and the national supervisory authorities[29] participate in the decision-making.

The supervision of banks and savings banks that do not meet the criteria for being classed as significant institutions, i.e. less significant institutions (LSIs),[30] is conducted by national supervisors, in accordance with national and EU legislation, having regard for the rules and methodology of the ECB and the SSM. National supervisors regularly submit supervisory data for less significant institutions to the ECB, and inform it of the material 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. These arrangements also allow the ECB, when necessary, to take over the direct supervision of less significant institutions 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.

There were three banks in Slovenia classed as SIs under the direct supervision of the ECB in 2018, whose supervision is conducted via a JST: NLB d.d., NKBM d.d. and Abanka 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 (Gorenjska banka d.d., Addiko Bank d.d., Deželna banka Slovenije d.d. and SID-Slovenska izvozna in razvojna banka d.d.) and three savings banks (Delavska hranilnica d.d., Hranilnica Lon d.d., Primorska hranilnica Vipava d.d.) were under the direct supervision of the Bank of Slovenia. Two branches of banks and banking groups of

---

[27] 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 more than one Member State. For more, see: https://www.bankingsupervision.europa.eu/banking/list/criteria/html/index.en.html.

[28] The JST for each bank consists of a coordinator from the ECB, and members from the national supervisory authority and the ECB.

[29] The ECB's most complex supervisory decisions are taken by the SSM Supervisory Board, where voting rights are held by one representative from each of the national supervisory authorities alongside the ECB representatives.

[30] Banks and savings banks are classed as LSIs.

Member States (BKS Bank AG, Bančna podružnica and RCI Banque Societe Anonyme, bančna podružnica Ljubljana) were also operating in Slovenia at the end of the year.[31]

Table 1: Significant banks and less significant banks (as at 31 December 2018)

SIGNIFICANT BANKS (SIS)	LESS SIGNIFICANT BANKS (LSIS)
NOVA LJUBLJANSKA BANKA, d.d.	GORENJSKA BANKA, d.d., Kranj
NOVA KREDITNA BANKA MARIBOR, d.d.	DEŽELNA BANKA SLOVENIJ,E d.d.
ABANKA, d.d.	ADDIKO BANK, d.d.
UNICREDIT BANKA SLOVENIJA, d.d.	DELAVSKA HRANILNICA, d.d., Ljubljana
SKB BANKA, d.d., LJUBLJANA	HRANILNICA LON, d.d., Kranj
BANKA INTESA SANPAOLO, d.d.	PRIMORSKA HRANILNICA VIPAVA, d.d.
SBERBANK BANKA, d.d.	SID – Slovenska izvozna in razvojna banka*
BANKA SPARKASSE, d.d.	

Source: Bank of Slovenia
** Has special status as a bank specialising in promotion of exports and development. In accordance with the Slovene Export and Development Bank Act (the ZSIRB), supervision of SID banka is conducted by the Bank of Slovenia, the Insurance Supervision Agency and the Ministry of Finance within the framework of their powers.*

3.3.1 Supervision of significant banks

Supervision of significant banks is conducted by the ECB in collaboration with the Bank of Slovenia. The supervision takes the form of ongoing supervision, and on-site inspections at banks.

Ongoing supervision is conducted by the JST. The principal supervisory activities are defined for each bank on the basis of regulatory requirements, the SSM supervisory manual and the SSM's supervisory priorities. In addition, the JST may set out specific supervisory activities for a bank, thereby responding to a change in the bank's risk profile or to changes in the banking system. This is a risk-based approach, where supervisory activities are focused on the most material risks at each bank.

The main task of the JST is conducting the supervisory review and evaluation process (SREP) at banks on an annual basis, and drawing up and implementing thesupervisory examination programme. Another part of ongoing supervision is thematic reviews, which are conducted simultaneously at all significant banks or a group of significant banks in the SSM. Thematic reviews are conducted in areas where the ECB assesses that increased risks have arisen. The JST also proposes inspections at a bank on an annual basis, which are then conducted by horizontal supervision staff.

When deficiencies or breaches of regulations are identified, the JST draws up supervisory measures, which may be imposed on a bank in the form of an operational act, or a letter with recommendations, or a decision, which is a legally binding act. Supervisory measures are imposed on significant banks by the ECB.

[31] Branches of EEA Member States in Slovenia: https://www.bsi.si/en/financial-stability/institutions-under-supervision/eea-states-credit-institutions-in-slovenia.

The ECB set the following supervisory priorities within the framework of the SSM in 2018, which also formed the starting point for the supervision of Slovenia's significant banks:

- business models and profitability;
- credit risk, with a focus on non-performing loans, concentration and collateral management;
- risk management, with an emphasis on:
  - validation and approval of internal models to calculate capital requirements
  - the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP),
  - preparations and implementation of IFRS 9;
- multiple risk dimensions, such as Brexit preparations and stress tests.

Within the framework of the annual supervisory review and evaluation process (SREP), in 2018 an assessment of individual risks and internal controls was conducted for all banks, individual capital requirements that must be maintained in excess of the minimum capital requirements were stipulated for them, and qualitative measures were imposed. These primarily related to the management of NPLs, internal governance and operational risk.

Given the specific risks at individual banks, the JSTs conducted nine deep-dive inspections in 2018, which were confined to a narrow segment of banking:

- internal governance;
- retail lending;
- collateral management;
- viability of business strategy and business plan;
- compliance of remuneration policy and remuneration system with the EBA Guidelines on sound remuneration policies (GL/2015/22);
- calculation of capital requirements for market risks.

The thematic review of profitability and business models, which aimed to assess the viability of business models and bank profitability, was completed in 2018. The findings were reported to banks in early 2018, and supervisory recommendations were issued. The review revealed that profitability and business models were still under pressure, despite the general improvement in the banks' economic position. Deficiencies were identified at Slovenian banks in the areas of credit pricing, the measurement of ex-post and ex-ante profitability, and the robustness and consistency of the business strategy.

The new IFRS 9 became effective as of January 2018. The ECB therefore decided in 2016 to embark on a thematic review of IFRS 9 as part of its supervisory priorities. The objective was to assess the banks' preparedness and to encourage high quality and consistent implementation of the new standard. Supervisory recommendations to rectify the deficiencies identified in the thematic review were issued to banks in 2017 and 2018. The thematic review revealed considerable deviations in impairment creation practices, as a result of which the JSTs devoted particular attention to this area in 2018. Impairment creation practices will also be the subject of review in the future. Supervision in 2018 also focused on the impact of the changeover to IFRS 9, including changes in the classification of exposures, the allocation of allowances, and migration of exposures between pools.

The banks continued their activities to reduce NPLs, while supervisory activities focused on reviewing and evaluating the NPL management strategy and the banks' operational plans for reducing NPLs. Follow-up inspections were conducted of the rectification of deficiencies identified in the thematic review of NPL management by the NPL Task Force that had been conducted at all banks with an elevated level of non-performing claims within the framework of the SSM in 2016 and 2017.

Eight on-site inspections in the following risk areas were conducted at significant banks in 2018: credit risk (two), ICAAP (two), calculation of risk-weighted assets (one), profitability and business model (one), operational risk (one) and internal ratings-based model for calculating capital requirements (one). Parts of the inspections were conducted in collaboration with external providers and staff from the ECB and other supervisory authorities.

In accordance with Article 84 of the Banking Act, at the end of 2017 the banks submitted updated recovery plans, which the JSTs reviewed and assessed in accordance with Article 197 of the Banking Act.

In the supervision of significant banks, there were 271 irregularities and deficiencies identified in their operations in 2018, of which the largest number related to the internal capital adequacy assessment process (ICAAP), credit risk management, the content of the recovery plan, and profitability and business models (see Figure 12). The majority of the findings have a low or medium impact on the financial position of the supervised entity, the level of capital, internal governance, and risk management and risk control at banks, for which reason the ECB imposed a measure on the banks in question in the majority of cases in the form of a letter with recommendations (see Table 2). Certain identified irregularities were rectified in 2018, while the rectification of the others will be monitored in 2019.

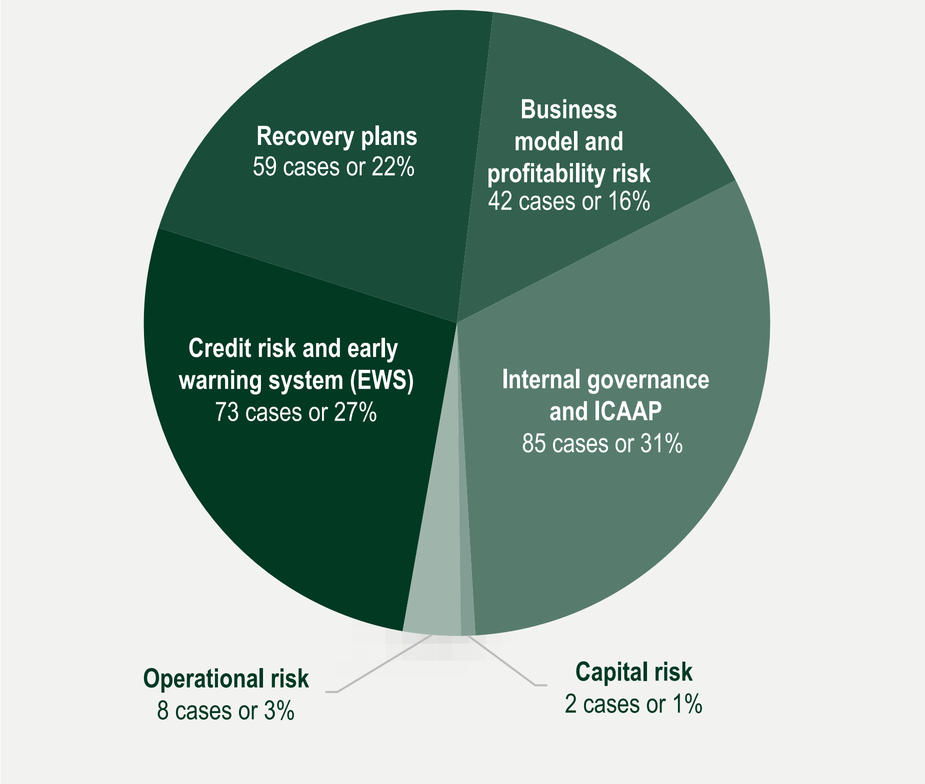
Table 2: Supervisory measures imposed on significant banks

TYPE OF MEASURE	NUMBER OF MEASURES IMPOSED
Decision with supervisory measures issued[32]	4
Follow-up letter with recommendations	20

Source: Bank of Slovenia

[32] A decision imposes obligations and requirements on the addressee bank that it is required to meet, usually by a specific deadline. The decision is legally binding on the addressee.

Figure 12: Irregularities and deficiencies identified at significant institutions in 2018



Source: Bank of Slovenia

3.3.2 Supervision of less significant banks[33]

The Bank of Slovenia is independently and directly responsible for supervising less significant banks. The supervision is conducted in the form of ongoing supervision, i.e. monitoring and review of reports, data and information that the banks are required to submit to the Bank of Slovenia periodically or at its explicit request, and in the form of on-site inspections in connection with the identification, measurement and management of various risks.

The Bank of Slovenia sets out its principal supervisory activities for each less significant bank in the upcoming calendar year on the basis of a comprehensive annual risk assessment at the bank.

As at significant banks, the most important part of the supervisory process at less significant banks consists of the supervisory review and evaluation process, based on which the Bank of Slovenia defines individual requirements for the maintenance of capital adequacy and also qualitative measures for risk management.

[33] Banks and savings banks (credit institutions) are classed as less significant banks (LSIs). The term "bank" in the context of less significant banks also includes savings banks.

In 2018 the Bank of Slovenia conducted particularly detailed monitoring of the banks that failed to fully meet the capital adequacy requirements determined in the SREP, or whose capital adequacy was very close to the SREP requirements. In addition, the Bank of Slovenia focused a substantial part of its supervisory activities on changes in the shareholder structure at certain institutions where major ownership changes were either taking place or were upcoming, and were generally associated with changes in the composition of management bodies, whether management boards or supervisory boards. The Bank of Slovenia therefore issued shareholders in one bank with two orders to dispose of shares during its supervisory activities.

For 2018 the Bank of Slovenia identified the following risks as the most material in the operations of less significant banks:

- profitability and business model;
- credit risk;
- risk management with an emphasis on funding maturity structure;
- operational risk;
- internal governance.

Five on-site inspections in the areas of credit risk and operational risk were conducted at less significant banks in 2018, and focused on housing loans and consumer lending, corporate lending, reviews of internal controls in the area of credit risk, IT outsourcing, and the establishment and functioning of cyber security. One of these was a follow-up inspection, which means that it was aimed at reviewing that the irregularities and deficiencies identified in the previous inspection of the bank had been rectified adequately and fully.

In addition to its inspections, the Bank of Slovenia also conducted detailed monitoring of the work of certain supervisory boards at less significant banks, and activities to reduce NPLs. Plans of measures that, in the event of a significant deterioration in the financial position of a bank, facilitate its restructuring such that its viability and financial soundness is maintained or restored were also reviewed. These recovery plans were reviewed for the fourth consecutive year, and it should be noted that the less significant banks made significant progress in their preparations.

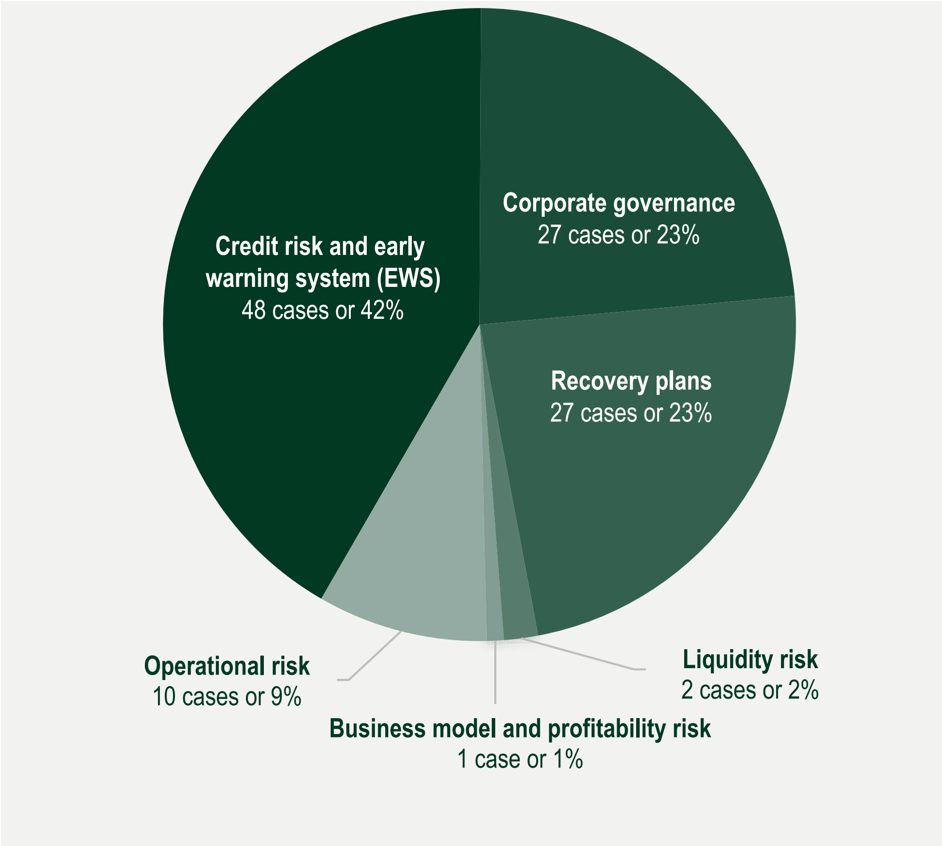
The largest numbers of irregularities at less significant banks were identified in connection with credit risk and corporate governance (see Figure 13). Certain identified irregularities were rectified in 2018, while the rectification of the others will be monitored by the Bank of Slovenia in 2019.

Table 3: Supervisory measures imposed on less significant banks in 2018

TYPE OF MEASURE	NUMBER OF MEASURES IMPOSED
Order on rectification of breaches[34]	2
Follow-up letter[35]	5
Declaratory decision on rectification of breaches[36]	1

Source: Bank of Slovenia

Figure 13: Irregularities and deficiencies identified at less significant institutions in 2018



Source: Bank of Slovenia

[34] The Bank of Slovenia issues an order on the rectification of breaches when it finds that a bank is in breach or within the next 12 months is likely to be in breach of regulations in a manner that has or could have a material impact on the secure and prudent governance of the bank (Article 242 of the ZBan-2).

[35] After an inspection or review at a bank, the Bank of Slovenia always issues a letter to the bank's management board and supervisory board highlighting the identified irregularities and deficiencies that do not have a material impact on the secure and prudent governance of the bank.

[36] The Bank of Slovenia issues a declaratory decision on the rectification of breaches when an identified breach was rectified even before the issue of an order on the rectification of breaches, and when a bank has rectified breaches from an issued order on the rectification of breaches (Article 252 of the ZBan-2).

The branch of one more Austrian bank ceased operations in Slovenia in 2018. There are now two branches of foreign banks and banking groups of Member States operating in Slovenia (one from Austria and one from France). Supervision of their operations 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 by the Bank of Slovenia in 2018.**

3.3.3 Stress tests

After a year's break, the EBA again conducted EU-wide stress tests in 2018. The exercise included the 48 largest European banks (accounting for 70% of the EU banking system). Slovenian banks were not included in the EBA stress tests, as the threshold for inclusion in the exercise was total assets of at least EUR 30 billion. In parallel with the EBA, the ECB conducted stress tests for the remaining significant institutions under its direct supervision. The ECB included the results of the stress tests in the annual SREP. For the significant institutions involved in the EBA stress tests, the ECB included the results of the EBA stress tests in the SREP, while for the significant institutions not included in the EBA stress tests, the ECB included the results of its own stress tests in the SREP. Slovenia's significant institutions (NLB, NKBM and Abanka) were included in the ECB SSM stress tests. With the aim of ensuring the equal treatment of all significant institutions within the SSM (as part of or outside the sample of EBA stress tests), the ECB stress test methodology followed the EBA methodology in full. The ECB did not publish the results of its stress tests.

In keeping with established practice, the Bank of Slovenia conducted bottom-up stress tests for the remaining banks under its direct supervision. The Bank of Slovenia took account of the size and complexity of the smaller banks, and adjusted the EBA methodology for the purposes of the exercise.

The results of the stress tests at Slovenia's three significant institutions are expressed as a change in capital ratios, and are comparable to the results at the less significant institutions in Slovenia, despite certain differences in the complexity of the approach. The Bank of Slovenia included the stress test results in its final SREP assessment of the individual banks for 2018. In keeping with the ECB approach, the Bank of Slovenia also did not publish the results of its stress tests.

3.3.4 Management of non-performing exposures

Despite the strong economy and the successful management of non-performing exposures (NPEs) created during the crisis, credit risk remains a key risk in the European and Slovenian banking systems. Activities to reduce existing NPEs and prevent the creation of new NPEs are therefore continuing across the EU, and in Slovenia. Significant progress in the management of NPEs has been achieved by the banking system as a whole and by individual banks. The reduction in the NPE ratio at the level of the banking system continued in 2018, and it had reached 4% by the end of the year (equivalent to NPEs of EUR 1.7 billion). The most notable factor in the reduction in NPEs in 2018 was repayments.

NPEs still constitute a challenge to the banking sector.

In monitoring the progress of the banks in the management of NPEs, the Bank of Slovenia analysed the operational plans to reduce NPEs in selected portfolios, and drew up a review of the changes in NPEs at individual banks. The analysis contains a disclosure of the stock of NPEs and the NPE ratio, the progress compared with previous years, and the main reasons for the changes. In addition to the aforementioned two regular activities, in 2018 the Bank of Slovenia continued its supervisory dialogue with individual banks with larger non-performing exposures.

The activities to reduce NPEs put in place in the previous years in conjunction with the banks will be continued by the Bank of Slovenia in 2019. This applies in particular to NPEs to SMEs, which currently remain at above-average levels.

3.3.5 Project to introduce IFRS 9

International Financial Reporting Standard 9 Financial instruments, applicable in the banking sector since 1 January 2018 in the accounting of financial instruments, **intervenes in all the key areas of banks' operations: risk management, back-office, accounting and reporting**. Consequently, intensive preparations for the initial application of IFRS 9 were also made by the Bank of Slovenia. The IFRS 9 project was set up for this purpose in late 2016, and was formally completed in September 2018.

The following activities were carried out within the framework of the project:

- revision of all of the relevant secondary legislation and guidelines in the areas of books of account, annual reports, credit risk management and reporting;
- adjustments to the reporting system;
- monitoring of the banks' preparations for the initial application of IFRS 9.

The Bank of Slovenia carefully monitored the banks in their preparations for the initial application of IFRS 9 on the basis of quarterly reporting on their progress on the action plans that they submitted to the Bank of Slovenia back in 2016, thematic reviews, and interviews with banks.

The Bank of Slovenia continued these activities in 2018, with a particular focus on ensuring the correct implementation of IFRS 9 on the basis of reports received from the banks. The irregularities and issues in connection with the implemented solutions in the areas of accounting and supervisory reporting formed the basis for consultation with the banks' audit firms.

Following the EBA and ECB initiative, during the preparations for the application of IFRS 9 the Bank of Slovenia also monitored the banks from the perspective of the impact of the standard on financial statements and own funds, on the basis of surveys conducted at the banks and preliminary assessments as the end of 2016 and 2017.

The Bank of Slovenia analysed the aforementioned impact in 2018 on the basis of actual data from the initial reports drawn up by the banks under IFRS 9. This analysis reveals that IFRS 9 has not had a material impact on own funds at the level of the banking system, and that the impact was actually positive at a significant number of banks due to the release of allowances and provisions for credit losses.

The findings from this analysis are not yet complete, as the verification of the correctness of IFRS 9 implementation (including on-site inspections) is still ongoing. Given the complexity of the new standard, the full effects of the changeover will only stabilise over the longer term. To avoid taking account of overly optimistic economic forecasts in the assessment of credit losses, in its guidance for closing the books of account for 2018 the Bank of Slovenia warned the banks to exercise extreme caution in choosing their indicators for economic forecasting, to check them regularly, and as necessary to revise them or replace them with more suitable (sufficiently conservative) indicators.

