



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

ANNUAL REPORT 2013



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# CONTENTS

<b>FOREWORD</b>	<b>5</b>	3.3 Processing of euro banknotes and coins	38
<b>A ECONOMIC, MONETARY AND FINANCIAL DEVELOPMENTS</b>	<b>7</b>	3.4 Counterfeit banknotes and coins recovered in Slovakia	39
<b>1 MACROECONOMIC DEVELOPMENTS</b>	<b>9</b>	<b>4 PAYMENT SERVICES AND PAYMENT SYSTEMS</b>	<b>41</b>
1.1 The external economic environment	9	4.1 Payment services	41
1.1.1 Global trends in output and prices	9	4.2 Payment systems of the Slovak Republic	42
1.1.2 Economic developments in the euro area	9	4.2.1 TARGET2 and TARGET2-SK	42
1.2 Macroeconomic developments in Slovakia	10	4.2.2 Payments executed via TARGET2-SK	42
1.2.1 Price developments	11	4.2.3 The SIPS payment system	43
1.2.2 Gross domestic product	12	4.2.4 Payments executed via SIPS	44
1.2.3 Labour market	13	4.2.5 Payment cards	44
1.2.4 Financial results	14	4.3 Cooperation with international financial institutions in the payment systems field	45
1.2.5 Balance of payments	15	<b>5 STATISTICS</b>	<b>46</b>
<b>2 EUROSISTEM MONETARY POLICY</b>	<b>17</b>	5.1 Monetary and financial statistics	46
2.1 Monetary policy operations	17	5.2 Financial account statistics	46
2.2 Foreign exchange operations	19	5.3 Statistics on the insurance, capital market and pension sectors	47
<b>3 FINANCIAL MARKET DEVELOPMENTS</b>	<b>19</b>	5.4 Statistics on non-bank entities	48
<b>B NBS ACTIVITIES</b>	<b>23</b>	<b>6 ECONOMIC RESEARCH</b>	<b>49</b>
<b>1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT</b>	<b>25</b>	<b>7 EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION</b>	<b>51</b>
1.1 Minimum reserve requirements	25	7.1 European affairs	51
1.2 Eligible assets	25	7.2 NBS cooperation with international institutions	51
1.3 Investment portfolio management	27	7.3 International activities in the field of supervision	52
<b>2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION</b>	<b>28</b>	7.4 Foreign technical assistance	53
2.1 Financial stability	28	<b>8 COMMUNICATION</b>	<b>54</b>
2.2 Supervision of the financial market	29	<b>9 LEGISLATION</b>	<b>58</b>
2.3 Financial market regulation	33	<b>10 INSTITUTIONAL DEVELOPMENTS</b>	<b>60</b>
2.4 Financial consumer protection	35	10.1 Institutional framework	60
<b>3 ISSUING ACTIVITY AND CURRENCY CIRCULATION</b>	<b>36</b>	10.2 Organisation and management	62
3.1 Cumulative net issuance	36	10.3 Human resources	63
3.2 Production of euro banknotes and coins	38	10.4 Education	64



<b>C</b>	<b>INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2013</b>	<b>67</b>	
			List of Charts 91
			List of Tables 91
			Abbreviations 92



## FOREWORD

In 2013 Národná banka Slovenska celebrated its 20th anniversary, which gave us an opportunity to take stock. Since its establishment in 1993, NBS has undergone many significant changes. In response to developments in economic relations, as well as in the domestic political environment, the bank's objective, strategy and instruments have gradually changed, as have its organisational structure and personnel.

A key milestone in the bank's history was Slovakia's accession to the European Union in 2004. However, it was the introduction of the euro in Slovakia, in 2009, which had the greatest impact on the functioning of NBS. As of then the bank became a full-fledged member of the Eurosystem and consequently adopted the common monetary policy of the euro area. One of the most significant events for NBS in 2013 took place in Bratislava in May, when the regular meeting of the ECB's Governing Council was held in Slovakia for the first time. The meeting was followed by the launch of the new €5 banknote, the first denomination of the second series of euro banknotes. Another priority of last year was the preparatory work on the introduction of new rules for credit transfers and direct debits within the Single European Payments Area (SEPA).

As regards the external environment in 2013, the situation improved moderately, largely thanks to the euro area's emergence from recession. The economic upturn was accompanied by partial stabilisation of the debt crisis in certain countries. At the same time, however, the upturn was heavily contingent on the continuation of non-standard monetary policy instruments aimed at boosting liquidity and ensuring the smooth functioning of specific financial market sectors.

