



ZBS¹ Združenje bank Slovenije

Annual Report 2023



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Statement by the President of the Supervisory Board

In 2023, the global geopolitical tensions became more acute with implications for economic growth. On top of such geopolitical dynamics, we also witnessed the turbulences in the financial markets, primarily in the U.S. and in Switzerland, which have not spilled over to the financial systems of the EU Member States. The Member States' financial system or, more precisely, of the Economic and Monetary Union (EMU), has demonstrated a high level of resilience. As for the situation in Slovenia, the going was not even remotely so rough, given the fact that in the euro area, banking industry has been under much stricter control and regulatory regime and bound by tighter credit standards since the financial crisis (2008-2015) onward.

The consequence of the global situation, the Ukraine war and the energy crisis have spurred a surge in inflation leading eventually to the response by the ECB monetary policy in the area of interest rates. The ECB's interest rates had a positive effect on the record-high operating results of banks in Slovenia, given high excess liquidity of the Slovenian banking sector. Nevertheless, it was merely a cyclical and transitional event in carrying out monetary policy. Before that, we had to live with negative interest rates and, also due to excess liquidity, extremely low margins – unsustainable in the long term. The Slovenian banking system, unlike many other systems in the EMU, did not practically pass on the negative interest rates to customers or only to a very limited extend. During that period, return on equity (ROE) of even the largest European banks under the supervision of the ECB fluctuated around 5 per cent in the EA, which is not sufficient for sustainable operations over a long term.

As a result of high deposit growth that banks and savings banks cannot convert in the same amount to loans, the efficiency of the loan-to-deposit ratio is extremely low in Slovenia. In the case of the two largest banks in Slovenia, the LRD ratio is below 60 per cent, which means that the total amount of loans granted is considerably lower than the total deposits collected. Loan origination restrictions and relatively low demand for credit in particular by corporate borrowers as a consequence of several elements, of which among others also of the uncertainties of the business environment in addition to the structure of deposits being mostly sight deposits, have an additional impact on the gradual transmission of the ECB interest rates on short-term deposits. However, interest rates on medium-term term deposits are comparable to the EMU average rates and also margins will eventually start to fall.

Low margins and sluggish credit demand coupled with high regulatory operating costs have given impetus to consolidation in the banking sector in Slovenia and across Europe, which is still ongoing. True as it is that in 2023, the number of banks and savings banks in Slovenia remained the same, considering the operating conditions and changes in ownership, other mergers are foreseen and expected to take place in the future.

In 2023, we also saw in Slovenia the direct consequences of climate change when catastrophic flooding hit Slovenia, bringing solidarity and also the principles of environmental and social responsibility (ESG) to the fore.

The banking sector promptly reacted to the major natural disaster with the measures to provide support for those affected. The banking sector itself has suffered consequences in the form of material damage in bank branches and, in addition, a large number of persons employed in the banking sector was directly affected. The solidarity measures that followed after the first urgent measure – ensuring the continuity of operations and provide assistance to the affected employees – included immediate support for bank customers (both private individuals and legal entities) by offering the possibility of deferring loan repayments (the first step, then debt restructuring by taking into account specific needs of individual customers) and the possibility for arranging fast bridge loans.

The members of the Association – banks and savings banks – moved fast and came up with specific products; they accelerated procedures, cut down on otherwise necessary documentation and set more favourable interest rates than the market ones, etc. Among the measures taken immediately there we should mention that no fees were charged on approving a loan moratorium, no charges on premature withdrawal of a fixed deposit, no fees charged on donations to humanitarian organisations (in addition to the registered ones, also other organisations were added to the list, such as, for example, fire brigades, etc.), no costs were charged for producing statements in cases in which records were destroyed, a special procedure was applied in cases in which identification documents were lost, and many other measures were put in place with the aim to make it easier for affected customers to sort out their financial affairs.

In addition to the above actions, banks and savings banks allocated already in the first weeks as direct donations to support the most affected/harmed entities (municipalities, firefighter brigades, Caritas, Red Cross) funds adding up to millions of euros in the amount that represented nearly two per cent of half-year operating results of the entire banking sector and offered additional funds to the government for the period of two years in form of donations or some other possible forms of financial instruments.

Throughout the period from the August floods to the end of 2023, despite different expectations, the Association's members saw rather modest demand for their special products offered with the aim to remedy the consequences of flooding and also for moratoria on the outstanding credit obligations. The analyses and feedback from the field show that the percentage of customers who have suffered material damage was very low. Customers did not show much interest in additional borrowing for various reasons possibly counting on grants from the government or because they had sufficient funds to repair the damage done. Moreover, the data gathered by Banka Slovenija within the framework of reporting on the consequence of flooding on banks' credit portfolios and needs for financing show the same. Therefore, special reporting introduced in the aftermath of the August floods was discontinued at the beginning of 2024.

Notwithstanding the fact that, against expectations, demand was low and the Association's members were able to promptly deliver on their promise for a special, more favourable offer comparable with or even better than the financial conditions stipulated by the law on the government guarantee scheme, without tapping the support available under the government scheme, it should be emphasised that the adoption of the guarantee scheme is welcome and it could be activated once more in the event that in the future, when the eligible beneficiaries of government support have received in if the full amount, they may show higher needs, that is, higher demand for finance.

Nevertheless, the banking sector cannot and does not focus only on one calamity, since it is most likely that such disasters will be ever more frequent in the coming decades. Unfortunately, due to the climate-related change, it is our new reality. We all will have to adjust to nature, and we have already taken the first steps. At the banks, we will encourage aligning with nature in such a way that in the exposed areas, we will no longer offer the services of housing finance. In agriculture, we will have to adapt to drought by installing irrigation systems, for hail and frost, protection measures will be adopted. To cut the long story short, we have to put in place a systemic framework ski in order to address such extreme events, and the banking sector is already working on the products that respond to the exigency to encourage and support for addressing the projects for efficient use and generation of energy with renewable energy sources. We shall also keep in mind the social and governance aspects. The »Green Deal« of the European Commission and the targets in the area of diversification of energy supply energy and independence are spurring great expectations in the banking sector with regard to financial support for environmentally sustainable projects. During the transition to a low carbon society and energy diversification, banks will play one of the most important roles, given the fact that they can channel assets into investments, which are socially and environmentally responsible.

Slovenia's banking sector is prepared in terms of capital and liquidity to support the above targets and they have already been incorporated in their respective strategy and business policy and, last but not least, in their products. However, should we be eager to exploit these opportunities, the

participation of all parties is essential: the real sector, as well as the politics and the regulator.

In addition to the challenges and opportunities in the area of environmental changes, the banking sector also pays much attention to the risks we are more or less exposed to as a result of technology development. Banks and savings banks use security systems and mechanisms serving to protect to the highest level possible their customers' data, but even the most sophisticated mechanisms and systems are not able to prevent exposure to risks in the cases in which customers themselves provide their data to a person who then may use those data for fraudulent or other unlawful purposes. All available data show that abuses occur largely as a result of the human actions, and they can be attributed either to their ignorance or lack of awareness. Therefore, one of the important focal points of the activities conducted in the area of cyber security is also raising awareness. Within a view to awareness-raising, the Association's members launched a campaign on cyber security PAZI.SE coordinated by the Association and with the assistance of an outsourced agency started in 2023 with its implementation. The effect was good, but at the same time, the results showed that the cyber security awareness campaign should continue, hence it goes on also in 2024. We would like that other institutions and companies join us, and that such a campaign becomes in the forthcoming years a joint, even a national project, bearing in mind that people's awareness is of key importance when it comes to effective lowering of exposure to cyber risk.

Further to the exposure to cyber risk, the participation of different institutions is also of key importance: with the Slovenian Computer Emergency Response Team (SI-CERT), Police, Slovenian associations for corporate security, and all who can contribute to a higher level of protection, and I thank them all for their cooperation in these activities.

Against the backdrop of global challenges, and the challenges and opportunities in relation to environmental changes and technology development, I wish to highlight yet another challenge associated with employee retention and recruitment of new colleagues as currently there is a shortage of 15,000 IT experts in Slovenia, while the education system "produces" only 300 a year. Therefore, the introduction of informatics as a compulsory sub-

ject in primary and secondary schools would a matter of urgency. This problem could be partly resolved by technology and solutions it provides by means of digitalisation, automation and robotisation processes; nevertheless, robots will not be able to carry out all activities necessary. A challenge to headhunting in the region and across the EU in Slovenia is also the fact, on top of the administrative procedures for new hires, also the aggregate labour cost for employers in proportion to employees' net earnings, while some countries are already introducing additional incentives to motivate them to attract rare profiles and digital nomads, and then even give them additional tax allowances. In Slovenia, however, we largely underestimate that challenge and its long-term negative effect on competitiveness not only in the banking sector, but across the economy as a whole.

For an effective response to opportunities and challenges, of crucial importance is a dialogue and exchanging opinions between the real sector and institutions and policymakers, both within the state borders and within the EU and in the region. We must do our best to listen and understand each other and seek mutual synergies. The banking sector may be the key pillar for providing funding for investments serving to achieve environmental targets, and digitalisation and automation, and preservation of competitiveness and trade flows in the region and across the EU.

How important a dialogue and exchanging opinions we also put to the fore in the economic circle that represents practically the economy as a whole and a wide network of agricultural organisations. It is essential for the economy as a whole that the government provides a predictable and competitive business environment. Nowadays, the banking sector and the whole economy operate in an ever more volatile national legal and fiscal environment. We witnessed exacerbated instability in 2023.

A stable and competitive legal and fiscal environment for doing business in general and the functioning of the banking system in particular is of the essence in Slovenia where financing of the development of the economy, due to underdeveloped capital market in Slovenia (just like in the rest of Europe), predominately rests with the banking sector. Hence only a profitable banking sector may provide for capital and liquidity robustness and capacity to finance the needs of the economy and the state. The Slovenian

economy and also the banking sector depend on foreign demand and the readiness of investors to invest in the Slovenian banking sector (and other sectors of the economy), and to this end, the stability of the business, and particularly of the fiscal environment is highly important, hence the differentiation of the sectors in that area is a bad decision. In view of the long-term sustainability of operations and for maintaining the capacity for sustainable financing of the government debt on the international capital markets, maintaining interest of potential investors is crucial. The Slovenian banking sector already has in place (as a result of the measures of Banka Slovenije) higher capital requirements in comparison with other EMU countries, which from the cost of capital point of view adds to the perception of Slovenia's banking sector as being unattractive in comparison with the competitors from other EMU countries. Additional instability and new obligations affect cost of financing and reduces further the competitiveness of the Slovenian economy. Banks play a major role in the development of the Slovenian economy, but in order to play their part, a comparable and competitive business environment is needed.

In crisis situations and also rapidly changing conditions that also include historical opportunities, banking industry is one of the most importance pillars of the development of the economy and companies. Hence it is vital that the dialogue in the banking sector and at the level of the Bank Association is productive, efficient and at a very high professional level while ensuring consistency and mutual respect when topics requiring expert guidance and development of the sector are discussed, and as I see it, I believe that we are on the right track. After all, we prove it with our actions during the past few years during the COVID and energy crises and the catastrophic natural events in 2023 when the banking sector instead of being a burden on the system and the public finance, provided support with its knowledge, liquidity and capital.

For it all, I would like to thank all the members of the Association's Supervisory Board, their deputies, the members of the committees and the working groups operating under the umbrella of the Bank Association, the employees of the Bank Association who within the framework of their professional areas all contributed significantly to the efficient performance of the Association, and also to all Slovenian bankers as we rose to the

occasion and showed when the natural disaster struck the country in 2023 that when we join forces, we are up to all challenges.

Blaž Brodnjak,
President of the Supervisory Board of the Bank Association of Slovenia

Introduction

Carrying out the Association's activities, the employees of the Bank Association, as well as the representatives of banks and savings banks (its members) in the committees and their working bodies in 2023, was still influenced by the consequences of the energy crisis and upward pressures on costs of energy, as well as on other commodities as the consequences of the Russian aggression on Ukraine affecting the global, European and the Slovenian economy.

The negative consequences of the energy crisis and the rising inflation did not produce significant direct adverse effects on the operations of the banking system thanks to the balance sheet structure with considerable excess liquidity, but the change to monetary policy by raising interest rates had a positive effect on banks' operating results in 2023. On the other hand, however, a highly volatile and demotivating legal and fiscal environment adds to reducing competitiveness coupled with the cooling down of the economy. The performance of the banking in 2023 was also conditioned by the consequences of the floods of early August.

Faced with the natural disaster, the Slovenian banking sector responded immediately by taking measures to support the affected population. The first step was to provide for business continuity and assist the affected employees. At the same time, credit institutions provided support for their customers (both private individuals and corporates) by arranging the possibility to defer the payment of outstanding liabilities and also the option to tap bridge financing very quickly.

The disaster response of the members of the Bank Association was to come up promptly with their bespoke special products; they facilitated the procedure, reduced the documentation required when applying for funding, and

adopted more favourable interest rates than those on the market, etc. Some of the fast adopted measures are listed below:

- charging no fees on granting a moratorium on loan repayments,
- charging no fees on terminating a term deposit before its pre-set maturity date,
- charging no commission on donations to humanitarian organisations (in addition to the registered ones, also other organisations added to the list, such as, for example, fire brigades, etc.),
- no costs charged on bank statements in the event that records were destroyed,
- applying special procedures in the event that personal identification documents were lost, and
- various other measures designed to facilitate regulating financial issues to customers.

In addition to the above, the Association's members allocated for direct donations to support the worst hit/injured people in the first two weeks after the floods a total of almost two per cent of the half-year operating results of the whole banking sector.

On top of the measures adopted by the banking sector in support of the borrowers affected in the natural disaster and made available right after 4 August, the Association's members sent a motion to the government to take into consideration an additional proposal to introduce an additional solidarity contribution paid by the banking sector into a dedicated fund of the Republic of Slovenia to tackle loss and damage caused by the consequences of floods and landslides.