3.3.6 Development of comprehensive bank business model analysis

With the aim of further strengthening the quality of its supervision, in 2017 the Bank of Slovenia developed a tool for analysing the viability of bank business models (bank business model analysis or BBMA). The implementation of the tool in its supervisory activities in 2018 allowed the Bank of Slovenia to assess the feasibility of banks' financial plans in the coming years on an individual and system-wide basis, based on analysis of past performance, using statistical methods and algorithms (intelligent data analysis systems). The Bank of Slovenia conducts a simulation of the (future) financial performance of a bank on the basis of its financial statements for the latest financial year and macroeconomic forecasts for the relevant future period. The results of the simulation allow bank supervisors to make a critical assessment of the individual bank's financial plan. Major elements of the simulation include growth in the credit portfolio and its quality, the bank's funding, and developments in the bank's interest income and profitability.

3.3.7 Supervision of compliance and AML/CFT

In contrast to prudential supervision, which is conducted by the ECB in conjunction with the Bank of Slovenia, **non-prudential supervision is the exclusive responsibility of the Bank of Slovenia,** and covers significant and less significant banks and other institutions that are supervised by the Bank of Slovenia in accordance with the ZPPDFT-1 (payment institutions, electronic money institutions, currency exchange offices, and entities engaged in virtual currency activities). In supervision of this type the main focus is on prevention of money laundering and terrorist financing (AML/CFT), while in 2018 supervisory activities were also put in place in the areas of consumer lending and prevention of financial abuse.

Supervision of AML/CFT, consumer protection and fraud prevention is conducted by the Bank of Slovenia on an autonomous basis.

The following activities were carried out in the area of AML/CFT:

- **Centralisation of supervisory activities and introduction of a risk-based approach**
  To provide for greater effectiveness and to ensure that supervisory practices are comparable, supervision in the area of AML/CFT was centralised in 2018. In keeping with the guidelines of European supervisory authorities requiring risk-based supervision, a standard risk matrix was created in 2018 at the levels of all entities supervised by the Bank of Slovenia in accordance with the ZPPDFT-1. The risk matrix is the basis for planning supervisory activities, where the principle is that an institution that poses a very high risk from the perspective of AML/CFT is subject to supervision of greater frequency and depth.
- **Obligations of entities engaged in virtual currency activities with regard to AML/CFT measures**
  Under the ZPPDFT-1, the Bank of Slovenia is also responsible for supervising entities engaged in virtual currency activities. Here one of the main problems is identifying such entities, as there is currently no requirement for licensing or registration, for which reason the Bank of Slovenia attempted to identify entities functioning as exchange platforms and custodian wallet providers for virtual currencies on the basis of information available publicly. It conducted intensive dialogue with the aforementioned entities in the second half of the year, with the aim of learning about and understanding the business models that they use in meeting their AML/CFT requirements. In this connection it should be noted that the relevant regulations are only now being put in place at the international and European levels; amendments to the EU AML/CFT directive, which *inter alia* classifies exchange platforms and custodian wallet providers as obliged entities, and imposes mandatory registration on them, were thus adopted in 2018.
- **Supervisory inspections**
  Two follow-up on-site inspections, one thematic on-site inspection and two targeted on-site inspections were conducted in 2018. In the case of the follow-up inspections, the banks were found to have rectified the deficiencies and breaches identified during the previous inspections, and the supervisory procedure was thus closed in these cases. In addition to the planned inspections, two additional on-site inspections were conducted, namely a targeted inspection of a bank conducted in collaboration with the competent supervisory authority of another Member State, and a follow-up inspection of a savings bank.
  Off-site inspections of one bank and one savings bank were conducted in 2018, and breaches of AML/CFT procedures prescribed by law were identified in the case of the savings bank. A motion to initiate misdemeanours proceedings was issued as a result of the identified breaches.

- **Cooperation with institutions at EU level**
From the perspective of international cooperation in the area of AML/CFT, the Bank of Slovenia is mainly involved in activities unfolding within the framework of the joint AML/CFT sub-committee, which operates at the level of EU supervisory authorities, and activities unfolding within the framework of Moneyval, the Council of Europe's AML/CFT committee. Representatives of the national authorities responsible for conducting AML/CFT supervision in Member States sit on the AML/CFT sub-committee, which in 2018 issued guidelines, regulatory technical standards and opinions with the aim of standardising the requirements deriving from the EU AML/CFT directive. The bad practices in AML/CFT uncovered in 2018 at individual European banks triggered a broader debate at EU level with regard to the need to strengthen AML/CFT supervision, including greater involvement on the part of the ECB in the sense of closer collaboration and information exchange between prudential supervision and AML/CFT supervision, and a greater role for the EBA in standardising supervisory practices in this area.
A report on the progress achieved by Slovenia in connection with the implementation of the recommendations issued in the Moneyval mutual evaluation report approved at the June 2017 plenary meeting was presented at the December 2018 plenary meeting.

The following key activities were carried out in the area of compliance with the ZPotK-2, which governs consumer lending:

- **Supervisory inspections**
Inspections in the area of consumer lending were conducted at three banks in 2018, in line with the annual plan. According to the inspections, the banks are mostly compliant with the ZPotK-2, and the Bank of Slovenia consequently failed to identify any significant breaches.
- **Handling of consumer complaints**
No complaints by consumers were received by the Bank of Slovenia with regard to potential breaches of the ZPotK-2. According to the inspections, the same can be said of the banks, which have put in place contact centres for complaints and reclamations, but have not seen significant numbers of complaints concerning consumer lending.

Inspections in the area of fraud prevention were conducted at two banks in 2018. No breaches were identified, and recommendations alone were therefore issued in the segment. Inspections were also conducted of two firms engaged in deposit taking from uninformed investors, which constitutes deposit taking from the public, which requires a Bank of Slovenia authorisation, which the two firms did not have. The Bank of Slovenia initiated compulsory liquidation proceedings against the two firms in accordance with the ZBan-2 on this basis.

3.4 MACROPRUDENTIAL POLICY

Macroprudential policy in Slovenia is formulated by the Financial Stability Board.

Macroprudential policy is used to identify, monitor and assess systemic risks to financial stability with the aim of safeguarding the stability of the entire financial system.[37] Macroprudential policy in Slovenia is formulated by the Financial Stability Board (FSB), which consists of representatives from the Bank of Slovenia, the Securities Market Agency, the Insurance Supervision Agency, and the Ministry of Finance. Decisions on the implementation of macroprudential measures are taken by the competent supervisory authorities. The Bank of Slovenia formulates and implements macroprudential policy for the banking sector and leasing companies, following the macroprudential policy guidelines and the strategic framework of macroprudential policy for the banking sector.[38] The legal basis for the implementation of macroprudential policy is provided by the Capital Requirements Regulation (CRR), the Banking Act (ZBan-2) and the Macroprudential Supervision of the Financial System Act (ZMbNFS).

The formulation of macroprudential policy is a cyclical process, comprising four steps:

1. the identification of systemic risks and assessment of their level;
2. the selection and formulation (calibration) of the macroprudential instrument;
3. the implementation of the macroprudential instrument;
4. assessment of the effectiveness of the macroprudential instrument.

The Bank of Slovenia assesses the level of systemic risks by means of its risk dashboard, the early warning system, stress tests and other tools for monitoring financial stability. The current assessment of systemic risks is illustrated in Section 3. When the level of systemic risks rises, the introduction of macroprudential measures may follow. The selection and calibration of the measures is based on the principles of effectiveness (the instrument helps to meet final and intermediate macroprudential policy objectives), efficiency (the instrument can meet the intermediate objectives at minimal cost), proportionality (the impact of the measure should be commensurate with the systemic risk), clarity (the instrument should be simple), and the prevention of regulatory arbitrage and adverse cross-border effects. Each macroprudential measure pursues one or more intermediate macroprudential policy objectives:[39]

- mitigating and preventing excessive credit growth and excessive leverage;
- mitigating and preventing excessive maturity mismatch and illiquidity;

---

[37] Article 2 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13).

[38] The documents are available on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-policy-strategy.

[39] The intermediate macroprudential policy objectives are defined in the Guidelines for the macroprudential policy of the Bank of Slovenia, and are aligned with Recommendation ESRB/2013/1.

- limiting the concentration of direct and indirect exposures;
- limiting the systemic impact of misaligned incentives with a view to reducing moral hazard;
- strengthening the resilience of financial infrastructures.

Once selected and calibrated, the instrument is implemented and then subjected to regular assessments of its effectiveness. A macroprudential measure is effective if it meets the set intermediate objectives and helps to address systemic risks.

Macroprudential measures may have adverse cross-border effects, and can be a target of regulatory arbitrage. This makes cross-border cooperation important. The European Systemic Risk Board (ESRB) is involved in the coordination of macroprudential policy at the European level. It is also responsible for issuing recommendations on the reciprocity of macroprudential measures, and recommendations and warnings to national macroprudential authorities and other bodies.

Table 4: Bank of Slovenia macroprudential measures currently in force

MACROPRUDENTIAL INSTRUMENT	YEAR OF INTRODUCTION/ CHANGE[40]	TYPE OF MEASURE[41]	INTERMEDIATE OBJECTIVE[42]
Limits on deposit rates	2012	BINDING	Limiting the systemic impact of misaligned incentives with a view to reducing moral hazard
Limits on the pace of reduction in the LTD ratio for the non-banking sector (GLTDF)	2014/2018	RECOMMENDATION	Mitigating and preventing excessive maturity mismatch and illiquidity
Countercyclical capital buffer	2016	BINDING	Mitigating and preventing excessive credit growth and excessive leverage
O-SII buffer	2016	BINDING	Limiting the systemic impact of misaligned incentives with a view to reducing moral hazard
Macroprudential recommendation for household lending (LTV, DSTI, maturity limits)	2016/2018	RECOMMENDATION	Mitigating and preventing excessive credit growth and excessive leverage

Source: Bank of Slovenia

[40] Cites the year when the measure entered into force.

[41] Macroprudential instruments that are non-binding are adopted in the form of recommendations. The Bank of Slovenia regularly monitors whether banks are upholding the recommendations. Should there be a high level of deviation, the Bank of Slovenia is allowed to tighten the parameters of the recommendation, or to introduce binding macroprudential measures.

[42] According to the Guidelines for the macroprudential policy of the Bank of Slovenia of 10 January 2017.

Three binding and two non-binding macroprudential measures were in force at the end of 2018. The GLTDF measure became a recommendation on 1 January 2018.[43] The limits on deposit rates[44] are currently not affecting banks. There are also two binding capital measures in force: the countercyclical capital buffer[45] and the O-SII buffer.[46] The banks calculate the countercyclical capital buffer with regard to their geographical exposure. The buffer rate set by the local macroprudential authority should be applied to each jurisdiction. A zero rate currently applies to exposures in Slovenia. The O-SII buffer increases the resilience of systemically important banks in Slovenia. The buffer rate is determined on the basis of the average values of indicators of systemic importance, which measure the size of a bank, its importance to the real economy, its interaction with other institutions, and the complexity of its business model or its cross-border activities. As of 1 January 2019 banks are required to meet the buffer as illustrated in Table 5. Compared with 2017, the buffer requirement for SID banka was raised by 25 basis points, while Sberbank is no longer identified as an O-SII.

Table 5: O-SII buffer at various banks, 1 January 2019

BANK	CAPITAL BUFFER RATE
NLB, d.d.	1,00 %
SID banka, d.d., Ljubljana	0,50 %*
Nova KBM, d.d.	0,25 %
Abanka, d.d.	0,25 %
SKB, d.d.	0,25 %
Unicredit banka Slovenija, d.d.	0,25 %

Source: Bank of Slovenia
** SID banka has been given a one-year deadline for building up the buffer: it is required to meet buffer rates of 0.25% from 1 January 2019, and 0.50% from 1 January 2020.*

[43] More information is available on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/gltdf.

[44] More information is available on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/limits-on-deposit-rates.

[45] More information is available on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/countercyclical-capital-buffer.

[46] The methodology is explained in detail on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/capital-buffer-for-other-systemically-important-institutions-o-sii-buffer.

One package of macroprudential measures was aimed at limiting risks in the area of housing loans and consumer loans.

The Bank of Slovenia introduced a (non-binding) macroprudential recommendation for housing loans in 2016, one year after residential real estate prices began rising again.[47] Household indebtedness was low, economic growth was rising, and the banks were well capitalised. This situation could have led to increased lending to households, which are typically less risky than firms, and to a fall in credit standards.

The recommendation encompassed two instruments. The first instrument (a cap on LTV) recommends that the ratio of the loan value to the value of the residential real estate collateral should not exceed 80%. The second instrument (a cap on DSTI) limits the ratio of total annual debt servicing costs[48] to the borrower's net annual income. Put simply, the instrument recommends that the DSTI should be between zero and 67% (depending on income, see Figure 14).[49] When there are multiple borrowers, the DSTI is calculated for each one separately. The zero DSTI cap comes from the limitations on the attachment of a debtor's financial assets set out in the Enforcement and Securing of Claims Act (ZIZ) and the Tax Procedure Act (ZDavP-2). In practice this means that the borrower should be left with at least the net minimum wage after deducting debt servicing costs.

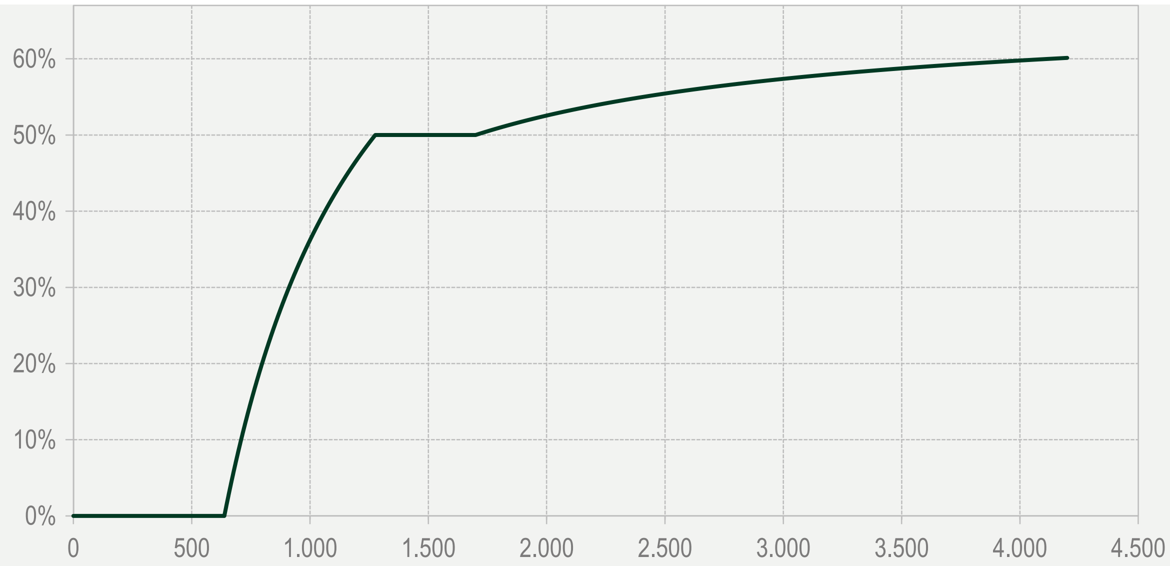
In the loan approval process (when assessing creditworthiness) it is recommended that banks apply, *mutatis mutandis*, the limitations on the attachment of a debtor's financial assets set out in the Enforcement and Securing of Claims Act (ZIZ) and the Tax Procedure Act (ZDavP-2), i.e. earnings that are exempt from attachment, and limitations on the attachment of a debtor's financial earnings.

[47] More information on the measures is available on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/macroprudential-supervision/macroprudential-instruments/macroprudential-recommendation-for-household-lending.

[48] Other liabilities, such as leasing payments and liabilities from credit cards and charge cards, are not taken into account.

[49] The exact wording of the DSTI cap is as follows:
It is recommended that, for new consumer and housing loans, the DSTI (debt service-to-income) ratio does not exceed the following values when the credit agreement is concluded:
a) for borrowers with monthly income of EUR 1,700 or less: 50%; and
b) for borrowers with monthly income of more than EUR 1,700: 50% for the portion of income up to EUR 1,700 inclusive, and 67% for the portion of income exceeding EUR 1,700.
In the case of multiple borrowers, this provision applies to each borrower separately.

Figure 14: Cap on DSTI (y-axis) versus net monthly wage in euros (x-axis)



Source: Bank of Slovenia calculations

The recommendation applies to all new housing loans, i.e. to all loans for the purchase, construction or renovation of residential real estate. As of October 2018 the recommendation has also been extended to consumer loans secured by residential real estate.

The Bank of Slovenia has observed high year-on-year growth rates in consumer lending and the lengthening of the average maturity of this lending.[50] It therefore introduced a macroprudential recommendation for consumer loans in October 2018. The cap on DSTI was extended to consumer loans not secured by residential real estate. For those loans it was also recommended that their maturity does not exceed 120 months. With the introduction of these instruments, the macroprudential recommendation for housing loans was extended and renamed the macroprudential recommendation for household lending.

Box 2: Impact of the macroprudential recommendation for household lending

Analysis of the impact of the macroprudential measure on the basis of data from 2018 reveals that the level of deviation from the recommendation is large, but stable: 28.7% of loans (2017: 30%) failed to comply with the LTV cap, the DSTI cap, or both instruments. Detailed analysis of the impact of the measure is presented in the June 2019 Financial Stability Review. Because the instruments for consumer loans were only introduced in October 2018, and because the banks need time to implement the recommendation in their bylaws, the impact of the macroprudential recommendation for consumer loans was not assessed.

[50] The Bank of Slovenia drew attention to this in previous editions of the Financial Stability Review.

3.5 BANK RESOLUTION AND THE DEPOSIT GUARANTEE SCHEME

The Bank of Slovenia works with the Single Resolution Board in the area of bank resolution.

Under the Resolution and Compulsory Winding Up of Banks Act51 (ZRPPB), the Bank of Slovenia is the designated national resolution authority. It participated in updating the plans of the banking groups with members in Slovenia via internal resolution groups within the Single Resolution Board (SRB),[52] the central authority of the Single Resolution Mechanism in the European banking union.

The SRB is responsible for drawing up resolution plans for banks and banking groups that are under the direct supervision of the ECB, and for all cross-border groups . These banks are NLB, NKBM, Abanka, Société Générale (whose subsidiary in Slovenia is SKB), UniCredit, Intesa Sanpaolo, Erste (whose subsidiary in Slovenia is Sparkasse), Addiko and Sberbank. The updating of the resolution plans for banks under the competence of the SRB proceeds in the form of internal resolution groups consisting of all the national resolution authorities of countries of the banking union where individual members of the banking group have a presence. The international working groups collaborate via document exchange, regular teleconferences and meetings.

The Bank of Slovenia is responsible for drawing up resolution plans for all banks that do not fall under the competence of the SRB, namely Gorenjska banka, Deželna banka Slovenije, Delavska hranilnica, Hranilnica Lon and Hranilnica Vipava.

The upgrades to the resolution plans in 2018 focused on the identification of critical functions, and the identification of the detailed operational execution of individual resolution tools.

3.5.1 Single Resolution Fund

Banks, credit institutions and certain investment firms from the 19 countries of the banking union, including Slovenia, pay into the Single Resolution Fund (SRF). The SRF was established in accordance with Regulation (EU) No 806/2014, and is owned by the Single Resolution Board (SRB), which also manages the fund. **The SRF is intended for the effective use of bank resolution instruments in line with the relevant objectives and powers, while certain principles are upheld.**

The SRF is being built up according to the rules for pooling contributions collected at national level, as set out in the Intergovernmental Agreement on the Transfer and Mutualisation of Contributions to the Single Resolution Fund (IGA),. The target level of the SRF is available financial assets in the amount of at least 1% of covered deposits of all credit institutions authorised in all participating Member States, by 1 January 2024.

---

[51] Official Gazette of the Republic of Slovenia, Nos. 44/16 and 71/16 [constitutional court decision].

[52] For more about the SRB, see Section 3.1 Institutional framework.

The total contributions to the SRF amounted to EUR 7,544.1 million in 2018, of which Slovenian banks contributed EUR 9.6 million.[53] The total size of the SRF had reached EUR 24.9 billion following the contributions made in 2018. The SRF has not been activated.

3.5.2 Bank Resolution Fund at the Bank of Slovenia

The Bank of Slovenia operates the Bank Resolution Fund.

Since the end of March 2015 the Bank of Slovenia has operated the Bank Resolution Fund, which was established pursuant to the Bank Resolution Authority and Fund Act (ZOSRB).[54] The fund's assets are earmarked for financing measures of compulsory winding-up that can be imposed on banks by the Bank of Slovenia. The banks paid assets totalling EUR 191.07 million into the fund in March 2015 (1.3% of total covered deposits).

The Bank of Slovenia set out the fund's investment policy[55] to ensure that it is secure, low-risk and has high asset liquidity. Consequently the following are eligible investments 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 long-term rating may be no lower than A-, or BBB- in the case of a sovereign debt obligor; (ii) bank balances at foreign commercial banks or the Bank of Slovenia; and (iii) bank deposits maturing in a maximum of 14 days. The debt of banks established in Slovenia and of foreign banking groups including subsidiary banks established in Slovenia, and the debt of the Republic of Slovenia are not eligible investments for the Bank Resolution Fund.

Money market interest rates were again negative in 2018. Similarly to 2017, the fund therefore 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 (the deposit facility rate), albeit higher than the interest rates in the money market. In addition, given the expectations of a general rise in market returns (and thus a fall in the value of assets), the fund maintained its interest rate exposure (modified duration) at a similar level to the end of 2017.

The fund amounted to EUR 191 million at the end of 2018. The fund's operating result was a net loss of EUR 127,952 in 2018. Its performance is disclosed in detail in its annual report.[56]

By law, the fund will cease operating on 31 December 2024. The fund has not been activated.

---

[53] A detailed breakdown of the contributions to the SRF by country is available at https://srb.europa.eu/en/content/single-resolution-fund.

[54] http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7059

[55] 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.

[56] The annual report is published online (in Slovene) at https://www.bsi.si/publikacije/letna-porocila/letno-porocilo-sklada-za-resevanje-bank.

3.5.3 Deposit Guarantee Scheme

The Deposit Guarantee Scheme Act (ZSJV)[57] stipulates that **the Bank of Slovenia establishes and operates a deposit guarantee scheme to guarantee for the deposits in the event of a bank having no available funds. The Bank of Slovenia therefore guarantees the payment of covered deposits, or uses other measures to maintain depositors' access to covered deposits in the event of the bank's compulsory wind-up.**

The scheme put in place provides for payouts of covered deposits to commence within seven business days in the event of the unavailability of deposits at an individual bank (the deadline is binding after 2023, before which the deadline period is being gradually reduced from 20 days, which was the period set until the end of 2018). A similar payout procedure is undertaken in the event of the activation of investor-compensation scheme in the case of the bankruptcy of an investment firm.