On the home front, the annual growth rate of GDP slowed further (to 0.9%), owing mainly to a decline in net export growth. The annual rate of change in domestic demand continued to be negative, nevertheless, its overall impact on GDP was significantly lower than in the previous year due to increased public consumption. With the trade surplus increasing to 6.0% of

GDP, the balance of payments current account surplus rose to 2.2% of GDP. Subdued activity in the domestic economy was not conducive to an improvement in the depressed labour market situation. The unemployment rate remained above 14%.

In an environment of weak demand and subdued price developments, a trend of disinflation (a slowing down of consumer price increases) continued in Slovakia. The annual inflation rate as measured by the Harmonised Index of Consumer Prices (HICP) fell to 0.4% in December 2013 and its average level for the year was 1.5%.

In response to disinflationary pressures and with the aim of supporting the euro area's recovery, the ECB's Governing Council adjusted its monetary policy rates on two occasions in 2013. The main refinancing rate was reduced in May from 0.75% to 0.5%, and then again in November, to 0.25%.

The implementation of non-standard monetary policy measures in the euro area remained necessary in 2013. The ECB continued to conduct operations as fixed rate tender procedures with full allotment. Having regard to the subdued outlook for inflation and monetary dynamics and to the projected weakening of euro area economic growth, the ECB engaged for the first time in forward guidance for monetary policy, announcing its expectation that the key ECB interest rates would remain at present or lower levels for an extended period of time.

As regards payment systems in Slovakia in 2013, NBS had an indispensable role in coordinating, and conveying information about, the implementation of the Single European Payments Area (SEPA) for cashless credit payments and direct debits. NBS also continued to ensure the smooth functioning of the SIPS retail payment system and made it compatible with new technical standards. Furthermore, the central bank became a STEP2 direct participant, thus enabling implementation of SEPA cross-border credit transfers and direct debits.





## Ú V O D

In line with their long-run trend, payments executed via SIPS increased in number by 6% and their total value remained almost unchanged. As for the TARGET2-SK payment system, in 2013 it processed around 320,000 transactions that had a total value of more than €630 billion. Therefore the TARGET2-SK traffic increased in volume by just under 15% and in value by 25%.

The cumulative net issuance of euro currency in Slovakia, i.e. the difference between the value of euro banknotes/coins that NBS has put into circulation and withdrawn from circulation, amounted to €8.9 billion by the end of 2013, which represented a year-on-year increase of 7.5%. In addition to ordinary circulation banknotes and coins, NBS issued one million €2 commemorative coins marking the 1150th anniversary of the advent of the mission of Constantine and Methodius to Great Moravia.

The annual profit of Národná banka Slovenska increased year-on-year in 2013, to €490 million. Net interest income and income from financial operations accounted for the largest share of that profit. The number of NBS employees stabilised at just over one thousand, and as at the year end totalled 1,011.

The formation of an EU banking union came a significant step closer in 2013, with the adoption of legislation establishing the first of its three pillars – the Single Supervisory Mechanism – and with the launch of the preparatory phase of its implementation. In autumn the European Parliament gave approval to a new system of supervision under which the ECB will assume direct supervision of the largest banks. This was followed by the start of a year-long phase of preparation for the transfer of supervisory competences from national authorities – including Národná banka Slovenska – to the ECB. Progress was also made in preparations for the second pillar of the banking union – the Single Resolution Mechanism. Towards the year-end the ECOFIN Council approved a common position on a Draft Regulation establishing uniform rules and a uniform procedure for the resolution of credit institution and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund.

A single point of entry was established for customer submissions. Preparations for the on-site inspection of all financial institutions will continue in 2014.

March 2014

Jozef Makúch  
Governor



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

SECTION A

# ECONOMIC, MONETARY AND FINANCIAL DEVELOPMENTS

A





# 1 MACROECONOMIC DEVELOPMENTS

## 1.1 THE EXTERNAL ECONOMIC ENVIRONMENT

### 1.1.1 GLOBAL TRENDS IN OUTPUT AND PRICES

Global economic growth edged down to 3.0% in 2013 (from 3.1% in the previous year) with deceleration observed in both advanced and emerging economies. The euro area remained the most subdued economy in the advanced world, although its rate of contraction moderated in comparison with the previous year. The US economy maintained relatively strong growth, though its pace slowed slightly owing to a federal government shutdown in October and uncertainty about how to resolve the debt ceiling issue. In Japan and the United Kingdom, by contrast, economic growth gathered pace. In euro area countries in particular, activity was curtailed by uncertainty related to the debt crisis and by the ongoing repair of balance sheets in the banking sector and non-financial sector. Although labour markets improved slightly in certain major economies, they remained weak. Growth in emerging economies remained higher than that in advanced economies. Global foreign trade growth was virtually unchanged, at 2.7%, after falling sharply in the previous year.