The Bank Association provided support to the banking sector when taking steps to mitigate the consequences of the natural disaster in different areas of their operation, primarily in the area of monitoring the effects of the floods on borrowers, including the support in the course of the preparation of as unified and simplified procedures and applications to defer repayments and the new financial support for customers (legal and natural persons). The support was given in relation to the matters associated with risk management and collateral, conducting payment services on the newly introduced holiday, assistance in managing matters in relation to human

resources given the fact that also the people working in the banking sector were affected, and last but not least, by giving a helping hand through media releases for the public about the measures taken by the banking sector.

Furthermore, the Bank Association drafted and circulated proposals of possible measures designed to mitigate the consequences in the case that those consequences would have systemic effects on borrowers and lenders. Faced with the unexpectedly weak demand for the products serving to remedy damage, the government scheme was not used until the end of 2023, and one of the probable reasons for the lack of interest is most likely attributable to a very good offer of the Association's members, and explanation could be that the state aid was still not disbursed at that time.

In addition to the activities connected with the August natural disaster, which were running until the end of the year, the Bank Association provided support also to all already scheduled activities in all five strategic areas of work.

The Bank Association continued also in 2023 the collaboration with the economy (Chamber of Commerce and Industry, Chamber of Small Businesses and Crafts, and other associations of employers within the framework of the initiative of the economic circle in which 15 employers' associations are included), SICERT and Police and judiciary, Institute of Macroeconomic Analysis and Development, Slovenian Surveying and Mapping Authority, Slovenian Environmental Agency and others, and also with various banking associations in other EU Member States.

The role played by the representatives of the Slovenian banking sector within the framework of the European Banking Federation became even more prominent, primarily in the areas of strategic importance also for the Slovenian banking system (digitalisation and cyber security and area of environmentally sustainable financing and in the area of banking regulations).

The Bank Association continued also in 2023 with the successful adjustments of its in-house activities and also had to face unforeseen needs for investments designed to ensure fire safety in the building. In addition, the

activities carried out by the Bank Association in 2023 were significantly conditioned by higher costs of materials and services.

It is worth mentioning that all operational goals set in the Programme of Activities for 2023 were completed or, due to the nature and substance, are work in progress, and they are also included in the Programme of Activities for 2024. In addition, during the year under review, a large number of additional tasks were completed, primarily connected with the August floods.

The activities carried out in 2023, once again were focused on achieving the following strategic objectives:

- reputation building,
- financing the real sector, new products, and green economy,
- regulation and supervision,
- digital transformation, and
- consumer protection.

In the area of reputation building, the Bank Association was consistently following the communication strategy in all its segments: from general communication to the activities related to education and training and to publishing, strived for raising the level of understanding of the role of the banking sector in financing the needs of households and economic development. From the conducted analysis and the recorded statistical data, judging by the response scale (positive, neutral, negative), we could see that also in 2023, the growth of professional and objective publications continued.

An important share of the Association's activities was focused on financial education of different age groups.

Technological development and digitalisation bring numerous benefits, but at the same time, increase exposure to multiple risks. Therefore, with the support of its member institutions, the Bank Association gave a strong impetus in 2023 to the activities aimed at of raising **public awareness of cybercrime/online scams** and of protecting oneself against them. The cooperation with the national TV broadcaster and carried on with the regular monthly contributions talking about the way to protect oneself against the

most frequent forms of cybercrime and other frauds in the programme “Dobro jutro” (Good Morning). The Association’s members also provided additional resources for a special overarching cyber risk awareness campaign, which according to the results of a public survey, was a significant contribution to making people aware of that type of risk. Moreover, also a special issue of Bančni Vestnik completely dedicated to the area of cyber risks was published.

Also in the area of the education and training activities, all the milestones planned were reached and exceeded, both in terms of a higher number of e-education, and also when it comes to launching new training programmes and updating the existing ones, resulting in a record-high number of participants in those programmes. As regards the activities associated with raising financial literacy, we enhanced further the cooperation with other stakeholders in the country and in Europe.

In the area of financing the economy and risks management, the activities performed in the course of 2023, were directed, among other things, towards dealing with the consequences of the August floods and the ESG area in the first place. Above all, those activities comprised assessing damage and mitigating the negative impact of the consequences of the August floods on the operations of the affected companies and the banking sector, and the choice of relevant methods and the risk management procedures with the emphasis on efficient and prudent management of credit risk, and also taking steps to ensure as a matter of priority immediate support for the companies to remedy damage after the August floods.

In the area of ESG, the inclusion of the ESG factors in the risk management processes (especially in the area of credit, liquidity and market risks, in credit collateral management by means of the amended form for drafting a summary report on the appraisal of the real estate, operational risk, the portfolio analyses, carrying out testing in emergency climate-related situations) and upgrading the reference form for obtaining data for the assessment of the ESG profile of customers, and the initialisation of the procedures for putting in place technologically more advanced support for the procedure for collecting and analysing the obtained data, sums up the work done in that field.

In the area of banking regulation and supervision, and legal matters and compliance issues, what deserves to be highlighted are the proposals and also the subsequently filed proposals with amendments to the intervention legislation adopted in the wake of the August flooding:

- Act amending the Natural Disaster Recovery Act,
- Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023, and
- Act on Reconstruction, Development and Provision of Financial Resources, the latter in the part concerning the legislative provision imposing a temporary tax on total assets of banks and savings banks.

When the law imposing the tax on total assets/balance sheet of banks and savings banks was to be adopted, it was clearly and frequently emphasised as follows:

- that the imposition of a tax on total assets is poised to have long-term negative consequences on lending activity and the banking system resilience,
- that the generated profit contributes to building up additional capital buffer, given the fact that its major share remains in banks and savings banks and, therefore, it is not paid out in the form of dividends, thus preserving their lending capacity,
- that the predictability and stability of the legal and fiscal environment are of key importance for the normal functioning of the economy as a whole, and
- that choosing just one sector of the economy for additional taxation generates uncertainty and is discriminatory.

The European Central Bank (ECB) has also explicitly warned in its Opinion of 2 November 2023 about the application of the draft legislative provision posing risks of negative consequences on lending activity and affecting banks' retained earnings capacity and competitiveness, as well as the economy as a whole.

In addition, various national legislative and European regulatory changes were examined, and relevant comments were drafted during the year under review.

In the area of EU legislation, the topics at the forefront in 2023 were primarily the issues falling within the scope of digitalisation processes, cybersecurity risks and artificial intelligence and area payment services and last but not least, those introduced within the framework of a new »regulatory banking package«.

The activities running also in 2023 were dealing with the area of loans denominated in Swiss francs and the relevant court judgements and, above all, the Judgement of the Court of Justice C-383/18 (so-called Lexitor); besides, we arrived at common understanding with the central bank and the competent ministry in relation to encashing the debt enforcement instrument (so-called izvršnica) and frauds when encashing bills of exchange, and abuses in the area of online, that is, digital payment services.

Among the more important activities performed by the Bank Association in the course of 2023, were also the activities in the area of collective bargaining, that is, social partnership. In 2023, the activities and the negotiations for signing a new pay rate schedule (the Tariff) started as the validity of the current Tariff was until 31 December 2023 (and it can apply not more than three months after the expiry date).

In the area of digital transformation/informatics, cyber security and payment services, the collaboration with SI-CERT (Slovenian Computer Emergency Response Team) and the Police continued.

Particular attention was given to the law regulating artificial intelligence in relation to which the members of the European Parliament adopted a negotiating position on 14 June 2023 and held talks until the end of the year with the EU Member States in the Council with regard to the final version of the legislative act. The Bank Association was invited to participate in the work of the Technical Committee for artificial intelligence at the Slovenian Institute for Standardisation (SIST) on which a representative of the Bank Association got a seat and thus the banking sector will be able to be actively involved in the preparation of the standards at the EU level, serving to give support in the process of drawing up regulations for artificial intelligence in the EU.

Numerous activities, including the special awareness campaign PAZI.SE, were also dedicated to raising public awareness in the face of risks associated with various online frauds.

The focal topic in the payment services area in 2023 was monitoring of the progress achieved with the migration of volumes from the BIPS IKP solution to the BIPS IP solution, as well as the implementation of the AML controls, ensuring that pensions are paid out through the IP system, and putting in place alternative solutions for processing of IP orders.

Following the adoption of the package of legislative proposals to the Council for combating fraud in the field of value-added tax (VAT), the preparations for the start of reporting of payment data by the payment service providers and the transition to the Central electronic system of payment information (CESOP).

The activities carried out in the area of money and capital market were focused on:

- the work performed within the framework of a special group tasked with the implementation of the Strategy for the development of capital market in Slovenia,
- the work done in the area of the reform of reference interest rates,
- the novelties in connection with the MREL (Minimum Requirement for own funds and Eligible Liabilities),
- the preparedness of the Associations' members for net interest income (NII) sensitivity limit for the purpose of managing interest rate risk in the banking book,
- banks preparedness for the EMIR Refit 2024, and
- monitoring the ESG portfolios of the member institutions to which their treasury departments dedicate much attention, primarily with a view to with to expanding the roster of new investors,
- the current issues in the areas of the provision of custody/depository services under the Investment Funds and Management Companies Act (ZISDU-3), Alternative Investment Fund Managers Act/ Act on Forms of Alternative Investment Funds (ZUAIS/ZOAIS), and Pension and Disability Insurance Act (ZPIZ-2), and last but not least

- monitoring documentary operations in the conditions of the Russian-Ukrainian conflict and sanction measures.

In the area of consumer protection, the activities were conducted primarily in relation to the matters connected with the effects of digital transformation (digitalisation of procedures, enabling operations by means of remote access) and the protection of consumers' data (the implementation of the changes to the legislation governing the area of consumer protection, consumer lending and developments in the area of payment services, cooperation with eSeniorji (e-Seniors), and the issue of physical and electronic accessibility of banking services for vulnerable groups in the society, as well as in connection with the issues related to the provision of custodial services and closure of banks' branches.

Given the activity it performs, the Bank Association does not have in place any official strategy or policy for the management of environmental factors. Nevertheless, it observes the environment-related factors in all its working processes to the highest extent possible given its own activities, while as to all changes in its working processes, it strives to reduce the consumption of energy, paper and producing waste and waste categorisation. For the purpose of organising work, also the social factors in the area of health and safety at work are taken into account, alongside the provision of adequate and friendly working conditions for employees. The members of the Bank Association have adopted a code of (ethical) conduct the member institutions of follow and the code also applies *mutatis mutandi* to the conduct of the employees of the Bank Association, that is, it is observed when carrying out the Association's activities. The activities of financial education and literacy the Bank Association performs in addition to its core activity, is performed free of charge for the benefit of companies.

As already seen in the past, the Bank Association operated in an environment full of challenges also in 2023 and in collaboration with different stakeholders was performing its tasks in a responsive and efficient manner for which I thank you all and in particular I also thank the employees of the Bank Association and all members of the committees and the working groups. Many thanks also go to the providers of alternative dispute resolution for consumer disputes, whose volume and complexity of work has

been increasing year on year as the exposure to risk associated with various online frauds.

I also thank the Association's Supervisory Board for their guidance and support in the realisation of the objectives to ensure effective support to the operations of the banking sector, as well as to provide support for support for the changes in the operating processes of the Bank Association, which as a result of changes in technology development and regulatory changes and shifts in the environment, have to be carried out all the time.

Stanislava Zadavec Capriolo,
Director of the Bank Association of Slovenia

Governing bodies of the Bank Association of Slovenia

The governing bodies of the Bank Association of Slovenia are General Assembly, Supervisory Board and director, mag. Stanislava Zadavec Capriolo.

Members of the Supervisory Board as of 31 December 2023*

Blaž Brodnjak, President of the Supervisory Board, Nova Ljubljanska banka, d. d.

mag. Vojka Ravbar, Deputy President of the Supervisory Board, SKB banka, d. d.

mag. Sabina Župec Kranjc, Deputy President of the Supervisory Board, Nova kreditna banka Maribor, d. d.

Tomaž Šalamon, Banka Sparkasse, d. d.

Andrej Andoljšek, Addiko bank, d. d.

Lorenzo Ramajola, UniCredit Banka Slovenija, d. d.

Luigi Fuzio, Banka Intesa Sanpaolo, d. d.

Mario Henjak, Gorenjska banka, d. d.

Jure Kvaternik, Deželna banka Slovenije, d. d.

Klemen Bajt, Primorska hranilnica Vipava, d. d.

Renato Založnik, Delavska hranilnica, d. d.

Borut Jamnik, SID banka, d. d.

Igo Gruden, Hranilnica Lon, d. d.

Dimitrij Pregelj, BKS Bank AG, Bančna podružnica (branch)

Mitja Otorepec, Summit Leasing Slovenija, d. o. o.

* As at 31 December 2023.

Alternate members

Andrej Lasič, Nova Ljubljanska banka, d. d.

Anita Stojčevska, SKB banka, d. d.

Matej Falatov, Nova Kreditna banka Maribor, d. d.

Bojana Novak, Banka Sparkasse, d. d.

Anja Božac, Addiko bank, d. d.

Marta Koželj Lakner, UniCredit Banka Slovenija, d. d.

Mojca Kovač, Banka Intesa Sanpaolo, d. d.

Marko Filipčič, Gorenjska banka, d. d.

Barbara Cerovšek Zupančič, Deželna banka Slovenije, d. d.

Matej Breclj, Primorska hranilnica Vipava, d. d.

Jasna Mesić, Delavska hranilnica, d. d.

Stanka Šarc Majdič, SID banka, d. d.

Rudi Žeslin, Hranilnica Lon, d. d.

Damijan Hempt, BKS Bank AG, Bačna podružnica (branch)

Andrej Pucer, NLB Lease & Go, d. o. o.

Members of the Bank Association of Slovenia*

Banks and savings banks

Addiko Bank, d. d.
Banka Intesa Sanpaolo, d. d.
Banka Sparkasse, d. d.
BKS Bank AG, Austria, Bančna podružnica Ljubljana
Delavska hranilnica, d. d., Ljubljana
Deželna banka Slovenia, d. d.
Gorenjska banka, d. d., Kranj
Hranilnica Lon, d. d., Kranj
Nova Kreditna banka Maribor, d. d., Maribor
Nova Ljubljanska banka, d. d., Ljubljana
Primorska hranilnica Vipava, d. d.
SID – Slovenska izvozna in razvojna banka, d. d., Ljubljana
SKB banka, d. d., Ljubljana
UniCredit Banka Slovenija, d. d.