In 2018 the Bank of Slovenia continued its periodic testing of the capture of data on covered deposits at the level of the individual client at all banks in Slovenia. In the event of the bankruptcy of a bank branch, the Bank of Slovenia is responsible for coordinating the payout of covered deposits. The Bank of Slovenia is a signatory of the multilateral agreement of the European Forum of Deposit Insurers, which sets out cross-border cooperation between deposit guarantee schemes. There are two bank branches operating in Slovenia, and they are covered by the Austrian and French schemes. In 2018 the Bank of Slovenia signed an agreement with Einlagensicherung Austria, the Austrian deposit guarantee scheme, which builds on the broader multilateral agreement and sets out specific issues of bilateral cooperation, including periodic testing of the operational execution of payouts of the bank branch's covered deposits.

The Bank of Slovenia is ensuring that guaranteed deposits would be paid out as expeditiously as possible in the event of the collapse of a bank.

The requisite funds for the payout of covered deposits are provided from several sources. The banks in Slovenia pay contributions into the deposit guarantee fund. The banks' contributions to the deposit guarantee fund amounted to EUR 19.7 million in 2018. The fund's assets amounted to EUR 52.6 million at the end of 2018, and it will reach its full size in the amount of 0.8% of total covered deposits at banks in Slovenia in 2024. Should the deposit guarantee fund's assets not suffice for the needs of the actual payout of covered deposits, the fund may undertake additional borrowing, and the Bank of Slovenia may instruct the banks to make an additional extraordinary contribution to the fund; as a last resort, funds may be provided by the government in the form of a short-term loan. The funds for the payout of the covered deposits of bank branches are provided by the deposit guarantee schemes in which the banks are included.

The assets of the deposit guarantee fund are managed by the Bank of Slovenia. The deposit guarantee fund's investment policy, which in accordance with the ZSJV was determined by the Governing Board of the Bank of

[57] Deposit Guarantee Scheme Act (Official Gazette of the Republic of Slovenia, No. 27/16): http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7428.

Slovenia,[58] sets out the diversification of investments with a low level of risk, and provides for the appropriate availability of the fund's investments for the needs of the payout of covered deposits. Given the low returns on investments in eligible deposits and securities, and the relatively high costs of managing a still-low stock of assets should an active management policy be pursued, the Governing Board concluded for 2018 that the fund's assets should remain in the account at the Bank of Slovenia, where they are remunerated at the interest rate of the deposit facility. At the same time the Governing Board passed a resolution that Bank of Slovenia staff should put in place joint management of the assets of the bank resolution fund and the deposit guarantee fund, and the Bank of Slovenia accordingly commenced joint management of the assets of the two funds in January 2019. The fund's operating result was a net loss of EUR 186,277.94 in 2018. The fund has not been activated. Its performance is disclosed in detail in its annual report.[59]

[58] 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.

[59] The annual report of the deposit guarantee scheme is published online (in Slovene) at https://www.bsi.si/publikacije/letna-porocila/letno-porocilo-sklada-za-jamstvo-vlog.

3.6 OTHER TASKS OF THE BANK OF SLOVENIA

3.6.1 Banknotes and coins

By the end of 2018, a net total of EUR 7.16 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro.

By the end of 2018, a net total of EUR 7.16 billion of cash had been issued into circulation by the Bank of Slovenia since the introduction of the euro, of which banknotes accounted for EUR 7.06 billion (333.16 million banknotes) and coins for EUR 95.95 million (346.73 million coins). In terms of quantity, the 20-euro note has the highest net issuance (247.26 million banknotes), followed by the 10-euro note (86.43 million banknotes), the 50-euro note (22.86 million banknotes) and the 500-euro note (2.14 million banknotes). In the case of all other denominations (200-euro, 100-euro and 5-euro), there has been 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 (111.12 million coins) and 2-cent (73.94 million coins), while the lowest net issuance was recorded by the 50-cent (10.37 million coins). Euro cash was supplied to the market by the Bank of Slovenia from the central cash centre and through the Bank of Slovenia's banknote depots.

In conjunction with the other national central banks of the Eurosystem, in 2018 the Bank of Slovenia continued its activities for the introduction of the last two banknotes in the Europa series (after the 5-, 10-, 20- and 50-euro notes), the new 100-euro and 200-euro notes, which will be issued into circulation on 28 May 2019. Like the first four banknotes in the second series, the new 100-euro and 200-euro notes will have enhanced security features.

In 2018 the Bank of Slovenia issued a commemorative 2-euro coin into circulation to mark World Bee Day and collector coins to mark the 100th anniversary of the end of the First World War.

The Bank of Slovenia organised the issuance, distribution and storage of general circulation and occasional coins for the Republic of Slovenia on the basis of the Occasional Coins Act.[60] In 2018 the Bank of Slovenia issued a commemorative 2-euro coin into circulation to mark World Bee Day[61] (1 million coins were minted), and collector coins to mark the 100th anniversary of the end of the First World War[62] (750 gold, 1,500 silver and 70,250 bimetallic 3-euro coins). For the numismatic market the Bank of Slovenia issued a collection of euro coins minted in 2018 in BU (brilliant uncirculated) and proof versions, and a 2-euro commemorative coin and 3-euro collector coin, both proof-quality. The numismatic products issued by the Republic of Slovenia and the Bank of Slovenia are available at Bank of Slovenia counter and at selected branches of the Bank of Slovenia's two agents for collector products, Deželna banka Slovenije and NKBM.

[60] For more, see the Numismatics section on Bank of Slovenia website https://www.bsi.si/en/banknotes-and-coins/numismatics/f.

[61] https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2018/40/svetovni-dan-cebel-2018

[62] https://www.bsi.si/en/banknotes-and-coins/numismatics/f/2018/42/100-obletnica-konca-1-svetovne-vojne

Photograph 1: Collector coin issued to mark the 100th anniversary of the end of the First World War

Photograph 2: Commemorative coin issued to mark World Bee Day

Photograph 3: Collection set of 2018 Slovenian euro coins

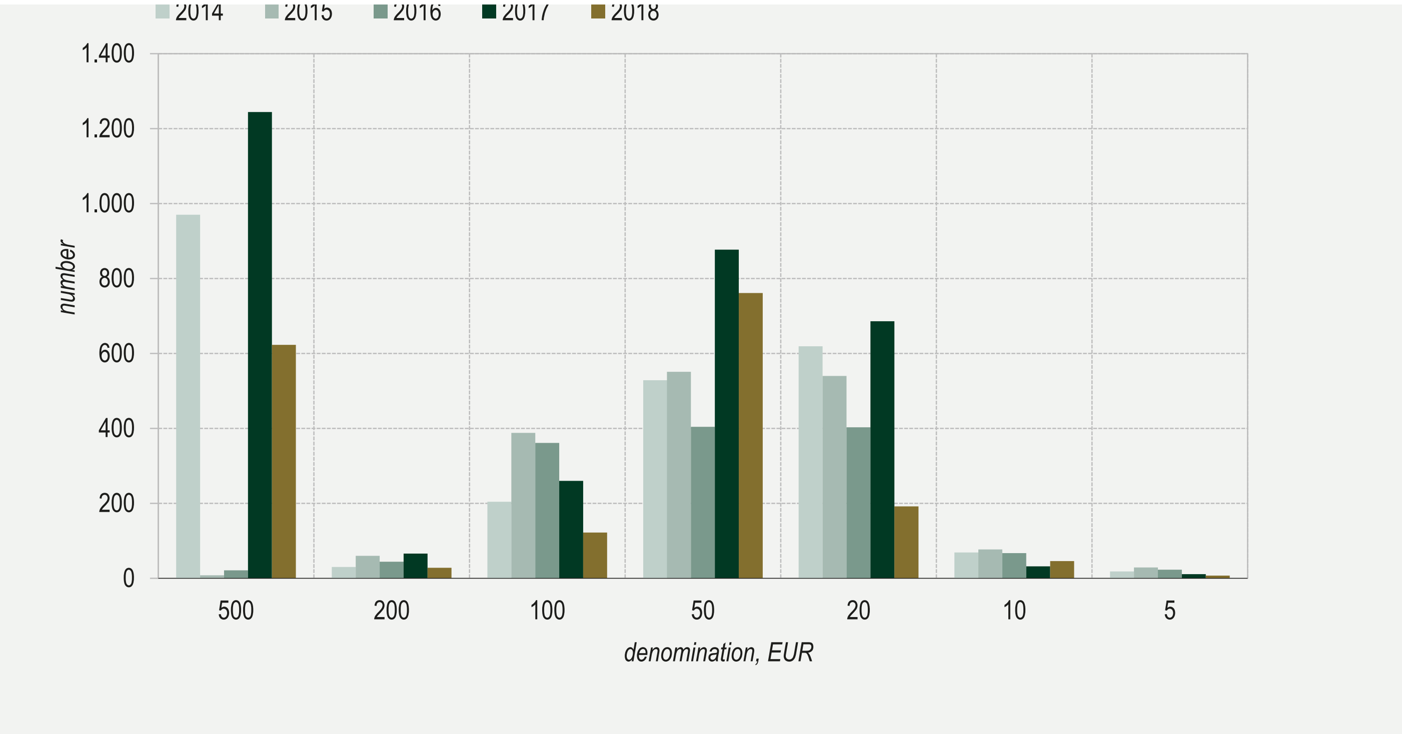
A total of 1,114 exchanges of tolar banknotes were made in 2018 (2017: 2,424 exchanges of tolar banknotes and coins). The total value of the tolar banknotes, coins and payment notes still in circulation at 31 December 2018 was EUR 41.11 million. This comprised 46.40 million tolar banknotes (worth SIT 7.30 billion or EUR 30.48 million), 443.42 million tolar coins (worth SIT 2.14 billion or EUR 8.95 million) and 20.91 million payment notes (worth SIT 403.16 million or EUR 1.68 million). Compared with the figures from the end of 2005, 59.01% of the tolar banknotes have been returned from circulation (96.58% of the total value of the tolar banknotes), while only 13.93% of the tolar coins have been returned (38.19% of the total value). Payment notes and tolar banknotes are exchangeable at Bank of Slovenia counters with no time limit, while the exchange of tolar coins ended on 3 January 2017 in accordance with the Adoption of the Euro Act.

The Bank of Slovenia cash processing unit sorted 131.8 million euro banknotes and coins in 2018 (compared with 121.93 million in 2017). A total of 130.49 million banknotes and 1.31 million coins were sorted in 2018 (compared with 120.98 million banknotes and 0.95 million coins in 2017). A total of 15.99 million euro banknotes (compared with 15.63 million banknotes in 2017) were taken out of circulation and destroyed in order to maintain the general quality of banknotes in circulation.

By monitoring the functioning of its cash processing machines and providing training in checking the fitness and authenticity of cash, the Bank of Slovenia ensures that its machines and staff are able to identify counterfeits, and thus ensures that all counterfeit banknotes and coins are withdrawn from circulation. A total of 1,779 counterfeit euro banknotes and 1,397 counterfeit euro coins were withdrawn[63] from circulation in 2018, compared with 3,176 euro banknotes and 1,002 euro coins in 2017. The 50-euro banknote accounted for the largest proportion of counterfeit banknotes in terms of quantity (42.8% of the total), while 2-euro coins accounted for the largest proportion of counterfeit coins (74%). The Eurosystem figures in this area rank Slovenia among countries where a small number of counterfeits are withdrawn from circulation. Some 45 foreign currency counterfeits (Swiss francs, Croatian kuna, US dollars and British pounds) were withdrawn from circulation in 2018, compared with 425 counterfeits in 2017. The quality of foreign currency counterfeits has remained at approximately the same level.

[63] 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.

Figure 15: Breakdown of counterfeit euro banknotes withdrawn from circulation, by denomination and year



Source: Bank of Slovenia

3.6.2 Payment and settlement systems

The Bank of Slovenia manages cash accounts for market participants for the settlement of large-value payments in the TARGET2 payment system and the settlement of transactions in securities on the TARGET2-Securities (T2S) platform, provides for the management of cash accounts on the TARGET Instant Payment Settlement (TIPS) platform, and provides access to pan-European payment systems, thereby allowing the exchange of SEPA credit transfers and SEPA direct debits with more than 4,000 and more than 3,300 payment service providers respectively. It also oversees payment and settlement systems, and supervises providers of payment services and electronic money issuance services.

3.6.2.1 Operation of payment and settlement systems

There were 18 Slovenian market participants in TARGET2 at the end of 2018, who settled 1,022,819 transactions over the course of the year in the total amount of EUR 368.65 billion. The Bank of Slovenia managed 23 cash accounts on the T2S platform for 12 Slovenian market participants, who settled 89,217 transactions over the course of the year in the total amount of EUR 12.2 billion.

Slovenian participants settled 1,022,819 transactions worth EUR 368.65 billion in TARGET2 last year, and 89,217 transactions worth EUR 12.2 billion in T2S.

In 2018 the Bank of Slovenia took part in the continuing development of the financial market infrastructures owned and operated by the Eurosystem. The activities included steps to build a new payment system (the successor to TARGET2), which will begin operation in 2021, and will provide for better services at lower cost with enhanced cyber security. T2S saw the Eurosystem and the national environments working together to remove barriers that reduce the platform's effectiveness. Activities were also carried out in 2018 to set up TIPS, which began operations on 30 November 2018, and provides for the exchange of euro payments 24 hours a day, every day of the year.

3.6.2.2 Supervisor

As part of its supervisory function under the Payment Services, Electronic Money Issuance Services and Payment Systems Act, the Bank of Slovenia supervises seven payment systems, credit institutions, payment institutions and electronic money institutions. Under the Decree implementing Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories, the Bank of Slovenia supervises one securities settlement system. The permanent objective of the Bank of Slovenia's supervisory activities is identifying risks in all areas of the operations of supervised entities in timely fashion, and taking effective action to ensure the security and reliability of their operations. The Bank of Slovenia processed two requests to amend payment system rules in 2018 (one authorisation was granted, and one procedure was pending at the end of the year), one request for an authorisation to operate a payment system, and one request (in cooperation with the Securities Market Agency) for an authorisation for a central securities depository (both procedures were pending at the end of the year). The Bank of Slovenia granted authorisations to provide services as a payment institution or an electronic money institution to three entities in 2018, while one procedure was pending at the end of the year.

3.6.3 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 value of the transferred foreign reserves was EUR 200.2 million as at 31 December 2018). The main purpose of the ECB's foreign reserves is to ensure adequate liquidity for the Eurosystem for interventions on the currency market. All euro area national central banks have contributed to

The Bank of Slovenia manages just over EUR 200 million of the ECB's foreign reserves.

the ECB's foreign reserves, which they manage jointly with the ECB. Since 1 January 2007 the Bank of Slovenia and the Central Bank of Luxembourg have jointly managed their share of the ECB's foreign reserves. In addition to the foreign reserves transferred to the ECB, the Bank of Slovenia also holds a portion of its investments in foreign currency in case the ECB calls for additional foreign reserves, in accordance with Article 30 of the Protocol on the Statute of the ESCB and the ECB.

3.6.4 Management of the Bank of Slovenia's financial investments

The Bank of Slovenia's financial assets amounted to EUR 3.8 billion at the end of 2018.

The Bank of Slovenia manages its own portfolio of financial assets, with the aim of strengthening its capital over the medium term, thereby helping to ensure its financial independence in performing its central banking tasks.

The Bank of Slovenia's financial assets that are not related to the implementation of Eurosystem monetary policy amounted to EUR 3.8 billion at the end of 2018 (unchanged from 2017), of which EUR 3.3 billion was denominated in euros, and the remainder in foreign currency.

The asset breakdown is determined on the basis of the strategic asset allocation, which is updated once a year, having regard for all limitations, by optimising the expected return while keeping risk at an acceptable level. The strategic asset allocation is approved annually by the Governing Board of the Bank of Slovenia at the proposal of the Investment Committee. Under the strategic asset allocation, the Bank of Slovenia's financial assets are spread across several portfolios, which differ either in terms of currency breakdown or in terms of asset class. Approximately half of the Bank of Slovenia's assets are managed against benchmark portfolios. The Bank of Slovenia's financial assets encompass holdings of sovereign, supranational, agency, covered, bank and corporate debt with arating of at least A- as a rule. They also include holdings of monetary gold. Investments in different sectors are additionally limited by the prescribed maximum allowable aggregate exposure to an individual sector and are limited to a list of eligible issuers. There is also an upper exposure limit per individual sovereign issuer or per individual group of related issuers, which depends on the rating.

There was no significant change in the currency breakdown of the Bank of Slovenia's portfolio of financial assets in 2018. The currency exposure is fully hedged, with the exception of the amount of the potential additional call-up of ECB foreign reserves. The maturity breakdown is as follows: 37% in the bucket of up to 1 year, 29% in the bucket of 1 to 3 years, and 34% in the bucket of more than 3 years. The modified duration (interest rate sensitivity) of the Bank of Slovenia's portfolio of financial assets stood at approximately 1.5, virtually unchanged from 2017. There was a slight change in the ratings breakdown of the financial assets in 2018, with an increase in the proportion accounted for by the higher investment grades: approximately 20% of the assets were rated triple A, 48% were rated double A, and 32% were rated below double A (of which the vast majority were rated single A).

3.6.5 Central Credit Register

Data on the debts of 1,527,122 individuals and 132,885 business entities is managed in the information exchange systems.

The Central Credit Register is the central national database of the debts of individuals and business entities. There are two information systems operating within the Central Credit Register: SISBON, the information exchange system for personal debt, which included data on 1,527,122 individuals, and SISBIZ, the information exchange system for the debts of business entities, which included data on 132,885 business entities at the end of 2018.

At the end of 2018 there were 54 different creditors that had access to SISBON, of whom 32 were members (entities referred to in Article 15 of the Central Credit Register Act[64]), who have access to all data in the SISBON system, and 22 were included creditors, who have access to a limited amount of data only, as set out by the third paragraph of Article 19 of the aforementioned act. There were 17 creditors, all with system member status, that had access to data in the SISBIZ system.

In 2018 the Bank of Slovenia was able to ensure that the information exchange system functioned smoothly for system members and for included creditors, in line with the relevant legislation, while ensuring that individuals and business entities whose data is in the system were able to exercise their statutory rights with regard to their own data. Within the framework of enquiry procedures for data subjects' own data, the Bank of Slovenia sent a total of 4,422 data transcripts to individuals, up 8.4% on the previous year, while 29,162 individuals (up 8.8% on the previous year) and 123 business entities submitted online requests for their own data.

The Bank of Slovenia had a heavy focus on security in its management of the system. To this end, in line with the SISBON rulebook, it issued a requirement in February 2018 that commits SISBON members to immediate submission of data on personal debt to the SISBON system as of March 2019. In October 2018 the aforementioned secondary legislation was used to set out a requirement for all system members and included creditors to unambiguously identify any individual submitting an application for a credit transaction.

For the purpose of ensuring greater security and confidentiality in the data administered in the information exchange system, audits of eight members of the SISBON system and seven members of the SISBIZ system were conducted by the Bank of Slovenia in 2018, within the framework of which 98 recommendations were issued. Six additional audits of members were conducted for the purpose of determining that the conditions had been met for transfer to the SISBON production environment.

A total of 1,973 complaints were submitted by individuals in connection with the accuracy of the data in the SISBON system, equivalent to 0.06% of all people whose data is administered in the system. Of these, 26.4% were upheld, a decrease of 18.2 percentage points relative to the previous year. The majority of the upheld complaints pertain to the non-reporting or erroneous reporting of the closure of a transaction by system members.

---

[64] Central Credit Register Act (Official Gazette of the Republic of Slovenia, No. 77/16): http://www.pisrs.si/Pis.web/pregledPredpisa?id=ZAKO7517.

3.6.6 Payment services for Bank of Slovenia clients

The Bank of Slovenia administers the government's single treasury account and the single municipal treasury accounts. These accounts have been opened in various currencies. The accounts of direct and indirect spending units of the state 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 single 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 and municipal budgets submit payment orders and from which they receive the full set of feedback about payments transacted.

In addition to the single treasury accounts, the Bank of Slovenia also manages purpose-specific current accounts of the government and other budget spending units, and provides payment bank services for the Ministry of Finance and manages a cash account for it in the TARGET2-Securities system.

KDD also holds accounts at the Bank of Slovenia: the guarantee fund account, the fiduciary account for custody services, and the current account for own resources. Foreign financial institutions and EU institutions are also Bank of Slovenia clients.

In 2018 the Bank of Slovenia conducted more than 51 million transactions for its 197 clients, who hold a total of 206 accounts with it. Of these transactions, 94% were credit transfers, while the remainder were direct debits. The vast majority of transactions were processed automatically.

3.6.7 Statistics

The Bank of Slovenia is responsible for tasks in the area of monetary and financial statistics, external statistics, national financial accounts statistics and other statistics, including publication and the provision of statistics to direct users.

3.6.7.1 Monetary and financial statistics

The Instructions on reporting by monetary financial institutions were updated in 2018. The changes comprise existing code lists, new code lists and types of values in existing reports, and the introduction of new sets of reports. The update was driven by the need to provide data for Regulation ECB/2016/13 on the collection of granular credit and credit risk data (AnaCredit[65]), the macroprudential recommendation on housing loans, and Regulation ECB/2016/22 concerning statistics on holdings of securities (the Securities Holding Statistics Group or SHSG). The Regulation on reporting by branches of Member State banks was also amended accordingly.

[65] For more on AnaCredit, see: https://www.ecb.europa.eu/explainers/tell-me-more/html/anacredit.en.html.

The changeover to the new version of the ESCB's RIAD (Register of Institutions and Affiliates Database), which is aligned with the Single Data Dictionary (SDD), was made in March 2018. Regular reporting by monetary financial institutions, investment funds, insurance corporations and payment institutions began on the basis of guidelines adopted in June 2018. Regular reporting to the RIAD by Slovenian business entities for the needs of AnaCredit was put in place, with reviews of data quality and the clearance of warnings. Data for the needs of other interest groups (supervision, banking operations) also became input. In December 2018 the SUBA (supervisory banking) data system was also transferred to the RIAD, replacing Excel-based reporting. Regular reporting by foreign business entities from AnaCredit as temporary data subjects that need to be verified also begun.

3.6.7.2 External statistics

Representatives of the Bank of Slovenia joined the ESCB/ESS (European Statistical System) direct investment group in 2018, which has a task of developing a methodological basis and examining possibilities for preparing additional data in the area of direct investment. This should cover greenfield investments, the disclosure of inward FDI according to ultimate ownership, and the final destination of outward FDI. As part of these efforts, partial adjustments were made to reports on direct investment, which will enter into force for reporting as of 2019.

A scheduled revision of data on the balance of payments and the international investment position between 2015 and 2017 was carried out in June 2018. There was also a change in the calculation of the current account surplus, primarily owing to the final data on reinvested earnings in direct investment and a major revision to exports of research and development services. A detailed explanation of the balance of payments revision was published in the June 2018 edition of Economic and Financial Developments.