Leasing companies

BKS-Leasing družba za leasing, financiranje in trgovino, d. o. o.
DBS Leasing, d. o. o.
DH Leasing, d. o. o.
GB Leasing, d. o. o.
NLB Lease & Go d. o. o., Ljubljana
RCI Banque, France, Bančna podružnica Ljubljana
SKB Leasing, d. o. o.
SKB Leasing Select, d. o. o.
Sparkasse Leasing S, družba za financiranje, d. o. o.
Summit Leasing Slovenija, d. o. o.
VFS finančne storitve, d. o. o.
Toyota Tsusho Leasing Slovenija d. o. o.

* As at 31 December 2023.

Professional Team of the Bank Association of Slovenia

mag. Stanislava Zadavec Capriolo, Director
Karmen Strgar, Business Secretary

Azra Beganović, Administrative Clerk
mag. Kristijan Hvala, Head of the Banking Economics Area
Novica Novaković, Head of the Legal Office
Borut Tomažič, Payment Services Specialist
Aleksandra Žibrat, PR Coordinator and Editor of e-publications

Training Centre

Matej Krumberger, Head of the Training Centre
Ksenija Jaklin, Deputy Head of the Training Centre

Bančni Vestnik

Mateja Lah Novosel, Editor-in-Chief of Bančni Vestnik, Journal for Money and Finance

Leasing Office

Boris Bajt, Head of the Leasing Office

Selected macroeconomic indicators for Slovenia

	2023	2022
Real GDP growth (in %)	1.6	5.4
Nominal GDP (EUR million)	63,090	57,038
GDP per capita (in EUR)	29,753	27,975
General government deficit (net borrowing) (EUR million)	382*	339
Consolidated government debt (EUR million)	43,917*	41,244

Source: Statistical Office of the Republic of Slovenia (Surs). *Data for the third quarter of 2023.

Selected indicators for the Slovenian banking sector

(EUR million)	2023	2022
Total assets	53,082	50,575
Shareholder equity	6,081	5,153
Corporate loans	9,968	10,487
Household loans	12,556	12,138
Corporate deposits	10,784	9,710
Household deposits	26,514	25,784
Net interest income	1,442.1	747.8
Gross income	1,977.5	1,315.1
Operating costs	-830.2	-757.6
Profit after tax	1,098.3	501.7

Source: Monthly Report on Bank Performance, Banka Slovenije, February 2024.

Activities of the Bank Association of Slovenia in 2023

Public relations, publishing and training

The communications activities of the Bank Association are carried out with the aim to proactively disseminate information to general and professional public on the issues arising in the banking sector and encountered within the framework of the Association's activities and efforts to enhance awareness of the significance and in-depth knowledge of banking and finance, all serving to ensure up-to-date information to the employees of the member institutions relevant for their work. The role of the PR Committee is highly important for the Association's communications and in 2023, it was particularly active as it was involved in all communications activities. A narrow PR group was at work practically on a daily basis coordinating the fraud awareness campaign – PAZI.SE.

The Association's communications activities comprise the communication with the general public over the internet and the media, whereas the communications activities with the members were running via publications in the electronic bulletin - eBilten and other releases on the extranet.

Communications with the general public and traffic on the Association's website

In 2023, the Bank Association recorded appearance, citing or reference in as many as 1631 media publications (in 2022: 1301).

During the year under review, a total of 51 press releases, news and briefings were prepared and posted on the public website and responded to 88 questions from the press. The activities on the strengthening of proactive

communication in the area of raising awareness among general public regarding online frauds and the ways to protect oneself from fraud continued in 2023 with the collaboration of various interlocutors in the morning programme on the national TV channel broadcast on the first Wednesday in a month. In addition, with the support of the member institutions and in collaboration with an outsourced service provider, a bespoke campaign to raise awareness of risks associated with online fraud among general public was carried out in 2023.

The following topics were most frequent in the media during 2023:

- The evaluation of the constitutionality of the Personal Income Tax Act,
- Creditworthiness of households in relation to the rise in minimum wage,
- The flood response measures,
- Security alerts, advice, roundtable, and the awareness campaign drawing attention to the risks associated with online fraud,
- Payment systems working hours on Monday, 14 August,
- Banking conference,
- The ruling of the Supreme Court of the Republic of Slovenia on loans denominated in the foreign currency – the Swiss francs, and
- the tax levied on banks' total assets – the balance-sheet tax.

From the analyses of the communications activities conducted by the Bank Association of Slovenia with the general and internal public and the media, it follows that the published articles, notifications, and contributions of the media were mostly positive, fair, and unbiased.

The above conclusion is worth mentioning since it shows that the perception and understanding of banking operations is gradually and constantly improving.

Due to an ever-increasing exposure to different types of online fraud, the Bank Association with the support of its members and in collaboration with an external agency, embarked on a special awareness campaign on risks of online frauds – PAZI.SE. In mid-October, when also the International Fraud Awareness Month takes place, a public roundtable on the subject of information and cyber security was held in collaboration with the external stakeholders.

Based on the results of the public survey and the feedback received from the customers of the Association's members and others, we can draw the following conclusions:

- that the campaign is successful and also provocative,
- that television and social networks were the most successful in terms of respondents reached, and
- that the warnings relating to phishing hit the target as more than 70 per cent of bank customers will now think twice before sharing their data in online forms.

At the same time, the results have shown that further awareness-raising efforts will be necessary given the fact that over 40 per cent of the survey respondents never change their passwords or PINs, some respondents stated that they would still share their means of identification with an unknown caller. Attention should be also focused on frauds when shopping online most often seen by the respondents as the most successful frauds.

The statistics of accesses to the public webpages of the Bank Association of Slovenia shows that until 4 December 2023, the website of the Bank Association of Slovenia was visited by 39,109 visitors. The most popular topics were software tools, calls to enrol in training programmes, and press releases and answers to the media.

Internal communication

In 2023, the number of the documents published on the extranet of the Bank Association of Slovenia was 580. The statistics of the accesses to the Association's do extranet shows that bank employees made 7000 visits to its webpages. The published documents were the basis for the preparation of 32 e-bulletins (eBilten) of the Bank Association of Slovenia for banking professionals, which by their content represent a detailed weekly report on the activities carried out by the Association both in terms of its relation to the member institutions and also the stakeholders with which the Bank Association cooperates.

The overview of the key communication activities for the last three years	2023	2022	2021
The number of press releases	51	54	73
The number of reactive responses (answers to the media, public appearances)	88	75	46
The number of media announcements/press releases	1631	1301	413
The number of online publications (online clipping)	714	677	301
The number of publications on the extranet	580	800	670
The number of e-bulletins - eBilten	32	30	37
The number of accesses to public websites of the Bank Association of Slovenia	39,109	32,766	38,408

Bančni Vestnik

In 2023, 12 issues of the Slovenian banking and financial journal were published, of which eight single issues – one international and one theme issue – and two double issues.

The Editorial Board of the journal prepared the leads for the international issue published on 31 May with the focus theme » Slovenia one year after the outbreak of the energy crisis and development priorities«.

A special issue of Bančni Vestnik was issued in 2023 dedicated to online security as support to the fraud awareness campaign launched to draw attention to online risks.

Over the reporting year, journal promotions were running between the members of the Bank Association of Slovenia and external subscribers. At present, 1,336 subscribers are receiving the journal – more than 500 subscribers more than before switching over to the digital publication.

Between 1 January and 4 December 2023, the digital issues of Bančni Vestnik were accessed by 9,399 users who clocked up 19,050 visits to the website.

During the period under review, 77.19 per cent of users accessed the website directly (also through the direct links transmitted to the subscribers to the journal and in e-news such as, for instance, e-Bilten of the Bank Association of Slovenia), 21.43 per cent accessed the website by using browsers (such as Google), 1.01 per cent of users accessed the website through the link on social networks (LinkedIn) and 0.37 per cent used other links (links to other websites such as, for instance, nlbnet, intrabanka). During the above-mentioned period, 2,589 articles were downloaded, of which 390 different ones.

The most popular article with the readers in 2023 was written by Dr. Matevž Zgaga: A reduction in the total cost of the consumer credit – current issues.

Training Centre

The educational and training activities are primarily intended to cater to the professional needs of the employees working in the banking sector but also in the financial sector. In addition to the base activities, the Bank Association undertakes, in so far as human resources permit, also the activities serving to boost financial literacy for the benefit of companies and free of charge. The Training Committee is involved in the activities of the Training Centre in a hands-on way and deals with the ongoing activities of the Training Centre including the evaluations and reports on the progress of its educational and training programmes and modifications and adjustments made to the Time Schedule of the Training Centre. In 2023, the member institutions exchanging experiences in relation to training their staff to work with customers from vulnerable groups.

Education and training activities

In 2023, the Training Centre carried out all the programmes envisaged in the time schedule. The upward trend in the number of participants continued in 2023 as shown by the increase in the number of training participants in all segments of professional training. Namely, all professional training programmes attracted 3,811 participants in 2023 (2022: 3,394). The interest in e-training stands out considerably in terms of a steep rise in the number of participants: 1,991 in 2023 (2022: 1,559).

On the other hand, the financial literacy programmes attracted less interest in 2023 measured by the number of participants (2023: 1,300 as opposed to 1,440 participants in 2022), due to small number of participants in the programmes offered on the occasion of the Days of open doors in the financial sector held within the framework of European Money Week, both for secondary and primary schools (there were 476 less participants in the two programmes in 2023). Nevertheless, at other financial literacy programmes organised in 2023, the attendance was on the rise including the attendance at the European Money Quiz attended by 968 pupils and students in 2023 (2022: 645).

At all programmes held in 2023, there were 5,111 participants (as opposed to 4,834 in 2022).

Activities	Pro-grammes in 2023	Partici-pants in 2023	Pro-grammes 2022	Partici-pants in 2022	Partici-pants in 2021
A. Professional training					
1. Conferences	13	816	15	778	696
2. Seminars, schools and workshops - total	16	714	16	687	611
- seminars	11	292	11	316	350
- schools	3	102	3	89	86
- workshops	2	320	2	282	175
3. E-learning programmes	5	1,991	5	1,559	464
Total 1-3	33	3,521	35	3,024	1,771
4. Examinations	8	290	9	370	113
Total A	40	3,811	44	3,394	1,884
B. Financial literacy					
The European Money Week	4	261	4	751	393
The European Money Quiz	4	968	2	645	314
- workshops for teachers, students, pupils	2	170	1	94	
- the national and the EU competition	2	798	1	551	
The International Fraud Awareness Week, the programme for schools	1	71	1	44	-
Total B	9	1,300	7	1,440	745
Total A and B	49	5,111	51	4,834	2,629

Most programmes (30 of 44 programmes) were held with the personal presence. In terms of the number of participants, their distribution in terms of the way in which the training is held, is rather balanced.

Professional knowledge testing

The tests of professional knowledge (proficiency tests) involved a total of 290 candidates. They were mostly in-person exams, with the exception of the knowledge tests at the seminar 'Financial instruments and investment services' held online in the application 'Campus'.

In 2023, the new members of the examination commission for broker exams were appointed, and following the proposal made by the examination commission, the roster of exam questions was significantly increased (from 3-times to 4-times of the required exam questions).

Other activities performed in 2023:

- Participation in the financial education project group at the European Banking Federation,
- Participation in the interministerial working group for the preparation of a centralised financial education campaign to promote investments in financial instruments, mutual funds, mutual pension funds, and the domestic capital market under the umbrella of the Ministry of Finance, and
- Participation in the project 'Financial literacy for adults', which was involved within the framework of the mechanism 'The Recovery and Resilience Plan' in performing »professional development and research work on the preparation of publicly recognised educational programmes of financial literacy for adults« set up under the umbrella of the Institute for Adult Education of the Republic of Slovenia.

Area of retail banking

When it comes to providing a service to private banking clients, the was covered in 2023 by the Retail Committee, the working group for the implementation of the Youth Housing Guarantee Scheme Act (ZSJSM), and the working group for switching banks plus two more working groups formed in 2023, notably the working group for electronic accessibility and the working group for mitigation of the consequences of floods. This area is also covered by the Physical security Committee and the working group for physical accessibility.

Retail banking

In 2023, the activities encompassed primarily the area of monitoring and examining the developments in the area of banking operations for private clients. To that end, the Association mostly cooperated with the Ministry of Labour, Family, Social Affairs and Equal Opportunities (MDDSZEM), Banka Slovenije, Ministry of Finance, Ministry of Internal Affairs, and Ministry of Digital Transformation.

The activities carried out in this area during the year under review were those primarily in connection with the following:

- digital transformation (digitalisation the procedures, enabling operations with remote access), and
- consumer data protection (the implementation of amended legislative acts in the area of consumer protection, consumer loans and the novelties in the area of payment services, cooperation with eSeniorji (eSeniors),
- a survey on the forms of attacks on banks in 2022 conducted at the beginning of 2023,
- the issue of opening of base payment accounts and notably in the case that a consumer does not fulfil the requirements for opening of a base payment account. With the aim to raise consumer awareness of this issue, the Bank Association prepared the information about account opening published on the Association's website ,
- the issue of closing the doors of banks' in-person branches and ATM closures, which is not a new trend and it affects senior customers in the first place as they have no possibility for switching over to digital banking,
- at the request of the Community of centres for social work in Slovenia (CSD), the best practices were exchanged when addressing the issues concerning the provision of custody services for the wards of social centres (CSDs),
- the issue of the fictitious registration of residence for the purpose of opening a resident's bank account, and
- the preparation of a draft code of conduct on access of cancer patients to financial services.

Furthermore, a proposal to amend the procedure for switching banks was prepared and, notably, the procedure and the respective form were amend-

ed by adding the SDD mandate in the event that customers continue to repay their loans by debiting the old account through a standing order.

The issues arising from discontinuing/terminating non-life insurance policy in which the bank as the lender is the vinculant and the insurance company has filed a request to dissolve the vinculation clause (de-vinculation).

In March 2023, a presentation of the issue of electronic accessibility was given by the relevant non-governmental organisations. Subsequently, a working group was established, and it prepared a draft of the guidelines on electronic accessibility, which is currently in the harmonisation phase.

In autumn, the representatives of the Ministry of Digital Transformation presented 'e-identity' developed by the Republic of Slovenia, notably the biometric identity card, services SI-PASS (the authentication and eSignature services) and the European digital identification wallet, and the possibility for their use in the public but also in the private sector (banking sector).

Within the framework of the measures for dealing with the consequences the August floods, immediately after catastrophic flooding struck Slovenia in August 2023, a new working group was appointed with the aim to exchanging opinions on the open issues and dilemmas connected with the preparation of simplified procedures to be followed when catering for the needs of bank customers hot hard by the natural disaster and to address the issues in relation to the implementation of the intervention legislative acts.

With the aim of facilitating the procedures, the Bank Association prepared:

- a single application to provide a period of grace (moratorium) for the payments of the obligations arising from credit contracts under the Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023.

In addition, various recommendations for the general public were prepared with regard to the impact of the minimum wage increase on credit standing of consumers and the functioning of the banking infrastructure during the August floods.

In the area of regulations, also in 2023, the initiative to modify the Youth Housing Guarantee Scheme Act (ZSJSM) was once again and repeatedly given – three times in total – addressed specifically to the Ministry of Finance and also to the Ministry of Solidarity-Based Future, which could not agree as to which ministry is competent for the law at issue. Due to the fact that the law contains various provisions out of touch with real life, only four loans were approved in accordance with the aforementioned law.

The European Health and Digital Executive Agency (HaDEA) acting on a mandate given by the European Commission instructed Deloitte Consulting and Advisory BV to prepare together with the partners a draft code of conduct on the access of cancer patients to financial services. The research phase took place in September for the purpose of collecting feedback on the current difficulties, obstacles and hurdles in place standing in the way of cancer patients when accessing financial services and products, as well as on the reasons for them. Having examined the information obtained, it was concluded that banks and savings banks in Slovenia do not have data as to whether a client is a cancer patient or not.

Following the European Parliament legislative resolution of 12 September 2023, a new Directive on credit agreements for consumers (Consumer Credit Directive or CCD II) was published in the Official Journal of the European Union 2023/2225 on 30.10.2023 also the Lexitor ruling (Judgment of the Court of Justice of 11 September 2019) was implemented in the Directive.

Within the framework of the retail areas, two workshops were also organised on the topic of the use of electronic bank and notably within the framework of the project »The cooperation of patronage services, educational institutions, libraries, social centres and banks« running under the umbrella of the e-Seniorji association. The workshops were tailor-made for senior citizens who attended training for basic computer literacy within the framework of the project and expressed interest in learning also about the use of electronic bank (online and mobile bank) with a focus on security in its use.

Physical Security Committee

Among other activities, the work carried out in the course of 2023 in this area included the activities in connection with the implementation of the recommendations for the area of physical security – best banking practice for the protection of the physical security of banks and savings banks, and the collaboration with the institutions in this area (Banka Slovenia and the Police). At the start of the year under review, the Association conducted the already mentioned survey on the forms of attacks on banks in 2022.

The representative of the Federation of Belgian Banks Febelfin presented to the members of the Committee a form of attack called “tiger kidnapping” not so frequent in Belgium nowadays, although there are still isolated attacks. In addition, the forms of cooperation with the Police were also presented.

On of the increasingly pressing issues also addressed in 2023 is shortage of qualified staff for hire.

A presentation of the issues associated with the physical access to banks’ branches and ATMs was organised in March 2023 by the competent non-government organisations. A working group was subsequently established, and it prepared the draft guidelines on physical accessibility, which is still in the harmonisation phase.

Economics of banking operations

The area the economics of banking operations, which in addition to the functions of the second and the third »line of defence«, hence risk management and internal audit, also covers accounting for the banking sector, taxation and prudential reporting to regulatory, supervisory and tax authorities, faced with the current trends in the area of green transition also covers the area of sustainable finance addressed for the first time in 2021. The activities going on within the framework of the economics of banking operations are handled by the following committees: for risk management, for internal audit, for accounting, and for sustainable financing, as well as by the working groups set up within the framework of the aforementioned committees.

The working groups deal with credit collateral, for modelling, for operational risk, for liquidity, interest rate and market risks, for taxes, for reporting, for International Financial Reporting Standards (IFRS), for the regulations governing carrying out of automatic exchange of information on financial accounts (AEOI) and FATCA, for sustainable regulation, for the preparation of a single ESG questionnaire and for measuring the carbon footprint.

In addition to the abovementioned permanent working bodies, to keep abreast of the newly emerged needs, specialised, ad hoc working groups were established or continued their work by dealing mostly with the topics falling within the scope of operational risk management. In the discharge of their responsibilities, all the aforementioned working bodies, permanent and ad hoc, observed the strategic guidelines laid down in the Programme of the Bank Association's activities for 2023, practically for all five areas.

Risk management

During the first half of the year under review, a major focus of attention was on the effects of the current macroeconomic situation, that is, on the changed conditions for doing business (higher inflation, rising market interest rates, energy crisis, disruptions in supply chains, growing geostrategic risks, turbulence in the U.S. banking system, the failure of Credit Suisse, a globally systemic bank ...), on credit portfolios and interest rate and liquidity position of credit institutions, as well as on other relevant elements.

Throughout 2023, the work was concentrated in particular on:

- the measures for the identification, mitigation and prevention of the negative consequences of natural catastrophes on operations of credit institutions, and
- the examination of the methods and procedures for risk management with the focus on effective and prudent management of credit and other types of risks.

The consequences of the August floods on operational capabilities of banks were fortunately limited and short-lived and also their direct and indirect adverse effects on the creditworthiness of banks' debtors proved to be the

same. For the purposes of monitoring and for the needs of the examination of applications for a grace period for the repayment of outstanding credit obligations and financing, the Bank Association's experts prepared:

- a comprehensive questionnaire for the assessment of the effects of the 2023 floods on the ability of corporate debtors to repay debts and their needs for additional financing.

The work performed in the ESG-related area comprised primarily the incorporation of the ESG factors in the risk management processes, especially in the area of credit, liquidity and market risks and operational risk, the portfolio analyses and in the testing of exceptional climate-related situations. The work performed resulted in:

- the amended for the preparation of a summary report on the appraisal of a real property, and
 - the upgraded reference form for the provision of information for the assessment of customers' ESG profile, and
- the procedures were kickstarted for putting in place more advanced support for the procedure for collecting and analysing such data, carrying out of risk assessment based on the amended single questionnaire, and performing joint on-site examinations of the most significant outsourced providers of banks and savings banks alongside updating and upgrading the existing and drafting new documents referring to internal procedures, regulatory rules in force and best practice cases from the relevant area of work.

Of the regulatory matters, the focus of attention was on the proposal for new EBA guidelines on the management of interest rate risk in the banking book (IRRBB) and on credit spread risk in the banking book (CSRBB), and on a package of new Regulatory Technical Standards (RTSs), as well as on the proposal for amendments to the Capital Requirements Regulation (CRR3). In particular, the provisions that bring changes regarding collateral management were addressed.

In addition, surveys were conducted in specific areas of risk management (e.g.: in the areas of collateral evaluation and the conditions for credit collateral compliance in the view of the Capital Requirements Regulation), as well as the examination of the results of the analyses of the current risks and

the forecasts at the local level (e.g.: Banka Slovenia), at the European level (e.g.: EBA, ECB, ESRB, ESMA) and at the global level (McKinsey, WEF, Eurasia Group). In August 2023, the traditional survey was conducted in banks on the key present and expected risks associated with banking operations. The results of the survey revealed enhanced credit risk and interest rate risk, a shift in the direction of a high probability and effects was noticed also with regard to reputation risk, even though it still remains among the less exposed ones. Furthermore, the upward trend of the significance of climate and environmental risks continued, most likely due to the effects of the floods and landslides that in August hit a vast territory of the Republic of Slovenia.

A draft text was prepared containing the provisions of the new Act Regulating Guarantees of the Republic of Slovenia regarding the outstanding liabilities subject of the statutory moratoria, and claims arising from new loans approved to the legal and natural persons that sustained damage in the floods. The draft text was presented to the government, that is, to the competent ministry as the proposal of the banking sector to be included in the law on reconstruction, development and provision of financial resources, which is in preparation. After the announcement that banks' total assets shall be subject to a new tax, the Committee examined the effects of the additional tax burden and brought to the fore the adverse effects on the capacity for obtaining capital within the framework of a comparable environment in other EU Member States and the disproportional, that is, discriminatory treatment of the domestic banking sector in comparison with other economic sectors in Slovenia, negative effects on confidence of investors in the banking system, and a possible negative impact on banks' credit ratings and, consequently, on their capability to obtain sources of financing.

In the area of collateral, the activities were directed as a matter of priority to the area of climate and environmental risks taken into account for secured lending. Due to the August flooding, the focus of attention was on the issues related to the re-evaluation of real property from the portfolio of credit collateral affected by the floods or located in the areas prone to flooding. The collaboration with the representatives of the Slovenian Institute of Auditors (hereinafter: SIR) and the Slovenian Insurance Association (hereinafter: SZZ). Some of the activities carried out in that area are listed below:

- the professional guidelines were prepared in cooperation with Slovenian Institute of Auditors (SIR) and with the outsourced technical experts,
- the practical matters in relation to the use of the single form for the preparation of a summary report on the valuation of real property for secured lending – the proposal was coordinated with the Slovenian Institute of Auditors (SIR) to include additional fields in the single form for the preparation of the summary report on the valuation of real property to enter into full force and effect in 2024,
- the initiatives with regard to the provision of data on the classification of large-scale droughts and floods to the Agency of the Republic of Slovenia for the Environment – together with the Slovenian Insurance Association (SZZ) a proposal was submitted for the establishment of a public database with the time series of economic damage at the national level by different types of natural disasters.

In the area of banking regulations, the criteria for the determination of the suitability of an asset as collateral by exposures secured by real property in compliance with the new Capital Requirements Regulation (CRR3).

Also in the area of risk modelling in 2023, the issues in relation to the ESG factors were addressed (e.g.: incorporation of ESG factors and carrying out stress tests, calculating expected credit losses (ECL), the ICAAP process ...), the application score in view of the application of the principles or the methodologies and best practice in the industry, modelling a significant increase in credit risk (SICR) seen from the angle of varied parameters and/or a gap in the data, auditors' requests and its treatment within the framework of the ICAAP process. Furthermore, the approaches to defining the scenarios for the calculation of expected credit losses in accordance with IFRS 9 were examined, assigning weights to various scenarios and justifying/documenting them, applying predictions of different macroeconomic variables by different institutions and their reliability, the use of internally prepared forecasts, model validation and testing of scenarios.

The project titled: »The integration of climate-related risk in credit risk modelling« was launched and completed in 2023.

Together with the working group for liquidity, interest rate and market risks, the approaches to the modelling of base deposits were examined (also in the context of the new guidelines on interest rate risks for banking book - IRRBB), while specific challenges and dilemmas in the area of operational risk management were examined together with the working group for operational risk (e.g.: how to quantify non-financial loss events, examining loss events that necessitate additional work by employees, modelling expected and unexpected losses from operational risk, etc.).

The activities in the area of operational risks were focused also in 2023 on further coordination and complementarity based on the experience acquired by using the single questionnaire over the past few years. The questionnaire was upgraded as shown below:

- by adding new questions from the area of ESG, information security, cloud services, business continuity management, and personal data protection.

Moreover, the questionnaire was modified so as to facilitate the work on entering and processing the received answers. With the aim to simplify the procedures, the questionnaire was transmitted to six outsourced service providers as it was also done a year earlier, sent centrally by the Association for the completion. In addition:

- Non-binding guidelines were prepared to serve as bearings to the members of the Bank Association for short-listing contractual partners as outsourced service providers on the basis of the regulatory guidelines and definitions of outsourcing important functions.

In the area of the management of risk associated with outsourcing arrangements, information was exchanged regarding the ECB's action in the prior outsourcing notification procedures and the Associations representatives attended a meeting with the representatives of the ECB organised by the European Banking Federation (EBF).

In 2023, also the guidelines were expanded by adding the contents relating to the incorporation of the ESG factors in the procedure for operational risk management, risk management when new banking products are launched and new markets are entered, controlling risk associated with sub-standard

quality of data, management of reputation risk, and also the section on the key performance indicators and exposure to operational risk were expanded.

In 2023, the recommendations for the prevention of payment frauds were reviewed.

In the area of liquidity, interest rate and market risk, the European Banking Authority (EBA) conducted a consultation process on the Implementing Technical Standards (ITS) for reporting on interest rate risk in banking book and the proposals and instructions for reporting. In addition, numerous other issues and dilemmas were on the table, in particular in 2023 also in relation to the implementation of the Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023 (ZIUOPZP) from the position of the interest rate risk management. As regards the latter, the competent ministry provided adequate explanations.

In addition, the results of the special survey were discussed and it was the conclusion of the debate about the issues and challenges of modelling core and stable deposits from the position of liquidity and interest rate risks.

Internal audit

As it was the case in the past two years, the focus of the activities carried out in 2023 was on the preparation and coordination of the pooled audits of outsourced service providers in accordance with the provisions laid down in the EBA Guidelines on outsourcing arrangements. Such pooled audits bring numerous advantages for banks and savings banks, as well as for outsourced service providers. All the necessary procedures for carrying out:

- the pooled audits of two new outsourced service providers, and
- two examinations of the implementation of the recommendations issued to two outsourced service providers already audited, both in 2024.

The arrangements for continuing of the implementation of the recommendations issued in the aftermath of the pooled audit reviews conducted in the previous years were also made.