3.6.7.3 Financial accounts statistics

During the regular production of quarterly financial accounts statistics, quarterly financial accounts for the government sector, annual financial accounts, the annual publication and the quarterly briefings, the Bank of Slovenia worked with the Statistical Office of the Republic of Slovenia and with the Ministry of Finance to resolve methodological issues in the area of the government sector's financial accounts.

3.6.7.4 Other statistics and activities

Among its numerous other activities in current work and development work on statistics, the Bank of Slovenia again conducted a survey of corporate access to financing in 2018, in conjunction with SID banka for the third consecutive year, which reduced the reporting workload. The survey gives an overview of the availability of external financing to enterprises, and is published on the Bank of Slovenia website.[66]

---

[66] Survey of access to financial resources for non-financial corporations (in Slovene): https://www.bsi.si/publikacije/rezultati-anket/raziskava-o-dostopnosti-financnih-virov-za-podjetja.

3.7 CONFERENCES, SEMINARS AND WORKSHOPS

The Bank of Slovenia is very much involved in international activities through conferences, seminars and workshops.

In February 2018 the Bank of Slovenia and the European Commission representation in Slovenia organised a conference entitled *Challenges in the Completion of the Banking Union*, which examined progress in the development of the banking union and proposed actions to ensure its completion. The conference theme also touched on the functioning of the Single Supervisory Mechanism, the Single Resolution Mechanism, the regulatory framework for banks and the reduction of NPEs.

In April the Bank of Slovenia organised an international conference in conjunction with the European Commission representation in Slovenia and the EBRD office in Slovenia. Entitled *Risk Appetite Frameworks at Banks*, the conference focused on the treatment of potential weaknesses in banks' risk management systems and business models, in order to prevent difficulties in potentially adverse market situations.

The European Central Banking Network's fourth international research conference, entitled *Cross-Border Aspects of Macroprudential Policy*, was held at the Bank of Slovenia in October. Researchers from 13 European central banks presented their analysis on this theme. The basic objective of the conference was comparing different experiences with regard to the spillover of the effects of capital, liquidity, and borrower-targeted macroprudential instruments in one EU Member State to other Member States, and with regard to the success of the coordination of macroprudential measures in the European economy.

The Bank of Slovenia also organised a series of seminars on economics and finance in conjunction with the University of Ljubljana's Faculty of Economics. The purpose of the seminars was exchanging knowledge and experience with high-profile researchers and experts. The seminars were held alternately at the Bank of Slovenia and at the Faculty of Economics.

3.8 TECHNICAL ASSISTANCE

In 2018 the Bank of Slovenia developed Guidelines on Risk Appetite Practices for Banks, which were developed in cooperation with the EBRD under the aegis of European Commission technical assistance.

Bank of Slovenia staff take part in programmes of technical assistance to other central banks and supervisory institutions. The Bank of Slovenia provided assistance to the central banks and supervisory authorities of Belgium, Bosnia and Herzegovina, Montenegro, Kosovo, Lithuania, North Macedonia and Serbia in 2018, in the following areas: banking supervision, banking regulations, cash operations, information technology, documentation systems, monetary and financial statistics, accounting, and AML. Five study visits, two expert missions and two conferences were organised within the framework of this assistance.

Within the framework of European Commission technical assistance (structural reforms support programme) and in collaboration with the EBRD, the Bank of Slovenia successfully completed the project of formulating Guidelines on Risk Appetite Practices for Banks (RAF), developing the Bank of Slovenia’s corresponding supervisory methodologies for reviewing the RAF at banks, and providing training on this issue for banks and supervisors.

Work also continued on projects in the area of cash operations, development of a tool for modelling of non-maturing deposits to manage liquidity and interest rate risk at banks, assessment and benchmarking of organizational effectiveness of financial regulator, and assistance in the establishment of an effective data management system, which are also being run under the aegis of European Commission technical assistance in conjunction with other institutions.

3.9 PUBLICATIONS

Six research papers were issued in 2018 as part of the Bank of Slovenia Working Papers, and Surveys and Analyses.

The Bank of Slovenia's key periodical publications issued in 2018 were:

- the *Financial Stability Review*, in which the Bank of Slovenia analyses systemic risks in the financial system every six months or so;
- the *Macroeconomic Projections for Slovenia*, which is issued twice yearly, in June and December, and provides macroeconomic forecasts for the next three years;
- the *Monthly briefing on bank performance*, with a summary of the monthly snapshot of the banking system;
- the *Bulletin*, the Bank of Slovenia's monthly statistical publication, which contains statistics produced in-house (financial institutions, external statistics, and financial accounts) to complement the basic macroeconomic statistics produced by the Statistical Office of the Republic of Slovenia and the Ministry of Finance.

Other major regular publications include *Economic and Financial Developments*, *Financial Accounts*, and *Direct Investment*.

The Bank of Slovenia also issues two collections aimed at research and analysis: *Bank of Slovenia Working Papers*, and *Surveys and Analyses*. Six original research papers were issued in the two collections in 2018.

3.10 MEDIA AND OTHER PUBLIC COMMUNICATIONS

The Bank of Slovenia endeavours to communicate with all segments of the public in a transparent, substantive and effective manner. It received and responded to a total of more than 360 media enquiries in 2018. In substantive terms the largest number of enquiries related to supervisory activities and measures, money laundering, cryptoassets, the premature departure of the Governor, the management of the SISBON system in connection with the GDPR, the extraordinary closure of business accounts by banks, and trends and risks in the financial system.

The media published a total of 2,761 stories in connection with the Bank of Slovenia in 2018, approximately 230 a month. Just under half of them (actually 45%) were in online media, most notably on the STA, Finance and Siol.net portals. The print media published approximately 41% of all media stories on the Bank of Slovenia in 2018, while TV and radio were responsible for the remaining 14%.

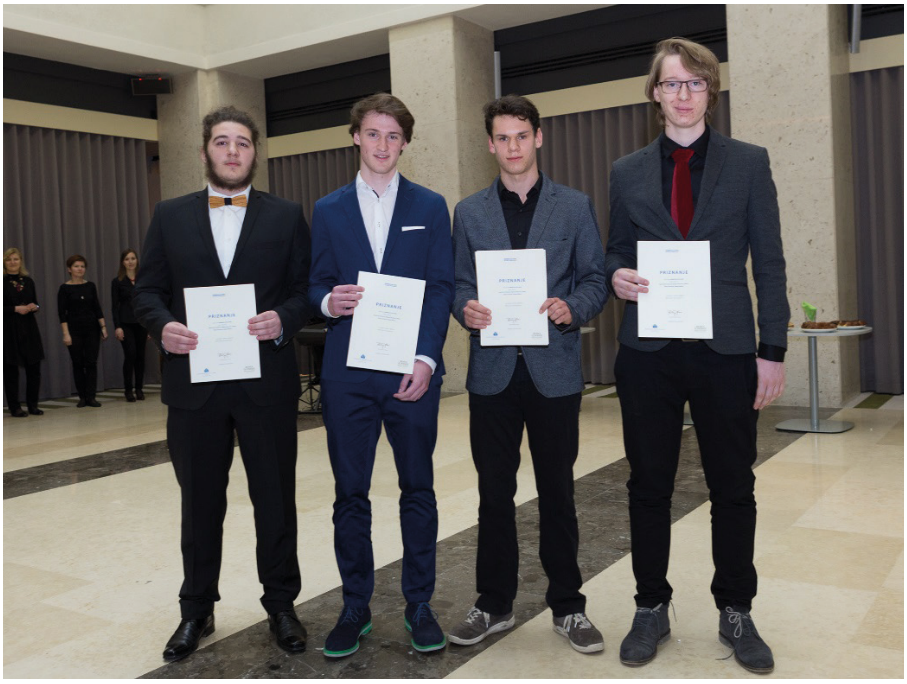
The Bank of Slovenia held three press conferences in 2018, and also organised an informal meeting for journalists on the subject of cryptoassets.

The Bank of Slovenia responded to erroneous or misleading media stories with eight rebuttals and clarifications in 2018. They were published in the Press Releases section of the Bank of Slovenia website.

In addition to media questions, the Bank of Slovenia received and responded to more than 830 questions from the general public, individuals and businesses alike, in 2018. The questions concerned all areas of the Bank of Slovenia's work, although the most common subjects were the conversion of foreign currencies and legacy currencies into euros, and numismatics.

3.11 EDUCATION AND TRAINING

The Bank of Slovenia organised the Generation €uro competition for the seventh consecutive year in 2018, under the aegis of the ECB. 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 2017/18 was Euconomi, from Poljane grammar school in Ljubljana. A total of 35 teams from 18 secondary schools participated in the first round.



Photograph 4: Winning team in the Generation €uro 2018 competition

The Bank of Slovenia works with secondary schools and universities in providing mandatory work experience to students. A total of two school students and 16 university students, including eight from abroad, took work experience placements with the Bank of Slovenia in 2018. The Bank of Slovenia is sponsoring nine students on master's programmes in economics and mathematics.

The Bank of Slovenia awarded prizes in 2018 to five students from Slovenian universities for the best master's and doctoral theses in the area of finance.

The Bank of Slovenia continued its Education Days programme in 2018, which aims to improve financial literacy among the general public, particularly primary and secondary school students and pensioners. Education Days were attended by more than 650 visitors in 2018. Visiting groups were first 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.

3.12 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 library allows internal and external users to borrow books for home, to borrow materials via interlibrary loans, and to search for materials across various databases.[67]

Around 4,000 books, professional journals and other materials were borrowed from the library in 2018, and 85 staff requests for interlibrary loans were serviced. Last year 28 e-journals were maintained and updated on the intranet site. The library purchased about 70 new books.

[67] For more, see https://www.bsi.si/en/about-us/library.

4 BANK OF SLOVENIA'S COOPERATION WITH OTHER INSTITUTIONS

Alongside the institutional framework of which the Bank of Slovenia forms part in keeping with the arrangements of the European System of Central Banks and the Single Resolution Mechanism,[68] the Bank of Slovenia also works with other institutions in Slovenia and abroad.

4.1 COOPERATION WITH INSTITUTIONS IN SLOVENIA

4.1.1 Ministry of Finance

The Bank of Slovenia actively works with the Ministry of Finance on drafting legislative proposals in connection with banking and finance. This was again the case in 2018, when the Bank of Slovenia's main cooperation with the ministry involved the expert coordination and preparation of positions with regard to proposed new regulations and amendments to regulations, including the Payment Services, Electronic Money Issuance Services and Payment Systems Act, the Criminal Procedure Act, the Personal Data Protection Act, the Constitutional Law Relating to the Fundamental Constitutional Charter on the Sovereignty and Independence of the Republic of Slovenia, the Act Implementing the Regulation (EU) on Key Information Documents for Packaged Retail and Insurance-Based Investment Products, the Book-Entry Securities Act, the Act Implementing the Regulation (EU) Laying Down a General Framework for Securitisation and Creating a Specific Framework for Simple, Transparent and Standardised Securitisation, the Decree implementing Regulation (EU) 2018/302 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market, and the Act on Judicial Relief Granted to Holders of Qualified Bank Credit.

Within the framework of the adoption of legislation at EU level, the Bank of Slovenia took part in negotiations with regard to revisions to the Capital Requirements Regulation (CRR), the Capital Requirements Directive (CRD IV), the European Market Infrastructure Regulation (EMIR), the NPLs package, covered bonds, the audit of the European system of financial supervision, and certain other legislative proposals discussion of which will be completed in 2019 or the following years. The Bank of Slovenia also works with the Ministry of Finance in drawing up positions with regard to proposals for delegated and implementing regulations adopted by the European Commission in the case of regulations governing the operations of banks and non-bank payment service providers and other areas of relevance to the Bank of Slovenia.

At the level of the ESCB, the Bank of Slovenia is involved in adopting the opinions of the ECB with regard to all proposed EU acts and draft regulations submitted for consultation by the competent national authorities (e.g. the National Assembly, the government, the Ministry of Finance) in its own areas of competence. An opinion of this type may also be submitted by the

[68] Both are examined in Section 3.

ECB even when it has not been directly and explicitly requested. The Bank of Slovenia and other NCBs work together in adopting the aforementioned opinions via the ECB's decision-making body (the General Council), in particular by providing expert support and the knowledge at their disposal.

4.1.2 Financial Stability Board

The Financial Stability Board (FSB) is a national macroprudential authority that formulates macroprudential policy and implements it in conjunction with supervisors of the financial system (alongside the Bank of Slovenia, the Securities Market Agency [SMA] and the Insurance Supervision Agency [ISA]). The aim of the FSB is to contribute to the stability of the entire financial system, including strengthening its resilience and reducing the accumulation of systemic risks, thereby ensuring that the financial sector makes a sustainable contribution to economic growth. The FSB is chaired by the Governor of the Bank of Slovenia. Support in the form of logistics and expertise is provided by the Bank of Slovenia.

The FSB met at four regular sessions in 2018, and reported on its work to the National Assembly in accordance with the Macroprudential Supervision of the Financial System Act. The FSB carefully monitored systemic risks in 2018, took note on the actions taken by national supervisors with regard to the implementation of recommendations by the European Systemic Risk Board (ESRB), and discussed other important issues of financial stability. The major risks in the financial system were assessed as moderate during the observation period.

Given the rising importance of fintech, and the need to ensure cyber security in the financial system, the FSB set up a working group on fintech and cyber security in 2017. The working group brings together representatives of the supervisory authorities in the financial system, the Ministry of Finance, experts from the Government Office for the Protection of Classified Information, and representatives from certain engineering, economics and law faculties in Slovenia. The working group represents an information, knowledge and experience exchange platform Additionally, it encourages mutual cooperation between the competent national authorities and a technological neutral approach to the regulation and supervision of innovative financial services.

The FSB also discussed recommended measures by the ESRB, and proposed changes of the ESRB functioning. The European Commission proposed a package of changes to strengthen macroprudential supervision with the aim to update the functioning of the ESRB with the changes in national institutional frameworks. The FSB also took note on the Brexit process.

4.1.3 Office for Money Laundering Prevention

The Bank of Slovenia works closely with the Office for Money Laundering Prevention (OMLP) on AML/CFT activities. In keeping with customary practice, meetings are organised before the kick-off of on-site inspections for the purpose of exchanging relevant information that might have a significant impact on the content and scope of the inspection. After completing an inspection, the Bank of Slovenia regularly briefs the OMLP on the findings and any measures imposed, as set out by the ZPPDFT-1. In 2018 there was particularly intensive cooperation between the Bank of Slovenia and the OMLP in the area of cryptoassets and virtual currencies. The activities included meetings with various entities engaged in virtual currency activities, to obtain additional information on their business methods and on their compliance with the requirements of the ZPPDFT-1. Under its newly assigned inspection powers, the OMLP began conducting direct supervision of obliged entities in 2018, which included inspections at two banks.

4.1.4 Committee for Cooperation between Supervisory Authorities

Bank of Slovenia representatives participated in two ordinary meetings of the Committee for Cooperation between Supervisory Authorities (the Bank of Slovenia, the SMA and the ISA) in 2018. In these meetings the committee discussed new developments with the Ministry of Finance in connection with financial legislation and activities related to the meetings of the Financial Stability Board. It set out joint activities including joint on-site inspections, exchanged information on the functioning of the board of supervisors at EU level, and discussed other subjects of mutual interest.

4.1.5 National Payments Council

The Bank of Slovenia continued its activities as NPC's chair and provision of logistical and expert support for the NPC in 2018.

Given the complexity of the payments market, which is partly attributable to technological progress and the innovations that it brings, a significant part of the activities of the National Payments Council (NPC) in 2018 focused on planning its future work. The NPC has adopted the Vision for the Development of the Payments Market in Slovenia, with the aim of unifying the stakeholders' views with regard to developments in the area of payments (The Vision). This creates a foundation for work in the areas of security, efficiency, accessibility, harmonisation, cooperation, timeliness and communication. On the basis of these key areas of work, the NPC concretised the implementation of the vision in 2018 by defining priority tasks, with deadlines, and by approving its action plan for 2019 and 2020. In it the NPC set out activities to improve communication with users with regard to new developments in the area of payments, and activities to ensure a positive and unified user paying experience, thereby maintaining user trust in payment services. Given the NPC's diverse composition and the occasionally opposing interests of its stakeholders, the Bank of Slovenia's activities in 2018 focused primarily on ensuring that the NPC worked to ease the development of the payments market in line with a variety of interests, and not only those of individual stakeholders or groups represented on the NPC.

4.1.6 Bank Association of Slovenia

Close cooperation with the Bank Association of Slovenia (BAS) continued in 2018, most notably through regular participation of Bank of Slovenia's staff at the BAS's various expert committees meetings, and regular participation at various technical workshops and expert conferences that were organised by the BAS for control, support and management functions of banks.

The major joint projects included the continuation of intensive cooperation with the BAS in the development of the Bank of Slovenia Guidelines on Risk Appetite Practices for Banks. The development of the guidelines was the subject of continued technical assistance of the European Commission's Structural Reform Support Service and EBRD to the Bank of Slovenia in period 2016 to 2018. To this end the Bank of Slovenia and the BAS organised a public consultation process with the banks in 2018 with regard to the final content of the guidelines, while the BAS in cooperation with the European Commission also organised an important seminar on the guidelines for Risk management functions in April 2018. The seminar was well-received by the risk management experts who attended the seminar.

The Bank of Slovenia and the BAS also established close cooperation on the regulatory strengthening of the Information security function at banks. The need for the regulatory strengthening of this function became particularly evident in relation to poor management of operational risks in the area of information security (e.g. cyber risk, IT risk).

The cooperation with banks on the overhaul of the calculation and reporting of credit risk indicators defined in the Guidelines for calculating default rate and loss rate should also be highlighted. Updated guidance with streamlined processes for calculating, monitoring and reporting individual indicators was drawn up on the basis of this cooperation. The overhaul will significantly reduce the reporting burden faced by banks, while preserving the essential elements necessary for the proper monitoring of credit risk indicators.

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 eight were aimed at the most senior staff and management. The Bank of Slovenia's contributions addressed the most critical issues in the areas of risk management, key changes in banking regulations, banking resolution and the deposit guarantee scheme.

4.2 COOPERATION INSIDE THE EU

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 2018. The first meeting in 2018 was held in April in Sofia, where discussions included the deepening of the economic and monetary union, convergence with the EU, the capital markets union, and taxation issues. The second meeting was held in Vienna in September, and discussed challenges facing the European Investment Bank, financial stability, the economic potential and risks associated with crypto assets, and programmes to promote investment and to finance structural reforms in the EU.

In 2018 Bank of Slovenia representatives again attended meetings 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 included meetings 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 free movement of capital, the banking union, the deepening of the economic and monetary union, the capital markets union, financial stability in the EU, the European system of financial supervision, sustainable financing, the issue of non-performing loans, AML issues, and issues related to the IMF. Representatives of the ESCB's statistics system work with the European Statistical System (consisting of Eurostat and the national statistical offices) in the European Statistical Forum and the Committee on Monetary, Financial and Balance of Payments Statistics with its sub-groups. The joint discussions in 2018 included quality assurance for statistics for indicators in connection with macroeconomic imbalances, and the development of indicators of commercial real estate prices and of income, consumption and wealth statistics. In addition, there was further dialogue on globalisation, on activities with regard to the excessive deficit procedure, on the legal entity identifier (LEI), and on business registers.

4.3 COOPERATION WITH INTERNATIONAL INSTITUTIONS

4.3.1 International Monetary Fund

The Bank of Slovenia is responsible for Slovenia's cooperation within the IMF, and the Governor of the Bank of Slovenia is a member of the IMF Board of Governors. Slovenia's quota at the IMF stood at SDR 586.5 million[69] at the end of 2018, or 0.12% of the total IMF quota. A Bank of Slovenia delegation attended the Annual and Spring meetings of the IMF and the World Bank in 2018. The main topics 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, a bilateral loan agreement between the Bank of Slovenia and the IMF is in force until the end of 2019, with the option of a one-year extension until the end of 2020, subject to the Bank of Slovenia's approval.

Slovenia again participated in financial transactions under the Financial Transaction Plan (FTP) in 2018. Slovenia's reserve tranche position at the IMF increased relative to 2017 to stand at SDR 108 million at the end of December 2018. Slovenia was twice called on to contribute funds in 2018, in the total amount of SDR 28.3 million, and received two repayments from the IMF, in the total amount of SDR 6.95 million.

4.3.2 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 themes in 2018 were the final implementation of the Basel III capital standards, macroprudential measures in the housing market, AI and machine learning in the financial services sector, risks related to counterfeiting and banknote orders, and the future of the LEI. 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 2018.

[69] Special drawing rights (SDRs) are a unit of account whose value is based on a basket of five currencies (US dollar, euro, renminbi, Japanese yen and pound sterling).

4.3.3 Organisation for Economic Co-operation and Development

Bank of Slovenia representatives attended meetings 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 Services, and provided information for the Working Party on SMEs and Entrepreneurship.

4.3.4 Contacts with other external institutions

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

5 BANK OF SLOVENIA'S REPORTING TO THE NATIONAL ASSEMBLY

2018
Slovenija
3
euro

Under Article 26 of the ZBS-1, the Bank of Slovenia reports to the National Assembly of the Republic of Slovenia on its work during the year: in 2018 Bank of Slovenia representatives reported to the National Assembly's finance and monetary policy committee during the presentation of the Bank of Slovenia's 2017 annual report and the Financial Stability Board's annual report.

In accordance with Article 33 of the Bank of Slovenia Act, the representative of the National Assembly's finance and monetary policy committee and the finance minister are regularly invited to meetings of the Governing Board of the Bank of Slovenia, but they do not hold voting rights. This ensures that the executive and legislative branches of government are briefed promptly on matters that are the responsibility of the Governing Board. The chair of the finance and monetary policy committee did not attend in 2018, while the finance minister attended five times.

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 ZBS-1) 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 of the ECB and approved by the Governing Board of the Bank of Slovenia. 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 previous auditor.

Bank of Slovenia representatives attended six sessions of National Assembly committees and commissions in 2018, where they gave clarifications and answers to deputies' questions to the finance committee (previously the finance and monetary policy committee) (on four occasions) and the commission for public finance control (on two occasions). Representatives of the Bank of Slovenia also attended three sessions of the National Council and its working bodies last year.

6 WORK OF THE BANK OF SLOVENIA

2018
Slovenija
30
euro

6.1 DECISION-MAKING BODIES

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

According to the Bank of Slovenia Act, the Bank of Slovenia's decision-making bodies are the Governor 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.[70]

The Governor of the Bank of Slovenia acts as the Bank of Slovenia's statutory representative, directs its business, organises its work, executes the decisions of the Governing Board, and issues individual and general bylaws of the Bank of Slovenia that are not the responsibility of the Governing Board. The Governor may also issue guidelines for implementing resolutions by the Governing Board.