A meeting was held in October with the head of the internal audit department of a German bank and on that occasion the approach to and the experiences from conducting pooled audits of the cloud service providers in the financial sector under the aegis of the consortium Collaborative Cloud Audit Group – CCAG (e.V.) were presented.

Also in 2023, the list of the key contents of the annual report referring to the internal audit function on the basis of the provisions laid down in the Companies Act (ZGD) and the Banking Act (ZBan) was reviewed and approved and a table with the numerous activities of the internal audit function prescribed by the regulators was also reviewed and partly updated.

Sustainable finance

The Sustainable Finance Committee was formally established on 1 January 2023 having taken into consideration the significance, ambition, scope, and complexity of the contents associated with financing the transition to a low-carbon society. By transforming the previously established working group into a committee with permanent tenure, the intention of the Slovenian banking sector to support efforts for achieving the national, Europe-wide, and global climate and environmental targets was clearly endorsed.

In 2023, the specific activities in this field included studying new regulations, regulatory requirements, trends and possible solutions relating to sustainable finance and the management of the ESG-related risks with emphasis on obtaining relevant data, their analysis and disclosures of sustainable operations. In that context, good cooperation with other stakeholders active in this field was of key importance, in particular as regards the following:

- the preparation of a new organic law on climate-related changes,
- the preparation of amendments to the Companies Act that transpose into the Slovenian legal order, among other things, the provisions set out in the Corporate Sustainability Reporting Directive (CSRD) a new EU directive on sustainability reporting,
- the initiative for setting up a national central register data on the ESG aspects of business operations and the request for the provision of data on the scope of natural disasters in the Republic of Slovenia over the past years by type of disaster, and

- obtaining data on companies' ESG profile by banks and savings banks using tailor-made questionnaires and putting in place a more advanced technical solution for gathering and analysing those data,
- participation in consultation processes in the ESG field (e.g.: a position paper regarding investment into the transition to a carbonless society, positions regarding the proposal for a draft Directive on Corporate Sustainability Due Diligence (CSDDD), the Energy Performance of Buildings Directive (EPBD) or a new package of measures to build on and strengthen the foundations of the EU sustainable finance framework that comprises updating of the Commission delegated regulations and recommendations (the EU Taxonomy) for financing a green transition), and
- reviewing a new banking package (Capital Requirements Regulation - CRR and Capital Requirements Directive – CRD) requiring banks to ensure proper compliance with the provisions relating to the ESG risks with the aim to boost alignment between the EU Taxonomy and international development in this field.

In view of the exceptional importance of availability of quality and as comprehensive as possible ESG-related data in order to fulfil all regulatory requirements, initiatives and arguments in favour of setting up a national ESG database were sent to various public institutions (Agency of the Republic of Slovenia for Public Legal Records and Related Services, Ministry of the Environment, Climate and Energy, Ministry of Finance). Regrettably, the initiatives and proposals will not be materialised unlike in some other countries in which awareness of the significance of availability and quality of the ESG-related data is fully mature.

Given the ramification of the ESG framework, additional three task forces focused on ESG issues were set up in 2023, notably the working group for the preparation of a comprehensive questionnaire for companies to assess their ESG performance that in 2023 presented the scope and content, as well as the purpose and approaches to the use of the questionnaire to the interested public (e.g.: at various seminars and workshops organised under the umbrella of the Vienna Initiative Climate Change Working Group, and in November 2023, successfully wrapped up upgrading the questionnaire. On top of some minor improvements, additional industry-specific questions were added in the new version of the questionnaire which are considered

as relevant for companies operating in different sectors of the economy, and published the updated version on the website of the Bank Association. In addition, a shorter version of the questionnaire is in preparation since it should be more appropriate for obtaining data provided by small and medium-sized enterprises.

Given the complexity of the issues brought by the EU environmental taxonomy and other legislative acts and banking regulations related to sustainability issues, also a special working group for sustainability regulations was established tasked with dealing with the current matters in that area. Of the activities the working group undertook in the course of 2023, we highlight different approach credit institutions use for the preparation of sustainability reports for 2022, which do not comprise any mandatory and voluntary disclosures.

In accordance with the mandate given to the working group, a special educational event was organised in January for the companies that are subject to the disclosure requirements and obliged to disclose to the public the information credit institutions had to disclose from 1 January until 31 December 2022 on the basis of the Commission Delegated Regulation (EU) 2021/2178.¹ Afterwards, at another workshop, the content was presented also to the representatives of the commercial functions and to the risk management function in banks and savings banks.

Through the representatives in the working group for EU environmental taxonomy that operates at the European Banking Federation (EBF), the members of the working group were kept informed on a regular basis of the new developments, initiatives and the activities at the level of the pan-European Banking Federation (such as, for example, on the prepared set of questions and comments in connection with the operational aspects of the implementation of the EU environmental taxonomy addressed to the European Commission requesting for the explanations about the positions

1 These are the companies, which in conformity with the disclosure requirements laid down in Directive 214/95/EU on the disclosure of non-financial and diversity information ('Non-Financial Reporting Directive' - NFRD) are obliged to disclose information about the share of their EU taxonomy-aligned activities for 2022.

of the EBF with regard to the European Sustainable Reporting Standards (ESRS), particularly concerning reporting on the value chain, as well as with regard to other procedures already presented within the framework of the description of the activities of the umbrella Committee).

In January 2023, the working group hosted an event in the context of the EU's energy savings targets attended by the representatives of the Energy Efficient Mortgages Initiative (EEMI). On that occasion, Luca Bertalot, the Secretary General of the European Mortgage Federation and the European Covered Bond Council (EMF-ECBC) presented the backdrop against which the EMF-ECBC initiative was born, its principal activities and targets, as well as the terms for the Slovenian banks to join membership.

The need for intensive work in the member institutions of the Bank Association when integrating sustainability considerations into their business strategies, an important element of which is also setting intermediate targets to be attained by banks and savings banks on the road to the ultimate goal of carbon-free Europe, as well as resolving the dilemmas that arise in the process, attributed in May 2022 to the establishment of yet another special working group tasked with measuring the carbon footprint. In 2023, its members dealt primarily with the methodology for calculating scope 3 emissions of the portfolio carbon footprint seen as one of the most important indicators of a bank's progress toward carbon-free society. Given the fact that several approaches, that is, calculation methodologies exist, the special working group set itself the goal of achieving as far as practicable the standardisation of the methods for calculating carbon footprint at the member institutions, which would ultimately allow greater comparability of information credit institutions disclose to the public. To make a step in that direction was also made possible thanks to the formal endorsement of the non-binding Guidelines for the calculation of the carbon footprint of financed emissions by the working group in January 2023.

Furthermore, the working group examined the sustainability reports of the European banks in which the calculations of the carbon dioxide emissions are disclosed for the entire portfolio, and discussed the advantages and weakness of different approaches to the calculation of carbon footprint and

the challenges faced when procuring data – both those directly obtained from their customers, and proxies, calculated on the basis of reference data for individual economic sectors. On the basis of the document *IFRS Sustainability Staff paper* from December 2022, the working group prepared an illustrative case of disclosures that the members of the Bank Association of Slovenia may use as a starting point or as a reference case.

A practical presentation given by the experts of Banka Slovenije followed in June 2023 to show how the central bank calculates net-zero GHG emissions of its own financial assets (as published in the document with the title: 'Climate-related disclosure of Banka Slovenije's own financial assets, March 2023). Moreover, at the virtual meeting, the representatives of Banka Slovenije spoke about numerous conundrums and challenges faced when calculating financed emissions (e.g.: availability of data, determining exposure to other countries, etc.).

AEOI and FATCA

The area of activity dealing with the Automatic Exchange of Information On Financial Accounts (AEOI) and the Foreign Account Tax Compliance Act (FATCA) covers the automatic exchange of financial account information between countries according to the requirements of the single Standard for Automatic Exchange of Financial Account Information (OECD's AEOI Standard) and the Council Directive 2014/107/EU on mutual administrative cooperation between Member States in the field of taxation closely based on AEOI in effect as of 1 January 2016, as well as resolving requirements that arise from the US law on compliance with tax regulations in connection with accounts of US tax residents abroad (FATCA).

Specific procedures were put in place for client identification within the AEOI framework to obtain information on the country (or several countries) in which the person is a tax resident, and reporting on the prescribed information on person and his/her financial transactions in each of those countries. The Republic of Slovenia made a commitment to implement the identification procedures and reporting back in 2014, together with a group of more than 100 countries. Even though numerous countries signed up to the implementation of automated exchange of data in accordance with the

time frame determined by the OECD, the operating procedures at the financial institutions still require fine-tuning also as a consequence of the fact that regulations and technical requirements for reporting keep changing.

Of the tasks scheduled for 2023, the main priority was circulating information on the most important changes to the rules on reporting under AEOI and FATCA (also by means of the FURS notifications), exchanging experiences and opinions, keeping up to date with the regulations and latest developments, and disseminating information to the Association's member institutions on the activities carried out by the working groups at the EBF through the representative.

In 2023, the gathering of data on missing identification numbers (US TINs) of bank customers was carried out at the national level. It was done in the past at the European level in the organisation of the EBF. The participants in the survey were 11 Slovenian banks and savings banks and they provided data as at the end of 2022. The data still show a favourable trend in collecting the requested data comparable with other European countries or even better.

The meeting with the delegation of the OECD Global Forum for transparency and exchanging information in Slovenia was held in June 2023 and on that occasion, the delegation performed the second leg of the peer review of the OECD's Standard automatic exchanging information on financial accounts in tax matters. On that occasion, the representatives of the broader leadership of the working group presented the experiences gained by implementing the standard in practice and they also made concrete proposals for improvement as listed below:

- Annual education in the organisation of the Financial Administration of the Republic of Slovenia (FURS) for the area of the Common Reporting Standard (CRS) and FATCA for the employees working in banks (e.g.: for persons in charge of the area, client relationship managers, etc.),
- Straightforward guidelines (easy to understand in plain language), that is, education for the general public on tax residency and the CRS requirements, particularly with respect to the procedures for obtaining work permits,
- Putting in place application-based solutions at the EU level for the verification of tax residency (e.g.: a search on the basis of TIN criteria), and

- More specific guidelines/clarifications on tax residency/TIN at the OECD level.

Accountancy

The activities in the accountancy area are carried out by the Accounting Committee and the Tax Working Group, and the Working Group for Reporting.

In addition to the collaboration and the dialogue with different stakeholders involved in the field of supervision, regulation and reporting going on in the course of 2023 in effort to arrive at a more hands-on implementation of the principle of proportionality and rationalisation of reporting requirements prescribing reporting of parent and ultimate parent (grandparent) companies (BSPOV connected clients), the year under review was also specific due to reporting in connection with the consequences of the August floods.

In the area of taxes, the topics addressed included the novelties introduced by promulgating the Act amending the ZDavP-2N, the Minimum Tax Act implementing the Council Directive (EU) 2022/2523 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union, the information on modifications and amendments to the Companies Act (ZGD) dealing with sustainability in the tax area, and the Personal Income Tax Act (ZDoh), as well as the comments made on the intervention tax on total assets of bank and savings banks.

Several letters were sent to FURS on the subject of filling in the REK-O form, notably in relation to the provision of technical possibilities for an audit trail and controls of one's residential status (e.g.: a customer has been entered in the bank's records as a resident of the Republic of Slovenia, whereas in the records maintained by FURS, that person has been registered as a non-resident).

In the course of 2023, dealing with the following tax-related matters was often on the table:

- subsequent payment of severance pay to minority shareholders,

- the interest limitation rules that limit the deductibility of interest expenses – the Anti-Tax Avoidance Directive (ATAD Directive),
- tax treatment of modifications to loan agreements in favour of borrowers,
- the reimbursement of a proportional portion of borrowing costs charged on consumers loans in case of an early repayment/paying off one's loan sooner than scheduled,
- charging the account-balance fee (a transaction is subject to either value-added tax or financial services tax).

During the year under review, two lists of the services aimed at improving internal tax controls were prepared and amended:

- the list »Withholding tax for natural persons: interest accrued on deposits, interests on securities and dividends«, and
- »VAT list of taxed and tax-exempt services«.

One of the key topics addressed in the area of reporting was the issue of the rationalisation of prudential reporting to the central bank (Banka Slovenije) and the issue of the feedback information on amending the data provided for the statistics of Banka Slovenije.

The work on making banks' data reporting more efficient in general and on the Integrated Reporting Framework (IReF) in particular in 2023 consisted primarily of procedural activities, while concrete activities related to the operational implementation are still slow. Since the IReF seeks to integrate existing ESCB statistical data requirements into a single reporting framework, it is treated as the most important project of the ECB statistics. Future statistical reporting obligations will also encompass supervisory data.

Banka Slovenije has circulated to banks a request to introduce a new column for reporting MREL data with the deadline for reporting on 12 January 2024. The Single Resolution Board (SRB) did not announce the changes to the MREL dashboard six months in advance and, therefore, a letter was sent to Banka Slovenije in which banks explained the substantial and technical aspects of their inability to comply with the new reporting requirements and proposed to extend the deadline to January 2025.

A proposal was addressed to Banka Slovenije for amending feedback information for different reports such as Balance Sheet Information (BSI) and information about Monetary financial institution Interest Rates (MIR) and for card-based payments (payment services statistics), hence the Bank Association signed a technical protocol on taking over data on interest rates for loans granted and deposits received from the BS1S report. The data were exchanged for the first time in September 2023.

Corporate banking

Two committees were covering the corporate banking area in 2023: the Committee for Corporates reactivated in 2018, and the Committee for Documentary Banking Operations existing several decades already. The most important activities were also in the year under review strongly characterised by the consequences of the Russian-Ukrainian conflict, the transition to a low carbon society, the August floods in the Republic of Slovenia and the slowing down of the economy.

The adoption of numerous measures designed to mitigate the negative consequences of the Covid-19 pandemic, tougher conditions for doing business due to the military aggression of Russia on Ukraine, the unexpected stronger inflationary pressures and, as a consequence, restraining responses of central banks to those trends, supply chain disruptions and global cooling down of economic activity put in place by the Republic of Slovenia for the economy and its population left, among other things, an impact on financing companies. The situation was similar also after the August flooding and landslides, and those developments significantly directed the focus of the Committee's attention in 2023.