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

The members of the Governing Board of the Bank of Slovenia are independent in performing their duties set out by 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 seek the guidance or instructions of such bodies. Since the introduction of the euro on 1 January 2007 the members of the Governing Board of the Bank of Slovenia have observed the Statute of the ESCB and of the ECB in performing their duties.

The Bank of Slovenia was run by Dr Boštjan Jazbec as Governor until 30 April 2018, and then by its deputy-governor, Dr Primož Dolenc, until 8 January 2019. Boštjan Vasle was appointed as Governor on 19 December 2018, and took up his role on 9 January 2019.

The members of the Governing Board of the Bank of Slovenia as at 31 December 2018 were:

- Dr Primož Dolenc, Vice-Governor and Deputy-Governor;
- Irena Vodopivec Jean, Vice-Governor;
- Marko Bošnjak, Vice-Governor;
- Jožef Bradeško, Vice-Governor.

[70] Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version], 59/11 and 55/17).

6.2 WORK OF THE GOVERNING BOARD OF THE BANK OF SLOVENIA IN 2018

The members of the Governing Board convened at 22 meetings and 15 correspondence sessions in 2018.

The Governing Board discussed a total of 524 agenda items in 2018, mostly in the area of banking supervision, as is usually the case, followed by the areas of economic and monetary policy, financial stability and statistics, payment and settlement systems and cash operations.

6.2.1 Secondary legislation

These activities saw the adoption of a new regulation on criteria for designating a significant bank,[71] and updated versions of the internal governance regulation[72] and the regulation on reporting of individual facts and circumstances.[73] Changes in EU legislation consecquently caused the amendment of the Regulation on the exercise of options and discretions under European Union law,[74] the Regulation on reporting by monetary financial institutions, its implementing guidelines, and the Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks.[75] The content of the individual acts adopted in 2018 is summarised below.

6.2.1.1 Criteria for designating significant banks

The term "significant bank" is being used increasingly often in banking legislation. Currently there are three different definitions in use, which were introduced for different purposes and entail different consequences for banks and for supervisors:

- the significant bank pursuant to the ZBan-2 (point 22 of the first paragraph of Article 7 of the ZBan-2);
- the other systemically important institution or O-SII pursuant to the ZBan-2 (Article 219 of ZBan-2);
- the significant supervised entity and significant supervised group from the perspective of the Single Supervisory Mechanism.

---

71 Official Gazette of the Republic of Slovenia, No. 17/18.

72 Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, Nos. 73/15, 49/16, 68/17, 33/18 and 81/18).

73 Regulation on the reporting of individual facts and circumstances of banks and savings banks (Official Gazette of the Republic of Slovenia, No. 63/15, 104/15, 42/16, 68/17 and 33/18).

74 Official Gazette of the Republic of Slovenia, Nos. 28/16 and 81/18.

75 The Regulation on reporting by monetary financial institutions (Official Gazette of the Republic of Slovenia, No. 44/18) and the Guidelines for implementing the Regulation on reporting by monetary financial institutions of 12 July 2018 and amendments to these guidelines of 26 September 2018 are published on the Bank of Slovenia website at https://www.bsi.si/porocanje/porocanje-banki-slovenije/porocila/porocanje-monetarnih-financnih-institucij.

To ensure greater clarity and transparency, and to enforce higher corporate governance requirements for banks whose nature of operations gives them special status and makes them significant from the perspective of the potential impact on financial stability in the banking system, the Bank of Slovenia equalised the criteria for designating significant banks with the criteria for designating other systemically important institutions.

6.2.1.2 Information security management at banks

The updated internal governance regulation has given the information security management function equal status with the other internal control functions (risk management, compliance and internal audit). This was particularly necessary because of the responsibilities that the function holds in managing information security risks. Most notably, these include cyber risk, which can entail a genuine threat to any bank if the risk is not systematically managed with the requisite financial and human resources.

The following areas are therefore defined in detail in the internal governance regulation:

- the purpose, powers and tasks of the information security management function;
- the requirement to discuss proposals and requests by the information security management function at the level of the management board and supervisory board;
- the position and qualifications of the head of the information security management function, direct access to the bank's management board and supervisory board, and the rules in connection with the appointment and dismissal of the head of the function, which should contribute to greater awareness with regard to the importance of the function on the part of the bank's management bodies.

6.2.1.3 Changes in the reporting framework

The Bank of Slovenia abolished the requirement for banks to report quarterly on loss events in the area of operational risk, which had previously been regulated by the internal governance regulation. Banks are required to report the relevant information in line with EU legislation (the ITS on supervisory reporting, DPM 2.7) With an amendment to the regulation on the reporting of individual facts and circumstances, the Bank of Slovenia also abolished reporting on participating interests in financial sector entities (Form POR-4) and reduced the frequency of reporting on exposure to persons in a special relationship with a bank (Form POR-2) from semi-annual to annual.

To implement the new reporting requirements under the Regulation on the collection of granular credit and credit risk data (ECB/2016/13), which requires banks to report data on credit transactions concluded with business entities, it was necessary to revise the Regulation on reporting by monetary financial institutions with its implementing guidelines, which as of 30 September 2018 has significantly modified the existing matrix reporting system.

Changes in the methodology for compiling financial statements and performance indicators

As a result of the aforementioned changes in reporting under the Guidelines for implementing the Regulation on reporting by monetary financial institutions, there was also a revision to the methodology for calculating performance indicators in connection with non-performing exposures and collateral received for these exposures for the purposes of inclusion in banks' annual reports, which was published with the new Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks of 26 September 2018, and the addendum to these guidelines of 28 January 2019.[76]

Options and discretions under European Union law

In the Regulation on the exercise of options and discretions under European Union law, a new materiality threshold was defined for past-due credit obligations for the purpose of the definition of default in accordance with Article 178(2)(d) of Regulation (EU) No 575/2013 (CRR).

Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due (the RTS), which requires competent authorities to set a standard materiality threshold for past-due credit obligations for all institutions under their jurisdiction, having regard for the frameworks set out by the CRR, was published in the Official Journal of the EU on 6 February 2018. The threshold is an important element of the definition of default, as it has a direct impact on the counting of days past due and consequently on the amount of exposures in default. The threshold consists of absolute and relative limits, which are defined as follows by the Bank of Slovenia for banks under its direct supervision:

- EUR 100 for retail exposures and EUR 500 for other exposures (absolute limit);
- 1% (relative limit).

Default is deemed to have occurred when both limits have been exceeded for 90 consecutive days. Banks are required to apply the new threshold as of 31 December 2020.

Other changes to the regulation relate to the regulation of discretions in connection with the transitional provisions of the CRR, in connection with the previous regime for large exposures and the calculation of capital.

Regulations on the basis of the ZPlaSSIED

A new Payment Services, Electronic Money Issuance Services and Payment Systems Act (Official Gazette of the Republic of Slovenia, Nos. 7/18 and

[76] The Guidelines for compiling the statement of financial position, income statement and statement of comprehensive income, and calculating the performance indicators of banks and savings banks are published on the Bank of Slovenia website at https://www.bsi.si/en/financial-stability/regulation/seznam-predpisov/razkritja-revizija-in-poslovne-knjige.

9/18 [revision]; hereinafter: the ZPlaSSIED) entered into force on 22 February 2018 replacing the Payment Services and Payment Systems Act (Official Gazette of the Republic of Slovenia, Nos. 58/09, 34/10, 9/11, 32/12, 81/15, 47/16 and 7/18). It was therefore necessary to reissue the secondary legislation issued on the basis of the old act. The Bank of Slovenia issued seven regulations and two guidelines [77] on the basis of the ZPlaSSIED.

Regulations on the application of guidelines issued by the EBA and European supervisory authorities (ESAs)

Within the framework of its powers, the Bank of Slovenia also participates in the activities of the European Banking Authority (EBA). 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 recommendations addressed to competent supervisory authorities and banks. It is the duty of competent authorities and banks to endeavour to uphold these guidelines and recommendations to the greatest possible extent. The guidelines and recommendations relate to the areas of banking supervision, bank recovery and early intervention, AML/CFT, payment services and systems, consumer protection and financial innovations. Pursuant to the ZBan-2 the Bank of Slovenia also decides on the application of individual guidelines or recommendations issued by other European supervisory authorities (European Securities and Markets Authority [ESMA], European Insurance and Occupational Pensions Authority [EIOPA]) in the form of regulations on the application of guidelines or recommendations. The Bank of Slovenia issued 21 regulations on the application of guidelines[78] in 2018.

6.2.2 Licensing

Since the establishment of the Single Supervisory Mechanism, the ECB has been responsible for granting authorisations to provide banking services and other financial services that may be provided by banks, and for granting authorisations 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.[79]

The Bank of Slovenia conducted 24 procedures to grant authorisations under the ZBan-2 in 2018. Of the 15 authorisations granted in 2018, ten were granted by the ECB. In six cases the procedure to grant the authorisation was suspended. Three procedures for the granting of an authorisation were pending at the end of 2018. In 2017 the Bank of Slovenia had conducted 17 procedures for the granting of an authorisation, and granted ten authorisations.

[77] A list of the regulations and guidelines with links to detailed explanations is given in the appendix to this annual report.

[78] A list of the issued regulations with links to detailed explanations is given in the appendix to this annual report.

[79] For more details on the two categories of banks, see Section 3.3 Microprudential supervision.

The most common authorisations granted in 2018 were to perform the function of a member of a bank's management board (11 in all), followed by three authorisations to acquire a qualifying holding, and one authorisation to dispose of assets.[80]

The Bank of Slovenia conducted 20 procedures for granting an authorisation under the ZPlaSSIED in 2018 (13 to acquire a qualifying holding in an electronic money institution or payment institution, two to provide electronic money issuance services as an electronic money institution, two to provide payment services as a payment institution, two to amend payment system rules, and one to operate a payment system as a clearing house). It granted 12 authorisations, while eight procedures were still pending at the end of 2018.

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 34 procedures for assessing the suitability of members of supervisory boards of banks and savings banks in 2018. The Bank of Slovenia completed seven fit and proper assessment procedures and 15 ECB procedures with a positive assessment, four procedures were suspended, while eight were still pending and continued into 2019.

The Bank of Slovenia also issued 26 decisions to terminate authorisations in 2018: the largest number (16 in all) related to the performance of the function of a member of a bank's management board, followed by seven for a qualifying holding, two for the provision of currency exchange services, and one for the provision of financial services.

The Bank of Slovenia granted five authorisations to banks classed as less significant institutions for the classification of a capital instrument as an instrument of common equity Tier 1 capital, and one authorisation for the inclusion of interim profit in capital.

In 2018 the Bank of Slovenia received 13 notifications of the direct provision of services in Slovenia by Member State banks (compared with 30 in 2017). A list of EU Member State banks that may pursue their business activities in Slovenia is published on the Bank of Slovenia website.[81] One bank established in Slovenia notified the direct provision of services in another Member State in 2018 (compared with two in 2017).

In 2018 the Bank of Slovenia received 54 notifications of the direct provision of payment services in Slovenia by payment institutions of Member States (up from 50 in 2017) and 59 notifications of the provision of electronic money issuance services and payment services by electronic money institutions of Member States (up from 44 in 2017).

[80] Granted authorisations are listed on the Bank of Slovenia website at: https://www.bsi.si/en/financial-stability/banking-system-supervision/supervisory-disclosure/information-on-authorisations-granted.

[81] List of EU Member State banks entitled to provide mutually recognised financial services in Slovenia: https://www.bsi.si/en/financial-stability/institutions-under-supervision/eea-states-credit-institutions-in-slovenia.

In accordance with the Consumer Credit Act (ZPotK-2), the Bank of Slovenia is responsible for granting authorisations to leasing companies for consumer credit for real estate and to credit intermediaries for the intermediation of consumer credit for real estate. The Bank of Slovenia received one application in 2018 for an authorisation to act as a consumer credit intermediary for real estate. The application was rejected.

In accordance with the ZPotK-2, the cross-border provision of consumer credit intermediation services for real estate is allowed, either directly or via a branch. The Bank of Slovenia received 12 notifications of the direct cross-border provision of services in Slovenia.

The Bank of Slovenia manages a register of credit intermediaries with a Bank of Slovenia authorisation[82] and a register of credit intermediaries from other Member States who have notified the provision of services in Slovenia,[83] and publishes them on its website.

[82] https://www.bsi.si/en/financial-stability/institutions-under-supervision/eea-states-credit-institutions-in-slovenia

[83] https://www.bsi.si/en/financial-stability/institutions-under-supervision/credit-intermediaries-for-real-estate/register-of-credit-intermediaries-of-member-states

6.3 AUDIT COMMITTEE

Alongside its internal working bodies, the Bank of Slovenia has also put in place an Audit Committee, which consists of two external experts, one of whom chairs the committee, and two members of the Governing Board. The Audit Committee's aim is to improve governance at the Bank of Slovenia by means of additional independent oversight alongside internal and external auditing. It functions as a consultative body for the Governing Board, and in doing so formulates opinions and advice to aid the Governing Board in making decisions with regard to:

Two members of the Bank of Slovenia's Audit Committee are external experts.

- the integrity and reliability of financial information;
- oversight of internal controls and risk management;
- the performance of internal audit activities at the Bank of Slovenia; and
- compliance with laws, regulations and Code of Ethics.

The Audit Committee met 11 times in 2018, discussing 57 agenda items, including the external auditor's report on the audited financial statements, and the method of auditing at the Bank of Slovenia. As in 2017, although the Bank of Slovenia is not subject to the requirements of Regulation (EU) No 537/2014 and Directive 2014/56/EU, which apply to audits of public-interest entities, the external auditor revised the audit report in accordance with Article 11 of the aforementioned regulation, which prescribes mandatory elements for an additional report to the Audit Committee.[84]

The Audit Committee was also briefed on reports on the work of the Internal Audit Department, and a report on an external assessment of its actions, issued an opinion with regard to all auditing conducted, and followed up the implementation of internal audit recommendations. It was also briefed on the updated overall risk management framework, misdemeanours proceedings in connection with AML/CFT, reports by the whistleblowing commission, and the Bank of Slovenia's provisioning methodology.

The Audit Committee was also involved in updating its own rules of procedure and the internal rules and regulations of the Internal Audit Department in 2018.

[84] https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32014R0537

6.4 REPORT ON THE PERFORMANCE OF THE BANK OF SLOVENIA IN 2018

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

6.4.1 Balance sheet developments in 2018

The balance sheet total stood at EUR 16.4 billion as at 31 December 2018, up EUR 1.9 billion on the end of 2017.

The balance sheet total stood at EUR 16.4 billion as at 31 December 2018, up EUR 1.9 billion on the end of 2017. On the asset side, there was an increase in net purchases of securities for the monetary policy implementation, in the amount of EUR 0.7 billion. The Bank of Slovenia contributed to the implementation of the objectives of Eurosystem monetary policy with average monthly purchases in the amount of EUR 105 million. The largest exposure within the investments in securities for monetary policy purposes consisted of Slovenian government bonds (EUR 6.7 billion).

On the liability side, there were increases in current account balances of banks (by EUR 0.5 billion), euro deposits by the government sector and other clients (by EUR 1.2 billion) and banknotes in circulation (by EUR 0.3 billion). There was an increase of EUR 1.3 billion in liability to the Eurosystem related to the adjustment in euro banknotes. This liability represents 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 put into circulation by the Bank of Slovenia.

The aforementioned developments brought a change in the Bank of Slovenia's position arising from cross-border transactions with other NCBs and the ECB via the TARGET2 system, which moved from liability to the ECB at the end of 2017 (in the amount of EUR 1.4 billion) to claim against the ECB at the end of 2018 (EUR 1.2 billion).

6.4.2 2018 financial results

The Bank of Slovenia generated a surplus of income over expenses in the amount of EUR 63.4 million.

The Bank of Slovenia's main source of income is interest on monetary policy instruments and portfolios, and on its own investments in securities. Net interest income amounted to EUR 133.2 million in 2018, up EUR 28.0 million on the previous year. The increase was primarily attributable to the expansion of the monetary policy portfolios, and the negative interest rate on deposits by credit institutions, the government sector and other clients.

The net gain realised on the sale of securities and foreign exchange positions amounted to EUR 4.3 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 9.1 million in 2018, and were the result of market prices of securities and exchange rates at the end of 2018 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 79.2 million for covering expenses from currency risk, interest rate risk, credit risk, price risk and other risks. The need for additional provisions is primarily attributable to the increase in the stock of investments, and the correspondingly greater risk exposure.

Net fees and commissions (EUR 9.6 million), income from participating interests (EUR 7.7 million), the net result of pooling of Eurosystem monetary income (EUR 32.6 million) and other income (EUR 2.1 million) amounted to EUR 51.9 million in 2018.

Operating expenses amounted to EUR 37.7 million in 2018. The Bank of Slovenia thus generated a surplus of income over expenses in the amount of EUR 63.4 million.

The allocation of the surplus of the Bank of Slovenia's income over its expenses is carried out on the basis of Articles 50 and 50a of the Bank of Slovenia Act. Article 50a sets out the allocation of the surplus of income over expenses following the introduction of the euro as Slovenia's currency, and stipulates that the surplus of income over expenses after the allocation of funds to the revaluation accounts should be distributed between the general reserves and the budget of the Republic of Slovenia. Article 50 stipulates the allocation ratio: 25% of the surplus of income over expenses is allocated to the budget of the Republic of Slovenia, and the remainder is allocated to the Bank of Slovenia's general reserves. Notwithstanding the above, should the Bank of Slovenia's general reserves in the preceding year exceed 5% of its balance sheet total, the Bank of Slovenia and the minister in charge of finance may agree that a larger share of the Bank of Slovenia's income surplus be allocated to the budget of the Republic of Slovenia. By contrast, should the Bank of Slovenia's general reserves in the preceding year not reach 1% of its balance sheet total, the Bank of Slovenia and the minister in charge of finance may agree that a smaller share of the income surplus be allocated to the budget of the Republic of Slovenia.

Table 6: Bank of Slovenia's contributions to the budget of the Republic of Slovenia over the last five years, EUR million

YEAR	SURPLUS	STATUTORY CONTRIBUTIONS TO THE BUDGET OF THE REPUBLIC OF SLOVENIA	CONTRIBUTION TO THE BUDGET OF THE REPUBLIC OF SLOVENIA
2014	74,8	18,7	60,0
2015	54,0	13,5	40,5
2016	57,3	14,3	43,0
2017	70,7	17,7	17,7
2018	63,4	15,9	15,9
Total			177,1

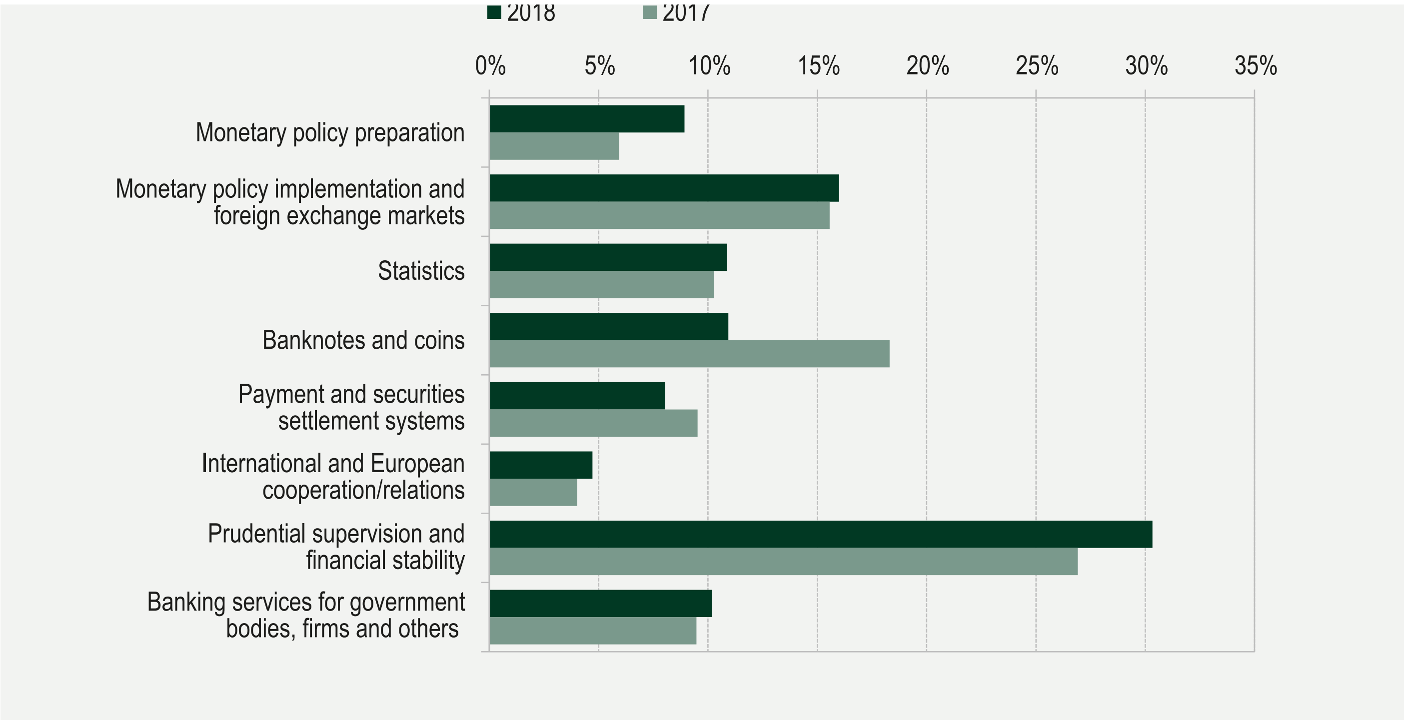
Source: Bank of Slovenia

6.4.3 Operating expenses

The Bank of Slovenia's operating expenses are the result of the implementation of its tasks set out by law. Figure 16 illustrates the percentage allocation of costs by task. In addition to direct costs, these include the imputed indirect costs of support functions (information technology, accounting, legal services and similar internal services).

Operating expenses amounted to EUR 37.7 million in 2018, up EUR 0.1 million on the previous year.

Figure 16: Itemisation of costs by individual task



Source: Bank of Slovenia

Staff costs make up the majority (65%) of the Bank of Slovenia's operating expenses. They include costs of wages and salaries and other labour costs together with the corresponding taxes and social security contributions, and amounted to EUR 24.6 million in 2018 (2017: EUR 22.8 million). The increase is the result of a rise in the basic wage in accordance with the Agreement on the indexation of the basic wage for the period 2017 to 2018, the introduction of organisational changes, and changes in staff qualification structure due to turnover and promotions.