As a consequence of the 2023 flooding, that is, their effects on banks' credit portfolios, it was agreed as follows:

- to report on a weekly basis the information provided in the applications filed by legal entities to grant grace periods and/or additional financing,
- the content of the questionnaires subsequently used by the members for the evaluation of damage after the floods and the companies' needs for additional funding was harmonised by the members of the Bank Association of Slovenia.

In addition, a joint expert working group was appointed and tasked with monitoring the situation and the impact of the floods on banks' portfolios and considering systemic measures, if necessary.

In the regulatory area, the work was primarily focused also on the implementing aspects of the Act Amending the Natural Disaster Recovery Act (ZOPNN-F) and, in particular, the Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023 (hereinafter: ZIUOPZP), supervisory regulatory issues in relation to the treatment of debtors applying for obligations under credit agreements to be deferred in accordance with the effective European banking regulation/legislation and the guarantees given by the Republic of Slovenia for the receivables, which were the subject matter of the regulatory moratoria, and for the receivables arising from new credits approved to the legal and natural persons affected by the August floods. A Draft of the text was then sent to the government, that is, to the ministry as the proposal of the banking sector to be included in the Act on Reconstruction, Development and Provision of Financial Resources (ZORZFS).

Furthermore, the trends and the new regulatory requirements were addressed against the backdrop of the environmental, social and governance factors (ESG) when financing corporates and conducted, and a risk survey was conducted and debated. Major shifts in rising risks were identified in association with the impact of the climate- and environment-related changes (both current and adverse impacts expected in the medium term), in the area of market interest rates and extensive regulation.

Also in 2023, the collaboration was enhanced with the key stakeholders – the Slovenian Enterprise Fund, European Investment Bank, the Slovenian Chamber of Commerce and Industry, and the Institute of Macroeconomic Analysis and Development. A presentation of the array of products available from the Slovenian Enterprise Fund was organised followed by the second meeting organised to present the products prepared by the Slovenian Enterprise Fund for the enterprises affected by the August floods and the procedures for submitting applications seeking moratoria on the repayment of the bank loans secured with the Fund's guarantee. Another meeting organised with the aim to explore the possibilities to extend support to

enterprises was held the representatives of the European Investment Bank (hereinafter: the EIB). On that occasion, the possibilities were presented for cooperation with commercial banks when it comes to financing the needs of the Slovenian economy. The macroeconomic movements exerting influence on risks were also in 2023 presented by the representatives of the Institute of Macroeconomic Analysis and Development (IMAD) and the Slovenian Chamber of Commerce and Industry (GZS).

Documentary banking operations

The core mission is exchanging experiences, specialist knowledge and best practices and keeping up to date with the key regulations, trends and the latest developments in documentary banking, that is, trade finance in general, remained a beacon for the activities also in 2023.

Numerous latest issues faced both at the operational and the tactical level in the course of daily operations were dealt with. A special joint working group was appointed and in June 2023, its members prepared:

- The amendment to the recommendations for encashing domiciled bills of exchange (e.g.: with the cases of frauds, the descriptions of the steps taken by banks and savings banks in the event that a suspicion is raised, the procedures for sharing information between the members of the Bank Association of Slovenia, etc.).

Due to the war in Ukraine, monitoring documentary operations and observance of sanction measures was of key importance also in 2023. The topics falling within the domain of the following areas were elaborated:

- The implementation of ESG policies and their impact on the commercial banking products,
- The provision of a level playground for factoring companies when reporting on factoring operations to the SISBIZ system (a letter was addressed in April to the competent ministry containing an initiative to amend the law governing the central credit register),
- Carrying out customer due diligence from the aspect of the prevention of money laundering and terrorist financing, the product classification of guarantees for the repayment of advance payment, and
- The survey of the procedures to be followed when calling on a guarantee.

In the area of sustainable operations, numerous dilemmas emerged in relation to the implementation of the customer verification and/or verification of their suppliers and buyers, as well as assessing their sustainability-oriented nature by taking into consideration the fact that the criteria for the classification of customers and transactions seen from the ESG viewpoint is at the very beginning.

In the area of the international activities of the key partner International Chamber of Commerce (ICC), primarily the work of the commission for banking technique and practice (the ICC Banking Commission). We have also considered information published by the company *Commercial Crime Services* of which the Bank Association of Slovenia is a member, on international frauds with respect to documentary instruments and warnings concerning risk associated with operations involving domestic and international documentary instruments.

Money and capital markets

In the area of money and capital markets, the work at the Bank Association is carried out in three committees: for treasury-related matters, for back office and depositary issues, and for investment services.

Corporate treasury

Carrying out the activities for effective management of the banking system liquidity by exchanging views among the member institutions and the representatives of the Ministry of Finance reminded the main topic of the discussions also in 2023.

The activities were concentrated on the current banks' activities in relation to the following areas:

- the reference rate reforms in the euro area,
- the novelties in relation to the Minimum Requirement for own funds and Eligible Liabilities (MREL),
- the preparedness of banks for the net interest income (NII) sensitivity limit when managing the interest rate risk in the banking book,
- the preparation for EMIR Refit 2024 compliance, and

- the monitoring of the ESG portfolios in banks in the focus of attention of the members' treasury departments, primarily from the viewpoint of enriching the roster of new investments.

Also in 2023, the close cooperation in the treasury area with the Treasury Directorate at the Ministry of Finance by exchanging the latest information in relation to sovereign debt both in the euro area and also in other currencies, on the announced new bonds and treasury papers issues, and regarding the activities carried out by the Ministry in relation to the sovereign credit ratings, as well as the activities launched by the government in the area of government borrowing from the general public.

Back-office and depositary matters

The activities carried out in the course of 2023 were connected with the back-office functions areas financial markets and securities held in custody by a depositary.

The working group tasked with corporate governance matters addressed a letter in March 2023 to the Central Securities Clearing Corporation (KDD) with a request that the entry of the ISIN codes of newly issued securities in the Central Securities Register (CRVP) codebook as quickly as possible after the successful completion of the auction of government debt instruments and thus lower operating risk in the entire settlement chain.

The working group for depositary matters together with the representative of the Securities Market Agency (ATVP) addressed the current issues in the field of the provision of custodian/depositary services under the Investment Funds and Management Companies Act (ZISDU-3), Alternative Investment Fund Managers Act/ Act on Forms of Alternative Investment Funds (ZUAIS/ZO AIS) and Pension and Disability Insurance Act (ZPIZ-2). Within the framework of the ordinary annual meeting with the Securities Market Agency, the banks providers of depositary services proposed to the Agency that when they perform the examination of prospectuses/rules for the management of the alternative investment funds (AIF), they should demand from their respective managers to include in the aforementioned document a provision/explanatory note with regard to the (scope) of the services provided

by the depositary bank. The depositary banks subsequently amended the content of the text and provided the space in the prospectus/rules of fund management in which such information shall be inserted.

The work in this field is also strongly connected with the work in the area of investment services and in 2023, the topical issues were as follows:

- The tax treatment of the ETC products (Exchange-Traded Commodity) given the fact that in brochure titled "Tax on profit from the disposal of derivatives" issued in October 2022 by the Financial Administration of the Republic of Slovenia (FURS), the ETC products are treated as debt derivatives and in terms of their treatment for tax purposes, they are treated as financial instruments. The matter of the fact is that until October 2022, the understanding of the majority of the financial industry participants (brokers, asset managers, investors) was that in terms of the taxes, the ETC products were treated equally with the ETF products and are taxed in accordance with the effective Personal Income Tax Act (Zdoh-2).
- The arguments advocated by the experts were transmitted to the FURS complete with the concrete facts showing why the ETC (the same applies to Exchange-traded notes - ETNs) products in terms of their tax treatment should be treated in the same way as the ETF products.

Investment services

The work performed in 2023 was channelled towards the preparation and carrying out of the activities in connection with the Strategy for the development of the capital market in Slovenia and, specifically, the activities in relation to the event "The Days of the Slovenian Capital Market" that included the following:

- A press conference, and
- Carrying out educational/training contents in the form of the workshops presenting the basic information for investors and illustrating the advantages of investments made on the Slovenian capital market.

On the basis of the adopted Strategy for the development of the capital market in Slovenia until 2023, within the framework of the ongoing activities, also the introduction of individual financial accounts for financial instruments (IFRFI) is foreseen in order to encourage long-term savings of natural

persons in financial instruments and enable a higher degree of flexibility when taking decisions about making investments.

The Ministry of Finance invited also the representatives of the Committee for investment services to join the newly appointed working group tasked with reviewing of the existing legislation and drafting the proposal for its modification in order to pave the way to the opening of the IFRFIs in financial institutions with the authorisation issued by the Securities Market Agency for the provision of the stockbroking services, asset management and investment funds.

In relation to the above-referenced matters, the members of the working group highlighted the factors, that is, the basis for delineation of the concept as shown below:

- the amount of potential transfers to the IFRFIs within the framework of a calendar year,
- the time limit, that is, the determination of a minimum time frame for the balances of securities on the IFRFIs,
- the selection of the adequate method of stimulation for the IFRFI holders (premium vs. tax allowance),
- the technical aspect of the IFRFI (the individual savings account linked to the trading account of a natural person, possible limits on the roster of financial instruments for the IFRFI, and
- the possibility to reduce costs for the IFRFIs in the event that investments are made in the Slovenian market.

Payment services and SEPA project

The work in the area of payment services at the Bank Association is organised in the committees: for payment services, for card operations, and for the SWIFT system, and the working groups for standards.

Payment services

The main activity in 2023 was monitoring the progress in the migration of volumes from the BIPS IKP solution to the BIPS IP solution. With regard to the derogation originally granted by the European Central Bank allowing

that after the migration of the technical account to TIPS for a limited period of time to settle in addition to the SEPA Instant Credit Transfer (SCT Inst) scheme also the SEPA Credit Transfer (SCT) transactions, the members repeatedly drew attention to potential problems in connection with the performance of the AML controls, ensuring payment of pension benefits through the IP system and setting up alternative solutions for IP orders processing. Therefore, the proposal was submitted to Bankart to work out a solution for the migration of pension to BIPS IP (non-time critical payments and the TARGET Instant Payment Settlement – TIPS) and the possibility of splitting liquidity in two parts. Having received Bankart’s reply that splitting liquidity necessitates development that could not be finalised by February 2024, that is, by the expiry of the derogation, Bankart addressed to the ECB another request to extend derogation.

The ECB’s Governing Council has granted the request to extend derogation and the derogation will be in force until February 2027. In the area of payment services, rejections of instant payments have been monitored on a regular basis for some time already, separately for outflow and inflow transactions and separately for BIPS IP and TIPS.

In the regulatory area, the legislative proposal on instant payments - Regulation (EU) as regards instant credit transfers in euro was addressed, and the members also took note of two packages of legislative proposals in the area of the single currency and the area of payment services and open finance published by the European Commission (the proposal for a Regulation on payment services in the internal market – Payment Services Regulation (PSR), the proposal for a Third Payment Services Directive – a Directive on payment services and electronic money services in the internal market (PSD3), and the proposal for a Regulation on the establishment of the digital euro).

In 2023, the following documents were updated:

- The Manual for the ISO 20022-based XML messaging standard for exchanging payments data on credit transfers,
- The Manual for SEPA Direct Debit in the ISO 20022 message standard and
- The Manual for B2B credit transfers as set out in the ISO 20022 standard when changing-over to the new version of the standard ISO 20022

- v. 2019. To that end, a general notification for bank customers on the migration to the 2019 version of the ISO 20022 standard was also prepared.
- The Recommendations for the procedure and for encashing bills of exchange by providers of payment services were amended,
 - The documentation for upgrading the standard for exchanging documents according to the standard IzvrsbeXML v. 1.05 was verified, and
 - The new version of the Rules for the creation and use of standardised references.

With regard to the legislative package to fight fraud in the area of value-added tax (VAT) adopted by the Council and the preparations for the start of reporting of payment data by payment services providers and transmission to the Central Electronic System of Payment information (CESOP), a proposal was addressed to the Financial Administration - FURS to organise a workshop on the subject of the new reporting obligations and FURS endorsed the proposal. Moreover, a proposal to collect centrally all questions asked by the parties concerned in relation to the new reporting of payment data and to transmit them to FURS through the Bank Association of Slovenia with a view to preparing responses as soon as possible.

As regards the VEP.si secure mailbox, regardless of the fact that the testing phase of exchanging data through the secure electronic mailbox between the members of the Bank Association and the Police was successfully completed in 2022, the Police notified the Bank Association in July 2023 that all further activities on setting up the system were temporarily suspended due to the newly identified legal dilemmas and issues in relation to the VEP.si mailbox.

Card operations

In 2023, the following documents produced by Bankart specialised for payment instruments processing, were verified and endorsed:

- The information security matters as set out in the reports by the participants in the payment system Poravnava Bankomatov in 2022,
- The strategy and the methodology of the management of risks associated with then payment system,

- The assessment of risks associated with the payment system, and
- The payment system 'Poravnava bankomatov' and the legal framework for the 'Poravnava bankomatov' payment system.

On the basis of the decision adopted at the session of the National Payments Council set up under the aegis of Banka Slovenija, a meeting was organised in February 2023 with the representatives of the Slovenian Consumers Association to discuss the possibility for disabling the contactless payment functionality. On that occasion, different possibilities for carrying out card payments were presented.

Furthermore, the initiative that the Financial Administration of the Republic of Slovenia (FURS) should organise a workshop dealing with reporting payment data by the payment services providers and achieving compliance with the requirements of the Central Electronic System of Payment Information (CESOP) was accepted, and FURS organised a workshop in June. It was agreed with the representatives of FURS that banks should gather questions concerning the matters of interest within the framework of the Bank Association and transmit them to FURS so that their experts could prepare answers.

The issue of a level playing field providing equal terms for carrying out operations for all payment service providers (PSPs) in Slovenia, primarily in terms of tax treatment in accordance with the provisions of the Financial Services Tax Act (ZDFS), was once again on the table.

Further to compliance with the requirements laid down in the Regulatory Technical Standards on strong customer authentication (RTS SCA), a request was addressed once more to Banka Slovenije to check once more whether all EU Member States had already implemented strong authentication taking into consideration the fact that certain Member States had been granted derogation from the RTS SCA requirement in terms of the proposed implementation timeline, primarily when it comes to big merchants.

SWIFT

In 2023, three online meetings were organised within the framework of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) both for the business and for the technical part of the services provided to banks. In November 2023, after a two-year break, the in-person meeting of the SWIFT UGM (User Group Meeting) was organised and on that occasion, the representative of SWIFT for Slovenia presented novelties in the area of international payments, new service packages provided by SWIFT and shared the latest information on the development of the existing solutions.

The report from the Sibos 2023 was discussed - the global financial services networking event organised by Swift featuring all areas of Swift operations, presentations of banks, banking applications and also competitors to banks in all areas. The centre state topic of the Sibos 2023 was collaboration of Swift with other providers with the aim to deliver to users frictionless and transparent payments. Payment pre-validation of the beneficiary's account was in the spotlight alongside the use of additional data in structured format for a migration to full ISO 20022 standard. As regards the Swift services, the Swift Case Management that enables the beneficiary's bank to communicate directly with the payer's bank, and Swift Essentials pack with the kits offering tailored applications for banks.

The main novelty of the European Swift Alliance (ESA) is taking a step toward the use of structured addresses by allowing both structured and unstructured data elements (town name and country in a structured format, other address elements unstructured) accepted during the transition period up to 23 November 2025 when the exclusive use of structured addresses should enter into force. The launch of SWIFT Go, a new service for low-value cross-border payments also drew much attention since by providing a seamless payment experience for low-value payments, it keeps them in the SWIFT environment .

Informatics

Fast technological progress brings opportunities for services and new products available to customers 24/7, more efficient and also safe operations, but on the other hand, it also brings new challenges in the area of risk management. To cope with both trends, the area of informatics is becoming ever more a corporate, regulatory and supervisory priority. The work in the area of informatics at the Bank Association is divided between the two committees: for information technology and for information technology security.

Informatics

The key topics of the activities performed in that area in 2023 were once more the digitalisation and security of operations. An important task in 2023 was also mutual exchanging of information, experiences and standpoints on the development banking information technologies, monitoring legislation and standards in that area.

In the area of regulation, special attention was paid to the draft Artificial Intelligence Act (AI Act) to which the members of the European Parliament adopted amendments on 14 June and interinstitutional negotiations (trilogues) began about the final form of the act: the European Parliament, the Council of the European Union and the European Commission expected to be agreed by the end of the year. The text of the Act was presented in October by the representative of the Ministry of Digital Transformation. Within the framework of the meeting, the Bank Association was invited to participate in the work of the Technical Committee for artificial intelligence at the Slovenian Institute for Standardisation (SIST), through which thanks to the appointment of the Association's representative the active participation is ensured in the preparation of relevant standards at the EU level serving to provide support for the emerging legislation to regulate artificial intelligence in the EU. The condition for sitting on the Technical Committee participation was the membership of the Bank Association of Slovenia of the Slovenian Institute for Standardisation – SIST.

Furthermore, the Access to Products and Services for Persons with Disabilities Act (ZDPSI) was discussed, as well as the cooperation with the representatives of the Network of Non-Governmental Organisations with regard to the accessibility of banking products and services to the vulnerable groups in the society as it arises from the concerned law.

The participation in the discussion was active when it came to the Rules on the technical conditions, which had to be complied with by the remotely controlled or electronic procedures and the devices for identification for which the Ministry of Finance held a public consultation last April.

The proposal of a list for the upgrade of the ZBS B2B communication interface was finalised in 2023. The testing of a new version of the interface is expected to take place in 2024. Moreover, a presentation of the new features of the Kafka data streaming platform introduced in 2023 by Bankart was also organised.

A highly coveted public roundtable was organised in October on the topic of the Digital transformation and security challenges. The discussion at the public roundtable revealed the trends in the area of digital transformation, how security should be managed and what connection exists between the roles of the information security service and the IT area in a company, and what challenges are encountered in the area of information management and protection. The discussion was also about the role of artificial intelligence in fighting cyber-attacks and the EU legislation in that area, about the use of artificial intelligence in conducting a behaviour analysis of users and when malicious actions are detected in the network and about the necessary networking of stakeholders for the purpose of efficient prevention of attempted cyber and information attacks. The participants also touched on the issue of human resources and digital competencies and the situation in Slovenia. What also matters is that within the framework of the organisation of the roundtable, the cooperation was strengthened with the ICT Association of Slovenia (ZIT) that operates within the framework of the Chamber of Commerce and Industry of Slovenia.

Given the fact that the investigation phase of the digital euro project was concluded in October 2023, hence it moved to the preparation phase serv-

ing to pave the way for possible future issuance of a digital euro, special attention was also paid to that topic by joining the activities on the preparation of positions within the framework of the EBF.

The presentation of the results of the survey on the information security situation and the competency framework for this area in Slovenia were also discussed. The presentation was delivered by the President of the Board of the Institute for Corporate Security Studies.

The Committee members were kept informed on a regular basis all year long about the activities of the joint working group composed of the representatives of the Association's members and Banka Slovenije. The group's main task is tackling the challenges in the reporting area and coming up with practical solutions to concrete matters.

Information security

The activities were mostly connected primarily in the area of exchanging information and experiences in the area of information security, exchanging opinions and designing recommendable solutions in the area of security and defining positions in connection with legislative changes. In the area of exchanging data regarding frauds and incidents in the areas of information security, the collaboration with the Police and the National Security Centre SI-CERT continued also in 2023.

The most important activities performed in 2023 include the following:

- exchanging data between banks and SI-CERT,
- exchanging information on different forms of fraud,
- participation in the TV program 'Dobro jutro' broadcast with the aim to raise public awareness in connection with cybercrime,
- participation in the national advertising campaign for raising public awareness of risks associated with online frauds,
- updating the list of regulatory requirements for the information compliance area,
- modifying the questionnaire for outsourced service providers,
- potential measures for containing the risk associated with financial frauds (the remote desktop app AnyDesk), and

- participation in the public roundtable Digital Transformation and Security Challenges in which as many as four members of the Committee took part as lecturers.

As regards the revision of the eIDAS Regulation and the adoption of the European wallets for digital identity for the purpose of strong authentication of users, the stance adopted by the banking sector is that the toolkit and implementing acts must ensure that the necessary requirements specific for the industry must be supported.

At the end of January, a virtual presentation was held showcasing the solutions offered by the Irish company for managing the SMS phishing risks.

As regards the Personal Data Protection Act (ZVOP-2) and the provision in accordance with which the functions of the data protection officer (DPO) and the chief information security officer (CISO) have a conflict of interest, a request for clarification was addressed in February 2023 to the Information Commissioner.

In addition, a new working group tasked with updating the list of regulatory requirements for the area of information compliance was set up within the framework of the Committee and it held four meetings and prepared an overview of all regulatory requirements governing that area.

In January 2023, the Digital Operational Resilience Act (DORA) and the Network and Information Security Directive (NIS2) entered into force, but DORA will apply as of 17 January 2025. DORA sets the requirements for financial entities to test their operational resilience on a regular basis, and such testing should take a risk-based, rather than standardised approach – financial entities are expected to test the risks most important for their lines of business. The purpose of the tests is to check the state of preparedness of financial institutions' systems in the event of ICT-related incidents (e.g. a cyber-attack). As regards the NIS2 Directive, the EU Member States have time until 17 October 2024 to adopt and publish the measures necessary to comply with the NIS2 Directive – to transpose them into their respective national legislation. Since the European Supervisory Authorities (ESAs) had to prepare for DORA in 2023 numerous regulatory acts and implementing

technical standards, the Committee paid particular attention to those issues.

In May 2023, the European Banking Authority and the European Central Bank organised a workshop on major incidents reporting under the Revised Payment Services Directive (PSD2). Within the framework of the European Banking Federation, we were involved in the discussion about the proposals regarding the European Cybersecurity Certification Scheme for Cloud Services (EUCCS). We followed closely the developments in the area of the preparation of the EU Cyber Resilience Act (CRA) and the so-called payments package by means of which the European Commission also adopted in June the proposal of the Payment Services Regulation and the Directive on payment services and electronic money services in the internal market (PSD3). Special attention was also paid to the information disseminated by the European Banking Federation in relation to cyber incidents reporting under DORA and, as already mentioned, the drafting of the following respective acts:

- regulatory technical standards (RTS on ICT risk management framework and RTS on simplified ICT risk management framework, RTS on criteria for the classification of ICT-related incidents,
- ITS to establish the templates for the register of information, and
- RTS to specify the policy on ICT services performed by ICT third-party providers).

Of key importance is also the constant checking of Europol security notifications/warnings referring to international frauds.

The activities on the project for setting up the Malware Information Sharing Platform (MISP) in banks and savings banks lost momentum in 2023 after insufficiencies in the national legal framework were spotted. Therefore, in April 2023, the alternative way for direct exchange of IBAN data between banks and savings banks was put in place.

Numerous activities had to be performed also in 2023 for the preparation of the information to be divulged to the public in relation to the adequate and safe use of the services offered by the member institutions and partici-

pation in carrying out training programs in the area of ensuring information and cyber security, and for the preparation of the pan-Slovenian campaign risk designed to raise public awareness of different online frauds.

Legal affairs

The bodies dealing with the area of legal affairs at the Bank Association include the Legal Affairs Committee and the Committee for KPDb, social partnership area and the Human resources forum, as well as three working groups: for the recommended Instructions for the execution of enforcement at banks, and the Instructions for enforcement orders and Instructions on the dissemination of confidential data.

Keeping abreast of the novelties in legal areas at the forefront during the year under review, was ensured in collaboration with the member institutions. The proposals to be highlighted, as well as the motions for amendments to intervention legislation subsequently made after the August floods, include the following:

- The act amending the Natural Disaster Recovery Act,
- The Act Determining Intervention Measures for Recovery from the Floods and Landslides of August 2023, and
- The Act on Reconstruction, Development and Provision of Financial Resources, specifically the provisions stipulating the tax on total assets of banks and savings banks. In this respect, there were numerous activities undertaken with the aim to verify the constitutionality of levying the tax on credit institutions' total assets.

Furthermore, the comments referring to the laws listed below were harmonised and transmitted:

- The Amendment to the Collective Actions Act,
- The Act Amending the Financial Operations, Insolvency Proceedings, and Compulsory Dissolution Act,
- The Central Credit Register Act,
- The Act Amending the Companies Act, and
- The Act governing credit purchasers and credit servicers of the non-performing loans issued by the banks.

Numerous activities had to be carried out in the area of loans denominated in Swiss francs also in 2023.

As always, the legal affairs area also included a number of activities carried out within the framework of other fields of work:

- addressing the issue of opening, that is, non-opening of transaction accounts of legal entities and natural persons,
- addressing the initiative to examine the possibility to prevent presentation of counterfeited bills of exchange for payment collection,
- addressing the ECJ's judgement C-383/18 (the so-called Lexitor),
- the developments in the ECJ's Case C-555/21 (credit agreements for consumer relating to residential immovable properties), and
- the comments on the draft Resolution on the National Programme for Protection of Consumers 2024–2029 prepared by the Ministry of the Economy, Tourism and Sport.

Within the framework of the working groups (for debt enforcements, enforcement orders, inquiries) numerous activities on harmonisation and exchanging best practices took place, and the updated version of the Instructions on the execution of enforcement decisions at banks was prepared. Moreover, the respective working group finalised the work on:

- the updated version of the Instructions with regard to sharing confidential data.

In the area of the execution of enforcement decisions, certain activities were also carried out in relation to the August floods and a special code was agreed from the payments codebook and proposed to the payers to be applied with the aim to deliver straightforward and automated processing at banks and to be able to distinguish between different kinds of receipts.

Legal issues

As already mentioned, considerable time was dedicated to the issue of loans denominated in Swiss francs, the collective actions for damages filed against banks and savings banks by the institute Zavod KOLEKTIV99 (the so-called floor clause), the so-called Lexitor case, the issue of encashing in payment enforcement instruments, frauds related to cyber payments and

frauds in the area of collecting payment on the basis of a counterfeited bill of exchange, and in general the contents relating to consumer legislation. The Committee proposed and the also coordinated ordering the legal opinions that gave us answers to the outstanding issues falling within the domain of the aforementioned topics.

at the same time, the representatives of the legal offices exchanged positions and best practices by correspondence on many occasions to cast light on specific matters and thus managed to resolve many dilemmas.

All three working groups operating within the framework of the Committee continued their work (for the recommended Instructions for the execution of enforcement decisions at banks, and Instructions for enforcement orders, and for the Instructions on the transmission of confidential data).

Social partnership

Among the most important matters addressed by the Bank Association in 2023, there are also the activities in the area of collective bargaining, that is, social partnership.

In January 2023, the amounts of the lowest base salaries from the annex to the Collective Bargaining Agreement of the banking sector of Slovenia (KPDb) were adjusted by 90% of the annual inflation in 2022, rising by 9.27% based on the official rate of inflation of 10.3%. The method, the time frame and the percentage of base salary adjustment on the employer's side are to be agreed in the collective bargaining agreement with the employer or in a written agreement between the employer and the trade union, that is, the employees at the workers' assembly, if there is no trade union formally recognised by the employer.

The Bank Association responded to the trade union's call to adjust salaries in the banking sector to the high inflation, and certain activities had already been undertaken in banks and savings banks aimed at improving the social position of banking professionals, that is, to prevent the living standard of bank employees from falling. To that end, banks and savings banks adopted various concrete measures designed to improve the conditions. In turn

it means that entering into new agreements at the industry level for most member institutions would mean implementing the measures for the improvement of the standard of employees two times and additional cost in uncertain financial and economic situation.