Banknote printing costs, depreciation of tangible and intangible fixed assets and other expenses amounted to EUR 13.0 million, down EUR 1.7 million on 2017. The most important factor was a decline of EUR 3.0 million in banknote printing costs; the amount of banknote printing depends on the production allocation agreed at Eurosystem level. Depreciation and other expenses were up EUR 1.3 million on the previous year.

Table 7: Year-end balance sheet, 2014 to 2018, EUR million

ASSETS	2014	2015	2016	2017	2018
1. Gold and gold receivables	101	100	112	111	115
2. Claims on non-euro-area residents denominated in foreign currency	734	685	591	630	699
3. Claims on euro area residents denominated in foreign currency	139	220	260	152	94
4. Claims on non-euro-area residents denominated in euro	1.022	1.059	1.217	1.199	1.224
5. Lending to euro area credit institutions related to monetary policy operations denominated in euro	1.098	901	714	1.142	1.102
6. Other claims on euro area credit institutions denominated in euro	230	51	201	2	0
7. Securities of euro area residents denominated in euro	2.552	4.999	8.274	10.656	11.290
8. General government debt denominated in euro	-	-	-	-	-
9. Intra-Eurosystem claims	4.774	1.948	956	282	1.564
10. Items in course of settlement	-	-	-	-	-
11. Other assets	204	291	340	325	342
Total assets	10.854	10.254	12.666	14.498	16.429

LIABILITIES	2014	2015	2016	2017	2018
1. Banknotes in circulation	4.615	4.892	5.085	5.286	5.559
2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	1.434	1.627	2.249	2.939	3.391
3. Other liabilities to credit institutions denominated in euro	8	4	3	-	-
4. Debt certificates issued	-	-	-	-	-
5. Liabilities to other euro area residents denominated in euro	2.847	1.743	2.018	2.531	3.780
6. Liabilities to non-euro-area residents denominated in euro	10	16	20	73	63
7. Liabilities to euro area residents denominated in foreign currency	94	60	78	56	5
8. Liabilities to non-euro-area residents denominated in foreign currency	-	-	-	-	-
9. Counterpart of special drawing rights allocated by the IMF	257	275	275	256	262
10. Intra-Eurosystem liabilities	-	-	1.223	1.646	1.502
11. Items in course of settlement	-	-	-	1	-
12. Other liabilities	114	155	147	113	137
13. Provisions	409	423	457	515	594
14. Revaluation accounts	116	122	151	94	103
15. Capital and reserves	874	882	903	917	970
16. Surplus of income over expenses for the current year	75	54	57	71	63
Total liabilities	10.854	10.254	12.666	14.498	16.429

Source: Bank of Slovenia

Table 8: Profit and loss account, 2014 to 2018, EUR million

	2014	2015	2016	2017	2018
1. Net interest income	69	58	78	105	133
2. Net result of financial operations, write-downs and risk provisions	11	-0	-22	-38	-84
3. Net income from fees and commissions	4	3	6	8	10
4. Other income	22	23	29	33	42
5. Operating expenses	-31	-31	-33	-38	-38
Surplus of income over expenses for the current year	75	54	57	71	63

Source: Bank of Slovenia

6.4.4 Human resources

In the exercise of its public powers and tasks, staff at the Bank of Slovenia endeavour to uphold the highest standards of ethical conduct, in line with the common guidelines and values established within the framework of the ESCB and the ECB. Upholding these standards is an essential prerequisite for building and maintaining the public's trust in the sound and reliable governance of the Bank of Slovenia in carrying out its tasks. The Bank of Slovenia has set out fundamental rules of conduct for staff in the form of the Code of Ethics of the Bank of Slovenia, which maintains and strengthens independence, objectivity and expertise in the performance of its tasks.

The Bank of Slovenia has put in place an independent compliance officer.

The Code of Ethics also put in place the function of Compliance Officer, who ensures that staff conduct complies with the applicable regulations in connection with independence and integrity, and professional ethical rules. The compliance function is independent in its work, and is directly answerable to the Governor.

One of the fundamental objectives of the compliance function is strengthening integrity and reputation. Staff members are thus required to consistently draw attention to and report circumstances relating to their personal interests that affect or indicate impartial and objective performance of their professional duties at the Bank of Slovenia. Additionally, staff members are also required to obtain the prior permission of the compliance officer for any private activities associated with the Bank of Slovenia or its business processes or activities, irrespective of whether these private activities are paid or unpaid. The Bank of Slovenia has also put in place a procedure for reporting breaches by staff members, which allows staff members and external stakeholders to report a breach by a staff member in connection with the performance of his/her professional tasks.

In defining the fundamental principles and standards of professional ethics, the Code of Ethics follows the ECB guidelines governing the principles of the ethical framework for the implementation of monetary policy and prudential supervision. Bank of Slovenia representatives involved in the work of ECB bodies or the work or other EU institutions are also bound by the codes of conduct and ethical standards set out by the aforementioned institutions and their bodies.

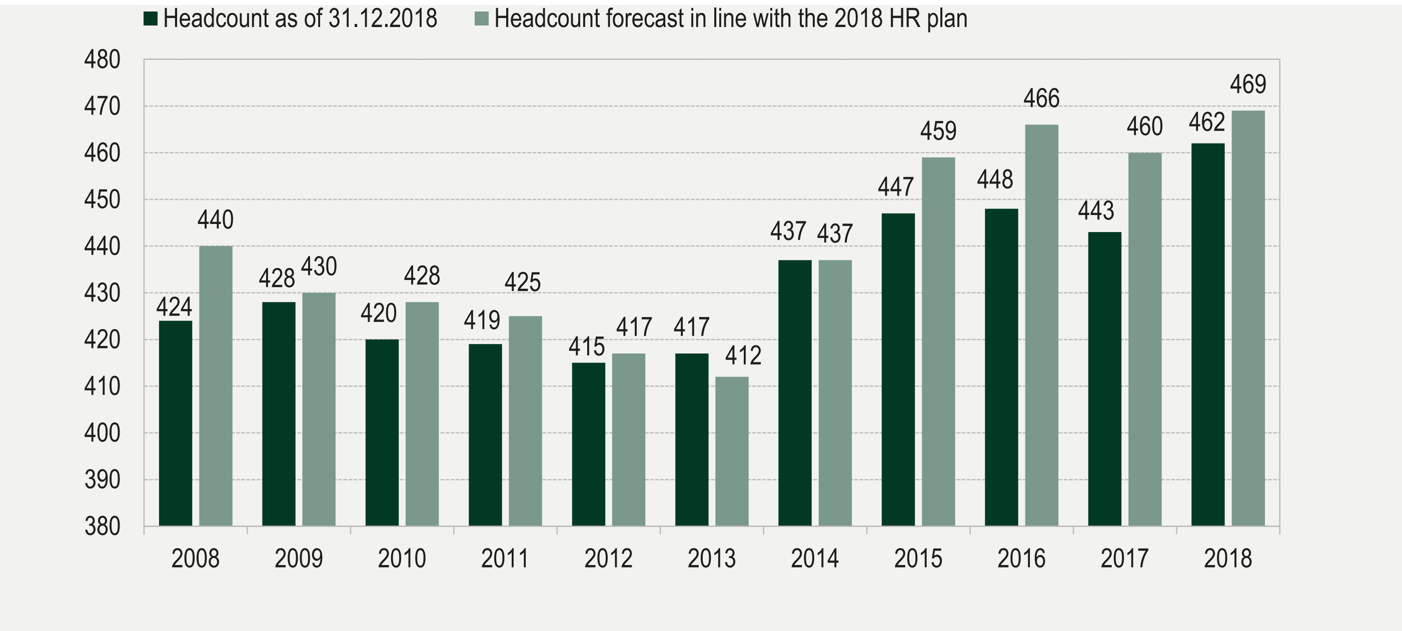
In its HR development the Bank of Slovenia followed the Strategy of the Bank of Slovenia for 2015-2020, which defines effective and efficient functioning and operations as one of the fundamental objectives, with flexible organisation and highly motivated staff.

The Bank of Slovenia's HR work in 2018 focused on the digitalisation of processes, on staff development and training, and on talent management. It continued to carry out measures within the framework of its Family-Friendly Enterprise certification, and has been again recognised as one of the most eminent employers in the country in 2018, and received recognition from MojeDelo.com as the most reputable employer in banking, accounting and finance. As far as efficiency is concerned, an important step was made in 2018 with the introduction of Documentation Management System, a paperless office tool, which has been used by all Bank of Slovenia staff since mid-2018.

The Bank of Slovenia had a headcount of 462 as of 31 December 2018. Compared with the central banks of countries of comparable size (populations of up to 5 million), **the Bank of Slovenia ranks lowly in terms of the headcount per 10,000 inhabitants** (sixth position amongst eight countries). One of the Bank of Slovenia's principal business processes is conducting ongoing supervision, which is entirely in the staff domain at the Bank of Slovenia, and no help is hired from external institutions (which does not apply for all euro area NCBs). Excluding the figures for staff engaged in ongoing supervision, the Bank of Slovenia ranks seventh in terms of headcount.

In terms of the headcount per 10,000 inhabitants at all 19 NCBs, Slovenia is slightly below average in the euro area.

Figure 17: Headcount at the Bank of Slovenia at year end (actual and planned)

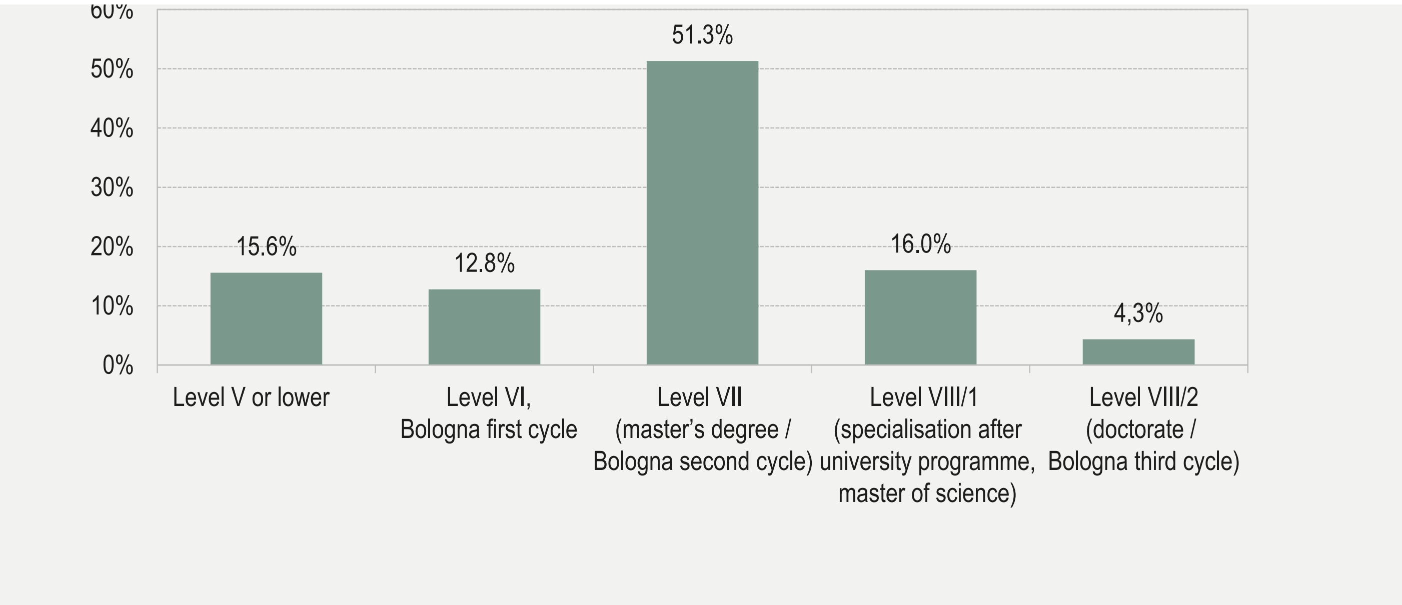


Source: Bank of Slovenia

The actual year-end headcount has been lower than the number forecast in the 2018 HR plan in all years other than 2013.

The gender breakdown remained relatively equal, and unchanged from the previous year (53% of the employees are women).

Figure 18: Breakdown of staff qualifications at the Bank of Slovenia, 31 December 2018



Source: Bank of Slovenia

The average age of staff members at the Bank of Slovenia was 44 years and 7 months at the end of 2018, having fallen by two months over the course of the year.

6.4.5 Risk management

In 2018 the Bank of Slovenia consolidated its risk management, which had previously been distributed, within a centralised integrated risk management function; only a comprehensive and integrated overview of risk reduces the likelihood of unexpected losses, damage in various forms, and uncertainties that can affect performance. The Risk Management Department was established as an independent business function in the autumn of 2018. In June 2018 the Governing Board adopted an updated strategic document in the form of the overall risk management framework, which identifies comprehensive risk management as one of the key corporate governance functions for ensuring safe and accountable operations. Risk management at the central bank is monitored and overseen on the basis of a structured systemic approach. The overall framework defines the principal types of risk that the Bank of Slovenia faces and manages. These are financial risks, operational risks, strategic risks and other (primarily exogeneous) risks.

Risk management at the Bank of Slovenia does not constitute an independent business process separate from the Bank of Slovenia's principal activities and processes, but instead constitutes an integral part of the senior management's responsibilities, and an integral part of all business processes, including strategic planning and all change management projects and processes. Activities to ensure that there is an effective risk management process are included in the business plans of all organisational units at the Bank of Slovenia.

The basic mission of the Risk Management Department is creating and enhancing the systemic business environment, and with it the conditions for all lines of defence against risk. The actions of the risk management system focus on supporting the Bank of Slovenia's decision-making bodies in the risk management process, primarily by providing structured comprehensive information on what the overall risk exposure is at any given moment, and how the Bank of Slovenia can continually actively manage/mitigate the identified risks in full.

The Bank of Slovenia is also aware of the interactions and complexities of individual types of risk. The risk management framework complies with the ISO 31000 international risk management standard, defines the main strategic elements of the risk management system, and represents the starting point for subordinate bylaws, policies, methodologies and guidance for managing the identified types of risk.

The risk management system is designed as a model based on three lines of defence against risks, as described by the overall risk management framework. The functioning of the system ensures the identification of risks that could endanger the realisation of the Bank of Slovenia's strategic and other objectives. The risk management framework defines the main strategic elements of the risk management system, and represents the starting point for subordinate bylaws, policies, methodologies and guidance for managing the identified types of risk.

Diagram 2: Three-level system of lines of defence against risk at the Bank of Slovenia

Source: Overall risk management framework at the Bank of Slovenia

The first line of defence consists of the organisational units whose business decisions actually manage the specific identified risks, and who are primarily responsible for implementing the policies in each area for managing individual types of risk.

The second line of defence consists of Bank of Slovenia committees, the Risk Management Department, and the compliance officer. The primary purpose of the committees is supporting the Governor or the Governing Board in regularly monitoring, coordinating and providing information about risk management. On the basis of the standard definition of the system, the Risk Management Department coordinates the functioning of sub-systems for managing financial, operational, strategic, IT, legal, project and other risks, and the Bank of Slovenia's various ways of responding to interruptions in business caused by contingencies (business continuity for various periods during contingencies). The compliance function at the Bank of Slovenia works within the framework of the internal control system, monitors the compliance of operations with legislation, internal regulations and other commitments, and briefs the Governor and the Governing Board accordingly.

The third line of defence consists of the Internal Audit Department and the Audit Committee. The Internal Audit Department conducts regular audits of the suitability and effectiveness of the governance process, risk management processes and internal control systems, and assurances of compliance. An extra layer of independent supervision is provided by the Audit Committee, which regularly reports on its findings to the Governing Board. The Risk Management Department reports to the Audit Committee on the functioning of the integrated risk management system.

The Governing Board is not a direct component of the lines of defence, but its decision-making and managerial role is key to the risk management system. The Governing Board is committed to putting in place a comprehensive and effective risk management system that reduces the occurrence of unforeseen consequences for the Bank of Slovenia. Annual reviews of the implementation of the overall framework are conducted by the Governing Board, which also discusses current issues of relevance to risk management.

6.5 COURT PROCEEDINGS

6.5.1 Administrative disputes

There were nine proceedings pending at the end of 2018, one of which involved the Bank of Slovenia as the plaintiff (a lawsuit against a decision by the Information Commissioner). The Bank of Slovenia is also an accessory participant in two disputes against a decision by the Information Commissioner. The Bank of Slovenia is the defendant in four cases challenging its decisions and resolutions, while a lawsuit against a Bank of Slovenia order on the disposal of shares and a lawsuit against a Bank of Slovenia decision in connection with a prohibition on the acceptance of deposits are also pending before the court. A total of 65 administrative disputes were concluded by the end of 2018. They mostly related to Bank of Slovenia decisions in connection with extraordinary measures. All the proceedings closed with the rejection of the lawsuits. Six of the concluded sets of proceedings related to disputes initiated by the Bank of Slovenia in connection with orders on the investigation of premises and on the seizure of electronic data and electronic devices seized during an investigation. The court of first instance rejected these Bank of Slovenia lawsuits, after which the Bank of Slovenia lodged appeals, but later withdrew them. Withdrawal orders were therefore issued.

6.5.2 Litigation

The Bank of Slovenia was involved in 118 pending litigation proceedings at the end of 2018, either as the defendant or co-defendant, or as an accessory participant. They related almost entirely to compensation claims by holders of qualified bank credit who were subject to extraordinary measures in 2013 and 2014. The court suspended 114 proceedings until the passage of legislation whose adoption by the National Assembly had been ordered by the Constitutional Court after an assessment of the legal basis for the imposition of the extraordinary measures. Proceedings involving different claims (e.g. petitions to declare the entry of the extraordinary measures and bank recapitalisations in the companies register null and void, finding of the cancellation of shares as null and void) were not suspended, and remain pending before the court. Ten cases of litigation involving the Bank of Slovenia were concluded, all in favour of the Bank of Slovenia (the lawsuits were withdrawn in four cases, while the court ruled in six cases). All of the proceedings related to disputes in connection with extraordinary measures: five proceedings related to the nullity of entries in the companies register, one to trespass to goods (securities), one to the cancellation of a contract, and three to the payment of compensation.

6.5.3 Requests for judicial protection: misdemeanours proceedings

Two court cases were pending at the end of 2018 with regard to misdemeanours decisions issued by the Bank of Slovenia.

6.5.4 Bankruptcy proceedings

The Bank of Slovenia is involved in three bankruptcy proceedings as a creditor.

6.5.5 Proceedings before the Constitutional Court

There are no pending cases before the Constitutional Court of the Republic of Slovenia. The case in connection with the request to review the constitutionality of the ZBS-1 has been withdrawn.

7 FINANCIAL STATEMENTS OF THE BANK OF SLOVENIA FOR THE YEAR 2018

2018
Slovenija
100
euro

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 to 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 of Slovenia will continue in business.

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

Building a better
working world

This is a translation of the original report in Slovene language

INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the Bank of Slovenia

Opinion

We have audited the financial statements of Bank of Slovenia, which comprise the balance sheet as at December 31 2018, 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 2018 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 of the Bank of Slovenia 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 of the Bank of Slovenia 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 of the Bank of Slovenia with monitoring of preparation of the financial statements.

In preparing the financial statements, Governing Board of the Bank of Slovenia 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;

Building a better working world

- 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;

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

- conclude on the appropriateness of the Governing Board of the Bank of Slovenia'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, 20.3.2019

Primož Kovačič
Associate Partner
Ernst & Young d.o.o.
Dunajska 111, Ljubljana

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

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 the 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, on the day of introduction of the euro as the Republic of Slovenia's currency, 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 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, with 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;

---

[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 2018 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, and 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 securities held for monetary policy purposes and 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 2018, mid-market prices on 31 December 2018 were used.

Marketable securities classified as held-to-maturity and non-marketable securities are all valued at amortised cost subject to impairment. Illiquid equity shares and any other equity instruments held as permanent investments are valued at cost, subject to impairment.

Securities lending transactions under automated security lending contracts are concluded as part of the management of the Bank of Slovenia's assets. Securities lent by the Bank of Slovenia are collateralised. Income resulting from lending operations is included in the profit and loss account. Automated securities 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:

	2018	**2017**
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 related to disposal of fixed assets are determined as the difference between the 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 the 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 size of EU member states 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 of capital in the ECB and must be adjusted every five years under the Statute of the ESCB and of the ECB, and every time a new country joins EU.

The Eurosystem key is an individual NCB's share in the total key held by Eurosystem members and is used as the basis for allocation of monetary income, 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

[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, Decision of the European Central Bank of 27 November 2014 (ECB/2014/49), OJ L 50, 21.02.2015, p. 42-43 and Decision of the European Central Bank of 29 November 2018 (ECB/2018/31), OJ L 9, 11.01.2019, p. 194-195.

[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.

remunerated[6] intra-Eurosystem balances. These claims or liabilities are disclosed under the sub-item 'Intra Eurosystem: Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Intra-ESCB balances/Intra-Eurosystem balances' in the notes on accounting policies).

From the cash changeover year[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 Latvijas Banka (in 2014) and Lietuvos bankas (in 2015) and will terminate at the end of 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.

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[9] 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 distributions 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/liability under 'Net claims/net liabilities related to the allocation of euro banknotes within the Eurosystem' (see 'Banknotes in circulation' in the notes on accounting policies).

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 distributed in January of the following year by means of an interim profit distribution, unless otherwise decided by the Governing Council[10]. It is distributed in full unless it is higher than the ECB’s net profit for the year, and

---

[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.

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

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

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 reduce the amount of the income on euro banknotes in circulation to be distributed in January by the amount of the costs incurred by the ECB in connection with the issue and handling of euro banknotes.

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

Provisions
Provisions are recognised when the Bank of Slovenia has a present legal or other 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 49.a 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 they should, together with the unrealised exchange rate differences, securities valuation effects and gold valuation effects, exceed 20% of identified net income. With the amendment of the Accounting Guideline, which entered into force as at the end of 2012, the legal background was also given for the creation of provisions for credit risks. The relevant amount of provisions 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 the 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. The Bank of Slovenia also creates provisions based on the calculation of interest sensitivity gap. 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.

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 the 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 the interest income and are amortised over the remaining life of the securities according to the internal rate of return (IRR) method.

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

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

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

The market prices and rates applied in the opening balance sheet as at 1 January 2007 were considered as the opening average cost of 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 account nor 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.

Pursuant to Article 28 of the Statute of the ESCB and the ECB, the ESCB national central banks are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29 of the ESCB Statute and which must be adjusted every five years. The most recent such adjustment took effect on 1 January 2019. As a result, the Bank of Slovenia's share in the fully paid-up capital of the ECB decreased from 0.4908% to 0.4828% on 1 January 2019.