During the year under review, the activities started leading to the signing of the new tariff annex to remain in force until 31 December 2023. The negotiating teams exchanged their proposals and sat at the negotiating table in November.

The traditional conference of HR professionals was not held in 2023.

KPDb - Collective Bargaining Agreement

The members of the KPDb Committee have been authorised by the decision passed by the Supervisory Board to engage in the negotiations with the trade unions (Trade Union of the Banking Sector of Slovenia and the Trade union of NLB) for a new pay rate schedule – Tariff Annex to KPDb; hence the Committee assumed the function of the negotiation team on behalf of the Bank Association. A core negotiation team was then formed from among the member institutions and the members of the KPDb Committee.

The Committee and Supervisory Board proposed that the new tariff annex should be concluded for the period of two years and with the same text as the old one. The trade unions presented their joint proposals that tackled the following issues: the lowest base salary under the TR, base salary adjustment, compensation for working from home, allowance for annual leave, jubilee benefits, solidarity assistance and end-of-year payment. The negotiations started in November.

A baseline framework was prepared by the Committee to accommodate any modifications and amendments to the operative part of the KPDb, should negotiations take place in the future.

Human Resources Forum

The members of the HR Forum held several meetings and addressed and exchanged best practices regarding the activities needed in the HR area after the floods and landslides that hit the country early in August 2023 and, above all, in relation to aid for the employees that sustained damage or loss due to the floods. Moreover, in the last quarter of the year, the HR Forum members exchanged positions and experiences in relation to the novelties in the area of working hours recording and drafted concrete initiatives subsequently submitted to the competent ministry for labour.

In 2023, a survey on the salaries in banks and savings banks was completed in collaboration with the HR Forum by an outsourced service provider.

Compliance, DPO, ethical conduct, prevention of money laundering

The following working bodies are active in this area: the Compliance Committee, DPO Forum, Ethical Committee and the anti-money laundering Committee (AML Committee). In addition to the constantly changing regulations in that area, the war in Ukraine and the sanctions imposed by the European Commission had a strong impact on carrying out the Association's activities.

Compliance issues

Within the framework of the activities carried out in the course of 2023, the issues that took the centre stage were those related to the new Consumer Protection Act and opening of transaction accounts for election expenditures, as well as the participation of the Committee members in drafting the guidelines for (in-person and digital) accessibility of banking services to persons with disabilities.

The area of work encompasses almost all business processes of the Association's members and, therefore, the activities were also focused on the intervention regulations, exchanging best practices in the area of digitalisation of the compliance procedures and sharing opinions on the environmental,

social and governance (ESG) factors and sustainable development, as well as sharing experiences regarding these systems for whistleblowers and the protection of whistleblowers.

Of other important topics addressed by the Committee members during the year under review, the issues worth mentioning are those related to reporting under the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), Environmental, social, and governance (ESG) and deployment of artificial intelligence (AI).

DPO Forum

The members of the DPO Forum (authorised persons for data protection – data protection officers) were active in 2023 in the areas, which touch upon personal data protection. At the meetings of the DPO Forum, the members addressed topical issues and exchanged best practices in the area of personal data protection. The most important issues included those referring to the processing of personal data of more than 100,000 individuals on the basis of the law, preservation of documentation, provision of data from the Central Population Register and transmitting data to legal heirs.

Ethics Committee

The Committee tasked with dealing with the ethical challenges set up back in 2018, did not hold any meetings in 2023 as no ethics complaints alleging a breach were received.

Prevention of money laundering

The focus of the activities carried out in 2023 was on the issues relating to the implementation of the act governing the prevention of money laundering and terrorist financing, and to that end, opinions were exchanged, and the cases of best practices shared concerning the following:

- Video electronic identification,
- AML requirements and closing, that is, not opening customer accounts (legal and natural persons),
- Conducting operations against the backdrop of restrictive measures,

that is, financial sanctions (as a consequence of the Russian aggression against Ukraine), and

- Issues in relation to opening accounts to refugees and also the dilemmas regarding reporting to the Office of the Republic of Slovenia for the prevention of money laundering.
- In the aftermath of August flooding, hands-on experiences were shared with regard to the transactions provided to the persons whose identification documents were lost due to the floods.

The most important issues addressed in 2023 also include the dilemmas encountered in the area of customs procedures and documents from the point of view of the implementation of restrictive measures and financial sanctions, and AML. Further on that topic, a whole day conference was held with the participation of the representatives of banks and savings banks and the Association, as well as the representatives of the Financial Administration of the Republic of Slovenia - FURS (Slovenian Customs), the Ministry of the Economy, Tourism and Sport, the Ministry of Foreign and European Affairs, Banka Slovenije and the Office for Money Laundering Prevention. After the conference, the Bank Association addressed an initiative to the coordination group headed by the representative of the Ministry of Foreign and European Affairs to prepare the guidelines for banks on the implementation of the restrictive measures and financial sanctions so that the guidelines clear the ambiguities and facilitate operations in practice.

The Committee also examined the issues raised in the following EBA guidelines:

- The Guidelines on policies and controls for the effective management of ML/TF risks when providing access to financial services ('The De-risking Guidelines'), and
- The Guidelines on 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 ('The ML/TF Risk Factors Guidelines')

With regard to the De-risking guidelines, the standpoints and questions were formulated and subsequently addressed to Banka Slovenija.

In 2023, under the aegis of the central bank, the activities for bringing the National assessment of the risk of money laundering and terrorist financing (NOT) up to date. The first report on NOT was prepared back in 2015 and then it was updated twice: in 2016 and in 2021. Also the representatives of the Committee participated in the working group.

Leasing activity

Concerning public visibility of leasing activity, no strongly negative connotations and, above all, media coverage that could affect the reputation of the activity, were detected in 2023. Just like a year earlier, there were no negative, generalised exposure of the activity when doing business with consumers in 2023 either.

As regards membership, as envisaged in 2022, there were leasing companies put up for sale, and others were included in other banking groups in 2023. However, such changes in ownership structures did not result in winding up certain leasing companies.

Motor vehicle leasing area

The statistics show that both in Slovenia and also in other countries, members of Leaseurope, leasing motor vehicles remains the most important segment of leasing activity. After experiencing difficulties with the supply of motor vehicles due automotive chip shortage and the disrupted supply chains exacerbated further by the outbreak of the war in Ukraine, the supply chain was stabilised in 2023.

There were no legislative procedures that would affect motor vehicles and hence would be reflected on the operations of leasing companies in 2023. The August floods did not cause unmanageable damage either. Nevertheless, a wide range of questions raised in case that such catastrophic events would result in even more extensive damage.

Also in 2023, the evergreen topic of the registration of motor vehicles was still on the table due to the ill-conceived registration procedure that disregards the specific features of leasing and causes problems both to the leas-

ing companies and the government budget – the issue we explicitly drew to the attention of the ministry responsible – alongside the issue of uninsured vehicles.

Uninsured vehicles and negative practice regarding liability for damage caused with those vehicles to third parties coupled with the inability to systematically retrieve data on the insurance status of the vehicle or at least periodically, was our long-standing topic also in 2023, alongside the initiative for cooperation with insurance companies, the so-called vinculation. The most recent initiative of Bankart proposing that the exchange of information would be handled by them (presumably using the system in place at the largest insurer in Slovenia) has already made remarkable progress, but according to the information obtained, it has also ground to a halt due to an impasse on the side of the insurance companies. Another important area addressed in 2023 were electric vehicles and the implementation and enforcement of the ESG standards, as well as reporting on the progress made.

Prevention of money laundering and financing terrorism

In 2023, no particular issues were raised in relation to the observance of the provisions set out in the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT). On the basis of the newly promulgated act governing the prevention of money laundering and financing terrorism – ZPPDFT-2 – the e-PPDFT training programme for leasing activity was prepared and the leasing companies enrol their employees in the training programme, thus complying with the legal obligations laid down in the Act.

Personal data protection

Despite the fact that the implementation and enforcement of the General Data Protection Regulation (GDPR) have been in place for a few years already, exchanging information and exchanging best practices still continue. In connection with the new Personal Data Protection Act (ZVOP-2), no problems in relation to the implementation of the Act were reported in 2023. By adopting the new Act, also penalties for violating its provisions were introduced and more work is expected to be done in that area.

Real-estate area

In 2023, the real-estate area was not a focus of attention of leasing activity in Slovenia, despite the fact that it is on the rise in some neighbouring countries, such as in Austria. The downward trend revealed by the statistical data in this area indicates that there is a leasing activity segment that is still engaged in real-estate operations and has a real-estate portfolio with properties acquired in the past; hence, the real-estate segment of leasing activity is still monitored, and in particular and expressly any drafts of new legislation on taxes levied on real property, as well as pro-active advocacy of mass valuation of property.

Reporting and statistics

In 2023, the overhaul of the Leaseurope reporting requirements, primarily by including the new »green components« in reporting, was completed. In general, ongoing reporting continues without any major difficulties and the provision of quarterly feedback on reporting information now runs smoothly.

The agreement with Banka Slovenije that, based on the data from mandatory reports transmitted by leasing companies, it would receive and process and publish the data with the content envisaged by categories monitored by Leaseurope, is now carried out on a regular basis and provides data to other stakeholders as well, such as the SURS (Statistical Office of the Republic of Slovenia) and the AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services).

Consumer protection

The issue of the implementation of the Lexitor ruling in everyday practice of leasing activity began emerging ever more often, both for the past, present and future operations. Reimbursing costs in the event of early repayment is largely connected to the activity of credit intermediaries and the costs connected with their activity. The Market Inspectorate (TIRS) conducted the examination of the implementation, but the procedures were not completed in 2023. The initiatives in relation to the inability to carry out remote

customer identification in order to access SISBON even though it can be done for the purposes of the Prevention of Money Laundering and Terrorist Financing Act (ZPPDFT) still remained open, hence ample correspondence was exchanged in 2023 with Banka Slovenije, the Information Commissioner and the Ministry of Finance. The German indisputable practice in that area was cited, but there was no answer to the initiative, save for a general answer of the Information Commissioner. At the end of the previous year, the umbrella law on consumer protection was promulgated and started to apply. However, the new law does not contain the even-handed solutions already agreed in the previous versions regarding the leasing area of consumer financing and their equal treatment when it comes to material defects and the departure of leasing activity from the notion of hire purchase/sale in instalments, that is, title retention, if consumers purchase an article or take it under a lease finance arrangement. As a consequence, in the absence of settled case law, it was necessary to continue also in 2023 to closely monitor court rulings.

Alternative dispute resolution

Two procedures against leasing company were initiated by consumers in the course of 2023.

SISBON – Credit Register

The open issues and unanswered questions alongside sharing the practice in relation to audit reviews in connection with SISBON/SISBIZZ were addressed at the scheduled periodic meetings of the SISBON Committee. Also in the course of 2023, the audit review conducted by the new auditors of Banka Slovenije remained a challenge and financial burden for leasing companies, since after many years of advocating their undisputable position, they switched to a completely different view that does not take into account the specific characteristics of leasing activity.

Tax and accounting area and the area of insolvency legislation and debt restructuring

The Financial Administration of the Republic of Slovenia (FURS) issued in 2014 the opinion on the termination of contracts and the recovery of value-added tax (VAT) account for upfront. In the meantime, a new case law of the European Court of Justice (ECJ) was established in connection with the VAT deduction rules and in July 2023, FURS issued a new opinion, primarily in relation to the new judgements of the European Court of Justice referring to the similar situations (such as Unicredit Bulgaria).

Furthermore, FURS issued new guidelines following the judgement of the European Court of Justice in case of real estate sale-and-leaseback transactions since they constitute a specific financial technique and give a rise to a VAT cost. As new questions requiring explanations continue to appear, such issues are then addressed by exchanging and harmonising positions. Also in the course of 2023, the questions in relation to the collision between DFS and VAT also emerged, and it was explained and made clear that it was necessary to take into account the way in which a transaction is handled and the actual state of affairs.

After many years of debates and draft documents, the new IFRS 16 – leases entered into force. It also influences the operations of leasing companies and their clients both in the area of general hiring and leasing operations. Despite considerable changes, the members did not report any major problems in 2023 either.

The largest expected and then in practise also intensively carried out work on the transposition of the Anti-Tax Avoidance Directive into the Corporate Income Tax Act (ZDDPO-1) was wrapped up with the assistance of the outsourced service providers KPMG thus putting in place the thin capitalisation rules, that is, excessive interest payments. While waiting for the announced proposed changes, KPMG carried out an analysis of the position of leasing companies in relation to the implementation of the Directive in other European countries. The findings of the analysis show that, generally speaking, leasing companies are not exempt from the new legislation, which does not pose a problem for leasing companies given the fact that

under the new directive, only excessive interest payments are taxed and, in general, there are no such payments in leasing activity since all borrowed funds are distributed onward in leasing operations. The complications and the unsustainability of the situation in the Republic of Slovenia were revealed when the draft law was received in which, instead of reorganising the concerned area, the restrictive Article 32 of the Corporate Income Tax Act (ZDDPO-1) remained in force and the arrangement under the new regulation was added. Expert solutions to such a proposal were provided in due time, but they were eventually discarded. Therefore, arguments were reiterated in favour of deleting Article 32, but the challenged Article 32 will not be subject to modifications and, as a consequence, there will be no formal conditions to propose an amendment to the article at issue.

In 2023, a large number of activities are also associated with the changes to the Financial Operations, Insolvency Proceedings, and the Compulsory Dissolution Act (ZFPPIPP-H), known as the »Second Chance Directive«. Quite a few remarks were made on all versions of the law and numerous meetings were held alongside coordination in writing. The proposals made were taken into account in some cases; nevertheless, the emphasis on the need to put in place a holistic approach still remains, and the presentation of the logical arrangements of the biggest economic partners should be considered.

Membership of national and international organisations

In order to carry out the Bank Association’s mission including the area of leasing activities, the cooperation with different stakeholders is of key importance both within the national borders and in Europe, as well as globally. Therefore, an important part of the Association’s activities is connected with the relevant national and international organisations and working bodies or initiatives. The Bank Association is member and actively participates in the following national and international organisations, working bodies and initiatives.