Cash flow statement
Taking into account of the Bank of Slovenia's role as a central bank, publishing 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. Should the net loss arise 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 d. o. o., Ljubljana, who were appointed as the external auditor of the Bank of Slovenia for the financial years 2018 to 2020.

Balance Sheet as at 31 December 2018

ASSETS (thousands of euro)		Note number	31 December 2018	31 December 2017
1	**Gold and gold receivables**	1	**114,579**	**110,584**
2	**Claims on non-euro area residents denominated in foreign currency**	2	**698,893**	**629,664**
2.1	Receivables from the IMF		372,278	337,790
2.2	Balances with banks and security investments, external loans and other external assets		326,615	291,874
3	**Claims on euro area residents denominated in foreign currency**	3	**93,856**	**152,099**
4	**Claims on non-euro area residents denominated in euro**	4	**1,223,816**	**1,198,580**
4.1	Balances with banks, security investments and loans		1,223,816	1,198,580
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	**1,101,600**	**1,141,600**
5.1	Main refinancing operations		-	-
5.2	Longer-term refinancing operations		1,101,600	1,141,600
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	**455**	**1,616**
7	**Securities of euro area residents denominated in euro**	7	**11,290,248**	**10,656,457**
7.1	Securities held for monetary policy purposes		9,999,118	9,250,019
7.2	Other securities		1,291,130	1,406,439
8	**General government debt denominated in euro**		-	-
9	**Intra-Eurosystem claims**	8	**1,564,008**	**282,420**
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		-	-
9.5	Other claims within the Eurosystem (net)		1,281,588	-
10	**Items in course of settlement**		-	-
11	**Other assets**	9	**342,045**	**325,184**
11.1	Coins of euro area		991	2,397
11.2	Tangible and intangible fixed assets		40,444	37,009
11.3	Other financial assets		51,681	50,963
11.4	Off-balance sheet instruments revaluation differences		4,069	116
11.5	Accruals and prepaid expenses		166,018	169,061
11.6	Sundry		78,841	65,639
12	**Loss for the year**		-	-
Total assets			**16,429,499**	**14,498,204**

* Only an ECB balance sheet item

	LIABILITIES (thousands of euro)	Note number	31 December 2018	31 December 2017
1	**Banknotes in circulation**	**10**	**5,558,570**	**5,285,783**
2	**Liabilities to euro area credit institutions related to monetary policy operations denominated in euro**	**11**	**3,391,330**	**2,938,810**
2.1	Current accounts (covering the minimum reserve system)		3,391,330	2,938,810
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**		**-**	**-**
4	**Debt certificates issued**		**-**	**-**
5	**Liabilities to other euro area residents denominated in euro**	**12**	**3,779,858**	**2,531,394**
5.1	General government		3,703,722	2,520,551
5.2	Other liabilities		76,135	10,844
6	**Liabilities to non-euro area residents denominated in euro**	**13**	**62,717**	**72,884**
7	**Liabilities to euro area residents denominated in foreign currency**	**14**	**4,595**	**56,486**
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**	**15**	**262,383**	**256,381**
10	**Intra-Eurosystem liabilities**	**16**	**1,502,442**	**1,646,259**
10.1	Liabilities equivalent to the transfer of foreign reserves*		-	-
10.2	Liabilities related to promissory notes backing the issuance of ECB debt certificates		-	-
10.3	Net liabilities related to the allocation of euro banknotes within the Eurosystem		1,502,442	241,384
10.4	Other liabilities within the Eurosystem (net)		-	1,404,874
11	**Items in course of settlement**	**17**	**-**	**1,165**
12	**Other liabilities**	**18**	**136,616**	**112,829**
12.1	Off-balance sheet instruments revaluation differences		20,967	10,194
12.2	Accruals and income collected in advance		21,235	16,489
12.3	Sundry		94,414	86,146
13	**Provisions**	**19**	**593,836**	**514,592**
14	**Revaluation accounts**	**20**	**103,484**	**93,729**
15	**Capital and reserves**	**21**	**970,223**	**917,172**
15.1	Capital		8,346	8,346
15.2	Reserves		961,877	908,827
16	**Profit for the year**		**63,446**	**70,719**
Total liabilities			**16,429,499**	**14,498,204**

* Only an ECB balance sheet item

Profit and Loss Account for the year ended 31 December 2018 and 2017

	(thousands of euro)	Note number	2018	2017
1.1	Interest income		145,497	114,368
1.2	Interest expense		-12,329	-9,245
1	**Net interest income**	**25**	**133,168**	**105,123**
2.1	Realised gains/losses arising from financial operations		4,274	21,434
2.2	Write-downs on financial assets and positions		-9,054	-2,364
2.3	Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks		-79,188	-56,796
2	**Net result of financial operations, write-downs and risk provisions**	**26**	**-83,968**	**-37,726**
3.1	Fee and commission income		12,509	11,172
3.2	Fee and commission expense		-2,956	-2,845
3	**Net income from fees and commissions**	**27**	**9,553**	**8,327**
4	Income from equity shares and participating interests	28	7,655	6,477
5	Net result of pooling of monetary income	29	32,619	23,499
6	Other income	30	2,072	2,546
	Total net income		**101,098**	**108,247**
7.1	Staff costs		-24,637	-22,780
7.2	Administrative expenses		-7,998	-7,653
7.3	Depreciation of tangible and intangible fixed assets		-2,628	-2,289
7.4	Banknote production services		-721	-3,743
7.5	Other expenses		-1,668	-1,063
7	**Total operating expenses**	**31**	**-37,653**	**-37,527**
8	**Profit for the year**	**32**	**63,446**	**70,719**

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

The unaudited financial statements were approved by the Governing Board on 5 March 2019 and these audited financial statements were approved by the Governing Board on 2 April 2019 and were signed on its behalf by:

Boštjan Vasle, M. Sc.
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 stock of gold held at the Bank of Slovenia, the Bank of Slovenia's gold holdings consist of deposits with foreign banks. In the annual accounts, gold is valued on the basis of the euro price per fine ounce (ozf) derived from the quotation in USD established at the London fixing on 31 December 2018. This price, communicated by the ECB, amounts to EUR 1,120.961 per ounce of fine gold compared to EUR 1,081.881 on 29 December 2017. Unrealised positive valuation effects of EUR 65.2 million were disclosed under the liability balance sheet item 'Revaluation accounts'.

	000 EUR	Fine troy ounces
Balance as at 31 December 2016	112,364	102,330
Underdelivery of gold in 2017 (gold deposit transactions)	-56	-116
Revaluation of gold stock as at end of 2017	-1,724	-
Balance as at 31 December 2017	**110,584**	**102,214**
Overdelivery of gold in 2018 (gold deposit transactions)	0	0
Revaluation of gold stock as at end of 2018	3,995	-
Balance as at 31 December 2018	**114,579**	**102,215**

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

This item includes holdings of SDRs allocated by the IMF and the 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 and special drawing rights. It is remunerated by the IMF at a remuneration rate that is updated weekly.

The reserve tranche corresponds to the difference between quota of the Republic of Slovenia in the IMF and the IMF's euro holdings with the Bank of Slovenia. 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 average of exchange rates of five currencies (USD, GBP, JPY, EUR and CNY).

All claims in the balance sheet are shown on the basis of the market rate of SDR 1 = EUR 1.2154 (29 December 2017: SDR 1 = EUR 1.1876) 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 the SDR was above the average cost and positive valuation effects were therefore recognised in accordance with the accounting rules in the liability balance sheet item 'Revaluation accounts'.

	31 December 2018		31 December 2017		Change	
	000 SDR	000 EUR	000 SDR	000 EUR	000 SDR	000 EUR
Quota	586,500	712,832	586,500	696,527	-	16,305
less IMF holdings of euro	-478,539	-581,616	-499,888	-593,667	21,349	12,051
Reserve tranche at the IMF	107,961	131,216	86,612	102,861	21,349	28,355
SDR Holdings	198,339	241,062	197,818	234,929	521	6,133
Total	**306,301**	**372,278**	**284,431**	**337,790**	**21,870**	**34,488**

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 the market exchange rates on 31 December 2018.

Breakdown of foreign currency assets by type of investment:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	731	1,075	-344
Time deposits	215	12,507	-12,292
Securities	325,669	278,292	47,378
Total	**326,615**	**291,874**	**34,742**

Breakdown of foreign currency assets by currency:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
USD	326,292	291,593	34,699
Other currencies	324	281	43
Total	**326,615**	**291,874**	**34,742**

Breakdown of securities according to their residual maturity:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	6,971	-	6,971
>1 year and ≤5 years	162,491	124,704	37,787
> 5 years	156,207	153,588	2,619
Total	**325,669**	**278,292**	**47,378**

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 2018.

Breakdown of foreign currency assets by type of investment:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	32	36	-4
Time deposits	20,087	17,510	2,577
Securities	73,736	134,554	-60,817
Total	**93,856**	**152,099**	**-58,244**

Breakdown of foreign currency assets by currency:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
USD	93,856	152,099	-58,244
Total	**93,856**	**152,099**	**-58,244**

Breakdown of securities according to their residual maturity:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	44,171	77,068	-32,897
>1 year and ≤5 years	15,777	48,240	-32,463
> 5 years	13,789	9,246	4,542
Total	**73,736**	**134,554**	**-60,817**

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

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

Breakdown of euro denominated assets by type of investment:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Sight deposits	0	0	-
Securities	1,223,816	1,198,580	25,236
Total	**1,223,816**	**1,198,580**	**25,236**

Breakdown of securities according to their residual maturity:

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
≤ 1 year	245,125	153,990	91,136
>1 year and ≤5 years	955,070	1,038,811	-83,740
>5 years	23,620	5,779	17,841
Total	**1,223,816**	**1,198,580**	**25,236**

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 734,381 million (2017: EUR 764,310 million), of which the Bank of Slovenia holds EUR 1,102 million (2017: EUR 1,142 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, by decision of the Governing Council, 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.

Longer-term refinancing operations aim to provide counterparties with additional longer-term refinancing. In 2018, operations were conducted with maturities of 3 months. These operations were conducted as fixed rate tender with full allotment. Additionally, in 2016 the Governing Council introduced a series of four targeted longer-term refinancing operations (TLTRO II) conducted on full allotment basis. These operations have a four-year maturity, with a possibility of repayment after two years. According to the decisions taken by the Governing Council, the final interest rate applicable to each TLTRO-II operation depended on the lending behaviour of the counterparties for the period between 1 February 2016 and 31 January 2018. The actual rate was calculated in 2018 and was between the MRO rate and the deposit facility rate at the time of the allotment.

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Longer term refinancing operations	1,101,600	1,141,600	-40,000
Total	**1,101,600**	**1,141,600**	**-40,000**

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

This item, amounting to EUR 0.5 million, comprises claims on credit institutions which do not relate to monetary policy operations. Funds are invested in sight deposits.

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 two covered bonds purchase programmes (CBPP)[11], the securities markets programme (SMP)[12] and the public sector purchase programme (PSPP)[13].

Purchases under the first covered bond purchase programme were completed on 30 June 2010, while the securities markets programme was terminated on 6 September 2012.

In 2018 the Eurosystem continued its securities purchases under the expanded asset purchase programme (APP)[14], which includes the third covered bond purchase programme (CBPP3), the asset-backed security purchase programme (ABSPP)[15], the PSPP and the corporate sector purchase programme (CSPP)[16]. The monthly pace of combined net APP purchases by the NCBs and the ECB was EUR 30 billion on average until September 2018 and EUR 15 billion from October 2018 until the end of the year when the net purchases ended. The Eurosystem will continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The securities purchased under these programmes are valued on an amortised cost basis subject to impairment (see 'Securities held for monetary policy purposes' in the notes on accounting policies).

---

[11] 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 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, Decision of the European Central Bank of 11 January 2017 amending Decision ECB/2014/40 on the implementation of the third covered bond purchase programme (ECB/2017/2), OJ L 16, 20.1.2017, p. 53-54, Decision of the European Central Bank of 18 May 2017 amending Decision ECB/2014/40 on the implementation of the third covered bond purchase programme (ECB/2017/14), OJ L 190, 21.7.2017, p. 22-23 and Decision of the European Central Bank of 20 November 2017 amending Decision ECB/2014/40 on the implementation of the third covered bond purchase programme (ECB/2017/37), OJ L 312, 28.11.2017, p. 92.

[12] 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.

[13] 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, Decision of the European Central Bank of 5 November 2015 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme (ECB/2015/33), OJ L 303, 20.11.2015, p. 106-107, Decision of the European Central Bank of 16 December 2015 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme (ECB/2015/48), OJ L 344, 30.12.2015, p. 1-4, Decision of the European Central Bank of 18 April 2016 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme (ECB/2016/8), OJ L 121, 11.05.2016, p. 24-26 and Decision of the European Central Bank of 11 January 2017 amending Decision (EU) 2015/774 on a secondary markets public sector asset purchase programme (ECB/2017/1), OJ L 16, 20.01.2017, p. 51-52.

[14] Further details on the APP can be found on the ECB's website:
https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

[15] 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, Decision of the European Central Bank of 10 September 2015 amending Decision ECB/2014/45 on the implementation of the asset-backed securities purchase programme (ECB/2015/31), OJ L 249, 25.09.2015, p. 28-29, Decision of the European Central Bank of 11 January 2017 amending Decision ECB/2014/45 on the implementation of the asset-backed securities purchase programme (ECB/2017/3), OJ L 16, 20.01.2017, p. 55-56 and Decision of the European Central Bank of 18 May 2017 amending Decision ECB/2014/45 on the implementation of the asset-backed securities purchase programme (ECB/2017/15), OJ L 190, 21.07.2017, p. 24-25.

[16] 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 and Decision of the European Central Bank of 11 January 2017 amending Decision (EU) 2016/948 on the implementation of the corporate sector purchase programme (ECB/2017/4), OJ L 16, 20.1.2017, p. 57-58.

The amortised cost of the securities held by the Bank of Slovenia, as well as their market value[17] (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 2018		31 December 2017		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	15,995	16,722	28,008	29,586	-12,013	-12,863
Third covered bond purchase programme	823,098	825,221	938,414	950,639	-115,317	-125,418
Securities market programme	135,327	146,057	160,487	179,581	-25,160	-33,524
Public sector purchase programme	9,024,698	9,237,463	8,123,109	8,387,413	901,590	850,051
Total	**9,999,118**	**10,225,464**	**9,250,019**	**9,547,219**	**749,100**	**678,246**

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

	31 December 2018	31 December 2017	Change
	000 EUR	**000 EUR**	**000 EUR**
≤ 1 year	346,030	429,773	-83,743
>1 year and ≤5 years	2,483,147	2,584,542	-101,395
> 5 years	7,169,941	6,235,703	934,238
Total	**9,999,118**	**9,250,019**	**749,100**

The Governing Council 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 CBPP, SMP, ABSPP, PSPP and CSPP securities amounts to EUR 2,651,281 million (2017: EUR 2,386,012 million), of which the Bank of Slovenia holds EUR 9,999 million (2017: EUR 9,250 million). In accordance with the decision of the Governing Council taken under Article 32.4 of the Statute of the ESCB and the ECB, losses from holdings of SMP, CBPP3, ABSPP and CSPP securities and PSPP securities issued by an international organisation or a multilateral development bank, if they were to materialise, are shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

As a result of an impairment test conducted on the CSPP portfolio, the Governing Council has deemed it appropriate to establish a buffer against credit risks in monetary policy operations during 2018 (see 'Provisions' in the notes to the balance sheet).

In the context of the impairment test conducted as at the end of 2018 on securities purchased under the CBPP, SMP, ABSPP and PSPP, the Governing Council identified two impairment indicators, related to the holdings of ABSPP and CBPP3 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 on the holdings of securities under the CBPP, SMP, ABSPP and PSPP.

[17] 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.

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 2018	31 December 2017	Change
	000 EUR	**000 EUR**	**000 EUR**
Marketable securities other than those held to maturity	1,263,652	1,378,707	-115,055
Held-to-maturity securities	27,478	27,732	-254
Total	**1,291,130**	**1,406,439**	**-115,309**

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 2018	31 December 2017	Change
	000 EUR	**000 EUR**	**000 EUR**
≤ 1 year	218,161	315,441	-97,280
>1 year and ≤5 years	833,926	823,144	10,782
> 5 years	239,043	267,854	-28,811
Total	**1,291,130**	**1,406,439**	**-115,309**

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 2018 is as follows:

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

In accordance with 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 the 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.

	31.12.2018
	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 amounting to EUR 200.2 million 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 9.5 '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 payable, including the amount due to the Bank of Slovenia from the ECB in respect of the ECB’s interim profit distribution.

	31 December 2018	**31 December 2017**	**Change**
	000 EUR	**000 EUR**	**000 EUR**
Due from the ECB in respect of TARGET2 balances	1,242,669	-	1,242,669
Due from the ECB in respect of monetary income	33,071	-	33,071
Due from the ECB in respect of the ECB interim profit distribution	5,848	-	5,848
Total	**1,281,588**	**-**	**1,281,588**

The year-end net transfers via TARGET2 had a debit balance of EUR 1,242.7 million. The remuneration of this position is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for the 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 NCBs, had a debit balance of EUR 33.1 million at year-end (see 'Net result of pooling of monetary income' in the notes to the profit and loss account).

In 2018, following a decision by the Governing Council, the amount due to euro area NCBs with respect to the ECB’s interim profit distribution was EUR 1,191 million (see 'ECB profit distribution' in accounting policies).

The related amount due to the Bank of Slovenia as at 31 December 2018 was EUR 5.8 million (see 'Income from equity shares and participating interests' in the profit and loss account).

9. Other assets

The Bank of Slovenia's holding of coins, issued by the Republic of Slovenia, are shown in sub-item 11.1 'Coins of euro area' in the amount of EUR 1.0 million.

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 2017	**31, 330**	**26,876**	**58,206**
Additions	4,166	1,948	6,114
Disposals	-	1,091	1,091
At 31 December 2018	**35,496**	**27,732**	**63,229**
Depreciation			
At 31 December 2017	**1,053**	**20,144**	**21,197**
Disposals	-	1,086	1,086
Charge for the year	284	2,389	2,673
At 31 December 2018	**1,338**	**21,447**	**22,785**
Net book value			
At 31 December 2017	**30,277**	**6,732**	**37,009**
At 31 December 2018	**34,159**	**6,285**	**40,444**

As at 31 December 2018 an amount of EUR 12.4 million related to investment properties in Austria is included in land and buildings (2017: EUR 12.4 million).

Sub-item 11.3 'Other financial assets' amounting to EUR 51.7 million 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' amounting to EUR 4.1 million includes the positive revaluation effects arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account, and the valuation results of foreign exchange spot transactions agreed in 2018 which are to be settled in the subsequent year.

Sub-item 11.5 'Accruals and prepaid expenses' amounting to EUR 166.0 million contains the accrued income identified at 31 December 2018. This consists mainly of interest income which is due in the subsequent financial year.

Sub-item 11.6 'Sundry' amounting to EUR 78.8 million 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 2018, the total value of banknotes in circulation within the Eurosystem increased by 5.2%. According to the allocation key, the Bank of Slovenia had euro banknotes in circulation worth EUR 5,558.6 million at the end of the year (compared with EUR 5,285.8 million at the end of 2017). The value of the euro banknotes actually issued by the Bank of Slovenia in 2018 increased by 27.8% from EUR 5,527.2 million to EUR 7,061.0 million. As this was more than the allocated amount, the difference of EUR 1,502.4 million (compared to EUR 241.4 million at the end of 2017) is shown under liability sub-item 10.3 'Net liabilities related to the allocation of euro banknotes within the Eurosystem'.

	31 December 2018	31 December 2017	Change
	000 EUR	**000 EUR**	**000 EUR**
Total value of euro banknotes put into circulation by the Bank of Slovenia	7,061,012	5,527,167	1,533,846
Liability resulting from the ECBs share of euro banknotes in circulation	-483,418	-459,695	-23,724
Claim/liability according to the Bank of Slovenia's weighting in the ECB's capital key	-1,019,024	218,310	-1,237,335
Total banknotes in circulation	**5,558,570**	**5,285,783**	**272,787**

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

	31 December 2018	31 December 2017	Change
	000 EUR	**000 EUR**	**000 EUR**
EUR 5	-87,447	-73,911	-13,536
EUR 10	864,280	748,732	115,547
EUR 20	4,945,164	4,559,857	385,307
EUR 50	1,142,887	301,488	841,399
EUR 100	-734,667	-778,767	44,100
EUR 200	-136,811	-192,064	55,253
EUR 500	1,067,607	961,832	105,776
Total value of euro banknotes put into circulation by the Bank of Slovenia	**7,061,012**	**5,527,167**	**1,533,846**

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

Current accounts contain the credit balances on the reserve accounts with the national central bank of credit institutions that are required to hold minimum reserves. The average balance on the banks' accounts during the maintenance period are, up to the amount of calculated minimum reserves, remunerated at the average marginal interest rate of the main refinancing operations in the maintenance period. Since June 2014, the reserve holdings exceeding the required minimum reserves are remunerated at zero per cent or the deposit facility rate, whichever is lower.

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Current accounts (covering the minimum reserve system)	3,391,330	2,938,810	452,520
Total	**3,391,330**	**2,938,810**	**452,520**

12. 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, by resolution fund and by deposit guarantee fund.

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Government sight deposits and special funds	3,441,299	2,269,592	1,171,707
Other public sector deposits	262,423	250,959	11,465
Total	**3,703,722**	**2,520,551**	**1,183,172**

Sub-item 5.2 'Other liabilities' includes accounts of Central Securities Clearing Corporation and stock exchange market customers' accounts.

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

Balance sheet item 'Liabilities to non-euro area residents denominated in euro' amounting to EUR 62.7 million contains cash received as collateral in connection with the APP securities lending as well as euro balances of international and supranational organisations. The IMF account No. 2 is also included in this balance sheet item.

14. Liabilities to euro area residents denominated in foreign currency

This item amounting to EUR 4.6 million contains the foreign currency sight and fixed-term deposits of central government and the government's special funds.

15. Counterpart of special drawing rights allocated by the IMF

This item amounting to EUR 262.4 million represents the liability of the Bank of Slovenia towards the 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 2018, the liability is shown in the balance sheet on the basis of the market rate of SDR 1 = EUR 1.2154 (29 December 2017: SDR 1 = EUR 1.1876) 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 2018 is solely due to valuation effects, i.e. the appreciation of the SDR against the euro.

16. Intra-Eurosystem liabilities

Sub-item 10.3 'Net liabilities 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).[18] The increase of net liability in comparison to 2017 (EUR 1,261 million) was due to the increase in banknotes put into circulation by Bank of Slovenia in 2018 (which represents an increase of 27.8%), as well as the rise in banknotes in circulation in the Eurosystem as a whole (increase of 5.2% compared to 2017). The remuneration of these liabilities is calculated daily at the latest available marginal interest rate used by the Eurosystem in its tenders for the main refinancing operations.

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 payable, 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 claim as at the end of 2018 (see 'Other claims within the Eurosystem (net)' in the notes to the balance sheet).

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Due to the ECB in respect of TARGET2 balances	-	1,433,560	-1,433,560
Due from the ECB in respect of monetary income	-	-23,837	23,837
Due from the ECB in respect of the ECB interim profit distribution	-	-4,848	4,848
Total	**-**	**1,404,874**	**-1,404,874**

17. Items in course of settlement

These liabilities comprise transactions that were not yet settled as at the end of the financial year (2018: no unsettled transactions; 2017: EUR 1.2 million).

18. Other liabilities

Sub-item 12.1 'Off-balance sheet instruments revaluation differences' amounting to EUR 21.0 million includes the negative revaluation effects arising from the forward legs of foreign currency swaps, which are recorded on off-balance-sheet account.

[18] 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'.

Sub-item 12.2 'Accruals and income collected in advance' amounting to EUR 21.2 million contains the accrued interest and other expenses identified at 31 December 2018, which are due in the new financial year or later but were incurred in the financial year just ended.

Sub-item 12.3 'Sundry' amounting to EUR 94.4 million consists mainly of fiduciary liabilities and non-returned tolar banknotes.

19. Provisions

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Provisions for employees and for known risks	18,045	15,854	2,191
Provisions for general risks	575,000	498,400	76,600
Provisions in respect of monetary policy operations	791	338	453
Skupaj	**593,836**	**514,592**	**79,244**

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's collective agreement, expected future salary increases, employee turnover and a rate to discount future obligations. Provisions are calculated based on actuarial assumptions as at 31 December 2018.

Provisions for known risks relate to potential liabilities of the Bank of Slovenia stemming from on- and off-balance sheet positions and potential liabilities arising from the performance of the tasks of the Bank of Slovenia. 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 being prepared, 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 2018.

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 2018, the total exposure to these risks increased significantly due to APP securities purchases (see 'Securities of euro area residents denominated in euro' in the notes to the balance sheet).

Provisions in respect of monetary policy operations

In 2017, a provision totalling EUR 69 million against losses in monetary policy operations was established in relation to a security held by a NCB of the Eurosystem. In accordance with Article 32.4 of the ESCB Statute, this provision was funded by all the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2017. As a result, the Bank of Slovenia created a provision of EUR 0.3 million equivalent to 0.4908% of the total provision. The size of the provision in the financial statements for the year 2017 was calculated taking into account the information regarding the sale of the security in January 2018 and therefore the loss realised in 2018 was fully covered by usage of the provision.

Furthermore, as a result of the impairment test conducted on CSPP portfolio, the Governing Council has deemed it appropriate to establish a buffer totalling EUR 161 million against credit risks in monetary policy operations during 2018. In accordance with Article 32.4 of the ESCB Statute, this buffer is funded by all the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2018. As a result, the Bank of Slovenia created a provision for EUR 0.8 million equivalent to 0.4908% of the total provision.

20. Revaluation accounts

The positive difference between the market value and the average acquisition costs in 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 13.1 million arose from the valuation of EUR denominated portfolio (2017: EUR 18.0 million) and EUR 1.1 million from the valuation of USD denominated assets (2017: EUR 1.0 million).

In the case of foreign currency positions, positive valuation effects of EUR 21.4 million arose from the valuation of USD position and EUR 2.6 million from the valuation of SDR position (2017: EUR 13.3 million from the valuation of USD position and EUR 0.2 million from the valuation of CHF position). The average acquisition cost of foreign currencies at the end of 2018 was USD 1.2599 for EUR and EUR 1.1926 for SDR (2017: USD 1.2751 for EUR and EUR 1.1974 for SDR), while the market rate was USD 1.1450 for EUR and EUR 1.2154 for SDR (2017: USD 1.1993 for EUR and EUR 1.1876 for SDR).

In the case of gold the acquisition cost was EUR 482.689 per fine ounce of gold at the end of 2018 (2017: EUR 482.688), compared to the market price at the end of 2018, which was EUR 1,120.961 per fine ounce of gold (2017: EUR 1,081.881). Market value of gold position exceeded its acquisition price and resulted in a positive valuation effects amounting to EUR 65.2 million (2017: EUR 61.2 million).

	31 December 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Price effect	14,178	18,975	-4,796
- securities in foreign currencies (asset items 2 and 3)	1,081	996	86
- securities in euro (asset items 4 and 7)	13,097	17,979	-4,882
Exchange rate effect	24,065	13,508	10,557
Gold valuation effect	65,241	61,246	3,995
Total	**103,484**	**93,729**	**9,755**

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. The 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 2018	31 December 2017	Change
	000 EUR	000 EUR	000 EUR
Initial capital of the Bank of Slovenia	8,346	8,346	-
General reserves	755,427	702,387	53,039
Special reserves for foreign exchange differences	174,214	174,214	-
Special reserves – price risk (gold)	19,736	19,736	-
Valorisation reserves	12,501	12,490	11
Total reserves	**970,223**	**917,172**	**53,050**

Notes to the off-balance-sheet items

22. Foreign currency swaps

As at 31 December 2018, the forward foreign currency position arising from EUR/foreign currency swap transactions amounts net to EUR 184.4 million (2017: EUR 171.3 million), of which forward liabilities amounts to EUR 229.0 million and forward claims to EUR 44.6 million.

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

	31 December 2018		31 December 2017		Change	
	000 USD	000 EUR	000 USD	000 EUR	000 USD	000 EUR
Forward liabilities in USD	262,200	228,996	205,500	171,350	56,700	57,646
Forward claims in USD	51,100	44,629	-	-	51,100	44,629
Total	**211,100**	**184,367**	**205,500**	**171,350**	**5,600**	**13,017**

23. Securities lending

As at 31 December 2018, securities with a market value of EUR 244.9 million (31 December 2017: EUR 266.4 million) were lent under automated security lending contracts with the agents. The collateral received was reinvested into reverse repo transactions, asset backed securities or deposited with the Bank of Slovenia.

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 2018:

- 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 546.1 million as at 31 December 2018 (31 December 2017: EUR 534.2 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 2017: 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 2017: EUR 172.8 million);

- contingent claim arising from the credit lines as an instrument of intraday liquidity provision, amounting to EUR 600.0 million, granted based on eligible collateral and by means of overdraft on participant's settlement accounts (31 December 2017: EUR 600.0 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 assets, interest income related to foreign currency swaps and other interest income. Negative interest expense generated by liabilities related to credit institutions, government and other clients' accounts and deposits is also disclosed under interest income.

	2018	2017	Change
	000 EUR	**000 EUR**	**000 EUR**
Gold	**142**	**176**	**-34**
Current accounts and deposits	**398**	**474**	**-76**
- in foreign currency	397	474	-77
- in euro	1	0	1
Securities	**114,512**	**89,239**	**25,273**
- in foreign currency	9,725	8,283	1,442
- in euro	104,787	80,956	23,831
IMF	**3,111**	**1,747**	**1,364**
Monetary policy operations	**-**	**0**	**0**
- other refinancing operations	-	0	0
Foreign currency swaps	**835**	**-**	**835**
Other interest income	**23**	**25**	**-3**
Negative interest expense	**26,476**	**22,706**	**3,769**
- current accounts of credit institutions	11,535	10,153	1,382
- government and other clients' accounts and deposits	14,941	12,554	2,387
Total	**145,497**	**114,368**	**31,129**

Interest expense

Interest expense arises from the liabilities in the form of government accounts and deposits, from the liabilities to the IMF and the interest expense related to foreign currency swaps. Interest expense also includes negative interest on longer-term refinancing operations as well as negative interest on sight deposits and fixed-term deposits abroad. Positive and negative interest accrued on the longer-term refinancing operations are disclosed in the net amount.

	2018	2017	Change
	000 EUR	000 EUR	000 EUR
Current accounts and deposits	**260**	**464**	**-204**
- in foreign currency	260	464	-204
IMF	**2,135**	**1,218**	**917**
Foreign currency swaps	**5,487**	**3,494**	**1,993**
Negative interest income	**4,447**	**4,069**	**379**
- longer-term refinancing operations	4,438	3,908	529
- sight and fixed-term deposits abroad	9	161	-151
Total	**12,329**	**9,245**	**3,084**

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' arises 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 2018 below the average cost of the respective currencies or securities. The valuation loss in 2018 mostly occurred on EUR and USD denominated securities.

In 2018 provisions for known risks arising from on-balance sheet positions were released in the amount of EUR 0.1 million. Provisions for risks arising from off-balance sheet positions were created in the amount of EUR 0.2 million on the basis of risk assessment (VaR). In accordance with the decision of the Governing Board of the Bank of Slovenia, provisions were created in the amount of EUR 2.4 million due to potential costs in relation to possible legal and audit procedures initiated against the Bank of Slovenia.

Transfer to provisions for general risks in the amount of EUR 76.6 million represents the net amount of additional provisions, created for potential losses from interest rate, price, exchange rate and credit risks as well as interest rate sensitivity gap (see 'Provisions' in the notes to the balance sheet).

	2018	2017	Change
	000 EUR	**000 EUR**	**000 EUR**
Realised gains/losses arising from financial operations			
Gold	0	83	-83
Currency position	3,267	8,609	-5,342
Securities	1,007	12,741	-11,734
Total	**4,274**	**21,434**	**-17,160**
Write-downs on financial assets and positions			
Currency position	-33	-924	891
Securities	-9,021	-1,440	-7,581
Total	**-9,054**	**-2,364**	**-6,690**
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks and other operational risks			
Provisions for known risks	-2,588	-1,696	-892
Provisions for general risks	-76,600	-55,100	-21,500
Total	**-79,188**	**-56,796**	**-22,392**
Total	**-83,968**	**-37,726**	**-46,242**

27. Net income from fees and commissions

Net income from fees and commissions amounts to EUR 9.6 million. Fees and commissions are mainly received from payment and settlement services, supervisory and regulatory functions, managing the Central Credit Register, management of the funds, processing of cash and from securities lending transactions.

28. Income from equity shares and participating interests

This item amounting to EUR 7.7 million 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 5.8 million (2017: EUR 4.8 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 2018, amounting to an income of EUR 33.1 million compared to the income of EUR 23.8 million in the previous year, together with the Bank of Slovenia's share of the provision against losses in monetary policy operations amounting to EUR 0.8 million, which was established in relation to a security held by an NCB of the Eurosystem in its CSPP portfolio. This item also contains the Bank of Slovenia's share in the realised loss in relation to the sale in 2018 of a security held by an NCB of the Eurosystem in its CSPP portfolio as well as the dissolving of the provision amounting to EUR 0.3 million, established in 2017 against losses in monetary policy operations portfolio (see 'Provisions' in the notes to the balance sheet).

The net income shown in this item amounted to EUR 32.6 million in comparison to the net income of EUR 23.5 million in 2017.

	2018	2017	Change
	000 EUR	000 EUR	000 EUR
Net monetary income pooled by the Bank of Slovenia	28,570	29,103	-533
Net monetary income allocated to the Bank of Slovenia	59,913	52,955	6,958
Monetary income reallocation for the year	**31,343**	**23,852**	**7,491**
Adjustments of monetary income reallocation for previous years	**1,729**	**-15**	**1,744**
Provisions in respect of monetary policy operations	**-453**	**-338**	**-115**
Total	**32,619**	**23,499**	**9,120**

The monetary income of the Eurosystem national central banks is allocated in accordance with the decision taken by the Governing Council of the ECB[19]. The amount of each Eurosystem NCB's monetary income is determined by measuring the annual income that derives 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.

Where the value of a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is allocated among the NCBs according to the subscribed ECB capital key. The pooling and reallocation of monetary income to NCBs leads to certain net reallocation effects. One reason is that the yields earned on certain earmarkable assets and the interest expense paid on certain liability base items may differ to a varying degree among the Eurosystem NCBs. In addition, usually each Eurosystem NCB's share of earmarkable assets and in the liability base deviates from its share in the subscribed capital of the ECB. The difference between the monetary income pooled by the Bank of Slovenia amounting to EUR 28.6 million and reallocated to the Bank of Slovenia amounting to EUR 59.9 million is the net result arising from the pooling of monetary income.

30. Other income

Other income amounting to EUR 2.1 million includes income from non-bank services like rental income, reimbursements, sales of fixed assets, numismatics and other income.

31. Operating expenses

Staff costs

Staff costs amounting to EUR 24.6 million include salaries and other staff costs together with the related taxes and contributions.

[19] 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.

The Bank of Slovenia employed 462 employees as at 31 December 2018 (31 December 2017: 443 employees). The average number of employees, based on the number of hours worked, stood at 428 employees (2017: 427 employees).

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 Bank of Slovenia's contribution to the Voluntary supplementary pension insurance of EUR 0.7 million (2017: EUR 0.7 million).

In 2018 the remuneration of the Governing board members of the Bank of Slovenia was of EUR 0.7 million (2017: EUR 0.7 million).

Administrative expenses

This item amounting to EUR 8.0 million 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, rent, 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 amounting to EUR 2.6 million is performed according to the adopted depreciation rates.

Banknote production services

Expenses for banknotes production services amounting to EUR 0.7 million 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 amounting to EUR 1.7 million consist 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 63.4 million (2017: EUR 70.7 million). Appropriation of the financial result will be performed in accordance with the Article 50 and Article 50.a of the Bank of Slovenia Act.

APPENDIX

Regulations and guidelines issued on the basis of the ZPlaSSIED

1. Regulation on the content of the request for the granting of an authorisation to provide payment services as a payment institution, to provide electronic money issuance services as an electronic money institution and to acquire a qualifying holding in a payment institution or an electronic money institution (Official Gazette of the Republic of Slovenia, Nos. 11/18 and 32/18), link.
2. Regulation on the capital of payment institutions, electronic money institutions and clearing houses (Official Gazette of the Republic of Slovenia, No. 11/18), link.
3. Regulation on the content of the request for the granting of an authorisation to operate a payment system as a clearing house (Official Gazette of the Republic of Slovenia, No. 11/18), link.
4. Regulation on payment systems and payment system operators (Official Gazette of the Republic of Slovenia, No. 11/18), link.
5. Regulation on the amounts of annual fees for supervision and fees for decisions regarding requests for the granting of Bank of Slovenia authorisation pursuant to the Payment Services, Electronic Money Issuance Services and Payment Systems Act (Official Gazette of the Republic of Slovenia, No. 11/18), link.
6. Regulation on the features of the basic payment account, and the method for calculating the appropriate fee for providing a basic payment account (Official Gazette of the Republic of Slovenia, No. 11/18), link.
7. Regulation on the reporting of information on fees for the provision of payment services (Official Gazette of the Republic of Slovenia, No. 29/18), link.
8. Guidelines for implementing the Regulation on the reporting of information on fees for the provision of payment services (Official Gazette of the Republic of Slovenia, No. 31/18), link.
9. Guidelines for reporting by payment system operators (Official Gazette of the Republic of Slovenia, No. 14/18), link.

Regulations issued for the application of guidelines issued by the EBA and European supervisory authorities (ESAs)

10. Regulation on the application of the Guidelines on the security measures for operational and security risks of payment services under Directive (EU) 2015/2366 (PSD2) (Official Gazette of the Republic of Slovenia, No. 11/18), link.
11. Regulation on the application of the Guidelines on major incident reporting under Directive (EU) 2015/2366 (PSD2) (Official Gazette of the Republic of Slovenia, No. 11/18), link.

12. Regulation on the application of the Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds (Official Gazette of the Republic of Slovenia, No. 11/18), link.
13. Regulation on the application of the Guidelines on procedures for complaints of alleged infringements of Payment Services Directive 2 (Official Gazette of the Republic of Slovenia, No. 13/18), link.
14. Regulation on the application of the Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions (Official Gazette of the Republic of Slovenia, No. 14/18), link.
15. Regulation on the application of the Joint Guidelines under Article 25 of Regulation (EU) 2015/847 on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information (Official Gazette of the Republic of Slovenia, No. 17/18), link.
16. Regulation on the application of the Guidelines on ICAAP and ILAAP information collected for SREP purposes (Official Gazette of the Republic of Slovenia, No. 17/18), link.
17. Regulation on the application of the Recommendation on the coverage of entities in a group recovery plan (Official Gazette of the Republic of Slovenia, No. 17/18), link.
18. Regulation on the application of the Guidelines on supervision of significant branches (Official Gazette of the Republic of Slovenia, No. 23/18), link.
19. Regulation on the application of the Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 (Official Gazette of the Republic of Slovenia, No. 29/18), link.
20. Regulation on the application of the Guidelines on Internal Governance (Official Gazette of the Republic of Slovenia, No. 33/18), link.
21. Regulation on the application of the Guidelines on the assessment of the suitability of members of the management body and key function holders (Official Gazette of the Republic of Slovenia, No. 33/18), link.
22. Regulation on the application of the Recommendations on outsourcing to cloud service providers (Official Gazette of the Republic of Slovenia, No. 37/18), link.
23. Regulation on the application of the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (Official Gazette of the Republic of Slovenia, No. 43/18), link.

24. Regulation on the application of the Recommendations on the equivalence of confidentiality regimes (Official Gazette of the Republic of Slovenia, No. 67/18), link.
25. Regulation on the application of the Guidelines on complaints-handling for the securities (ESMA) and banking (EBA) sectors (Official Gazette of the Republic of Slovenia, No. 81/18), link.
26. Regulation on the application of the Guidelines on reporting requirements for fraud data under Article 96(6) PSD2 (Official Gazette of the Republic of Slovenia, No. 84/18), link.
27. Regulation on the application of the Joint Guidelines under Article 25 of Regulation (EU) 2015/847 on the measures payment service providers should take to detect missing or incomplete information on the payer or the payee, and the procedures they should put in place to manage a transfer of funds lacking the required information (Official Gazette of the Republic of Slovenia, No. 17/18), link.
28. Regulation on the application of the Joint Guidelines under Articles 17 and 18(4) of Directive (EU) 2015/849 on simplified and enhanced customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk associated with individual business relationships and occasional transactions (Official Gazette of the Republic of Slovenia, No. 14/18), link.
29. The Regulation on the content of the request for the granting of an authorisation to provide payment services as a payment institution, to provide electronic money issuance services as an electronic money institution and to acquire a qualifying holding in a payment institution or an electronic money institution sets out the application of the Guidelines on the information to be provided for the authorisation of payment institutions and e-money institutions and for the registration of account information service providers under Article 5(5) of Directive (EU) 2015/2366, and the Guidelines on the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantee under Article 5(4) of Directive (EU) 2015/236 (Official Gazette of the Republic of Slovenia, Nos. 11/18 and 32/18), link.

ABBREVIATIONS

ABSPP
Asset-Backed Securities Purchase Programme

AML/CFT
Anti-money laundering / combating the financing of terrorism

AnaCredit
New database of detailed information on individual bank loans in the euro area (analytical credit datasets)

APP
Asset Purchase Programme

BAMC
Bank Asset Management Company

BAS
Bank Association of Slovenia

BIS
Bank for International Settlements

BoS
Bank of Slovenia

CBPP3
Third Covered Bond Purchase Programme

CEF
Centre for Excellence in Finance

CSDB
Centralised Securities Database

CSPP
Corporate Sector Purchase Programme

DSBS
Documentary System of the Bank of Slovenia

DSTI
Ratio of the annual costs of debt servicing to a borrower's annual income when a loan agreement is concluded (debt service to income)

EBA
European Banking Authority

EBRD
European Bank for Reconstruction and Development

ECB
European Central Bank

ECBN
European Central Banking Network

ECOFIN
Economic and Financial Affairs Council Configuration

EDIS
European Deposit Insurance Scheme

EDP
Reporting to Eurostat and the European Commission on excessive general government deficit and debt

EFC
Economic and Financial Committee

EFSI
European Fund for Strategic Investments

EIB
European Investment Bank

EIOPA
European Insurance and Occupational Pensions Authority

EMMI
European Money Markets Institute

EMU
Economic and Monetary Union

ESAs
European Supervisory Authorities

ESCB
European System of Central Banks

ESE
European Supervisor Education Initiative

ESMA
European Securities and Markets Authority

ESRB
European Systemic Risk Board

EWS
Early warning system

FATF recommendations
Financial Action Task Force Recommendations

Fed
Federal Reserve System of the United States

FSB
Financial Stability Board

FTP
Financial Transaction Plan

GDPR
General Data Protection Regulation

GLTDF
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 (gross loans to deposits flows)

HICP
Harmonised Index of Consumer Prices

ICAAP
Internal Capital Adequacy Assessment Process

ICAS BS
Internal credit assessment system of the Bank of Slovenia

ICPE
International Center for Promotion of Enterprises

IFRS 9
International Financial Reporting Standard 9

IMF
International Monetary Fund

IOSCO
International Organisation of Securities Commissions

IRB
Internal rating based approach

IRRBB
Interest rate risk in the banking book

ISA
Insurance Supervision Agency

JST
Joint Supervisory Team

KDD
Central Securities Clearing Corporation

LSIs
Less significant institutions

LTRO
Longer-term refinancing operation

LTV
Ratio of the amount of a housing loan to the value of the real estate pledged as loan collateral (loan-to-value)

MFIs
Monetary financial institutions

MOC
Market Operations Committee

MREL
Minimum requirements for own funds and eligible liabilities

MRO
Main refinancing operation

MSMEs
Micro, small and medium-size enterprises

NPC
National Payments Council

NPEs
Non-performing exposures

NPLs
Non-performing loans

OECD
Organisation for Economic Co-operation and Development

OGRS
Official Gazette of the Republic of Slovenia

OMLP
Office for Money Laundering Prevention

O-SIIs
Other systemically important institutions

PSPP
Public Sector Purchase Programme

RIAD
Register of Institutions and Affiliates Database

RMC
Risk Management Committee

RTGS
Real-Time Gross Settlement

SDR
Special drawing rights

SEPA
Single Euro Payments Area

SIs
Significant institutions

SISBIZ
System for the exchange of information on the indebtedness of business entities and credit risks

SISBON
System for the exchange of information on personal debt from credit operations

SMA
Securities Market Agency

SRB
Single Resolution Board

SREP
Supervisory Review and Evaluation Process

SRF
Single Resolution Fund

SRM
Single Resolution Mechanism

SSM
Single Supervisory Mechanism

STEP2-T
Pan-European payment system for executing SEPA credit transfers and SEPA direct debits

TARGET2
Trans-European Automated Real-Time Gross Settlement Express Transfer System

TARGET2-Securities (T2S)
Eurosystem single technical platform for the settlement of securities transactions

TLTRO and TLTRO-II
Targeted Longer-Term Refinancing Operations