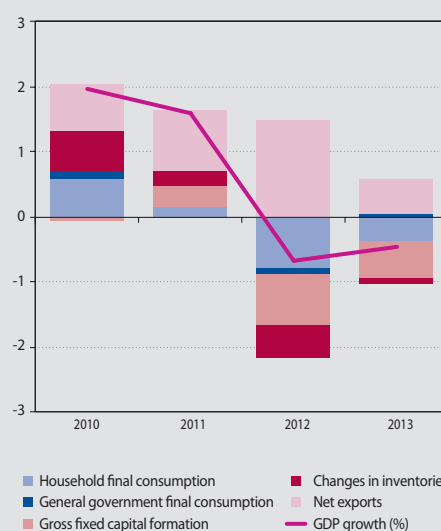
Consumer price inflation declined as activity remained relatively low; it also reflected prices of most commodities, especially energy, which decreased amid lower demand. The average inflation rate in the advanced world fell from 2.0% in 2012 to 1.4% in 2013, while in emerging economies it increased marginally (from 6.0% to 6.1%). Commodity prices were volatile during 2013; their overall trend was slightly downward owing mainly to lower demand in emerging economies. After rising significantly in the first half of the year, agricultural commodity prices fell markedly in the next months; nevertheless, their average level remained almost unchanged. A sharp drop in metals prices in the first half of the year was caused largely by easing demand in China. Their level corrected in the second half of the year as global industrial activity picked up. The average oil price fell slightly in 2013, with its level determined by outlooks for demand and production as well

as by geopolitical conditions in the Middle East and North Africa.

### 1.1.2 ECONOMIC DEVELOPMENTS IN THE EURO AREA

The contraction of the euro area economy moderated to -0.5% in 2013, from -0.7% in 2012. The domestic demand component made a negative contribution, with investment and private consumption both declining. Nevertheless, business and consumer sentiment began to pick up gradually, and credit conditions were also showing signs of improvement by the year-end. Net exports contributed positively to growth, with export growth somewhat higher than the moderate increase in imports. The fragile economic recovery was accompanied by balance-sheet adjustment in both the financial and non-financial sectors amid ongoing fiscal consolidation. The economic situation was reflected in the labour market, as the unemployment rate gradually stopped rising over the course of the year (it edged up from 11.9% in December 2012 to 12.0% in December 2013). The labour market situation constrained private consumption. The need for fiscal consolidation ensured that general government final consumption remained flat.

Chart 1 Contributions to annual GDP growth (p.p.)

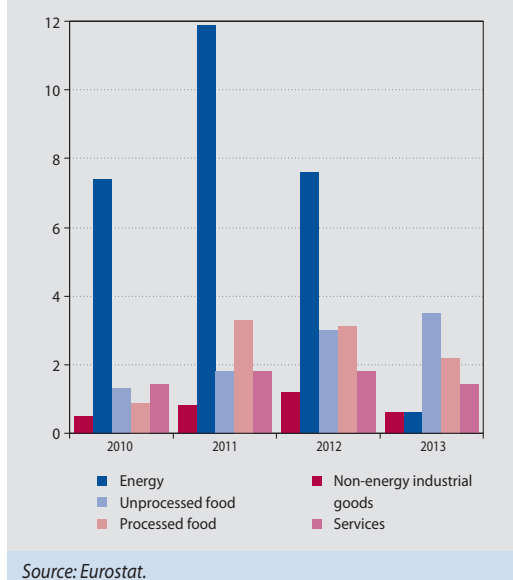


Source: Eurostat.



## MACROECONOMIC DEVELOPMENTS

**Chart 2 Components of HICP inflation  
(annual percentage changes)**



Annual average HICP inflation was 1.4% in 2013, 1.1 percentage point lower than in the previous year. It followed a declining trend, and for every month from October onwards it was below 1%. The main downward pressure on inflation was from energy (especially oil) prices and to a lesser extent from food prices. From a level of 2.2% in December 2012, the HICP rate fell to 0.8% in December 2013. Core inflation (HICP inflation excluding energy and unprocessed food prices) fell in 2013 to an average level of 1.3% (from 1.8% in 2012).

The ECB's Governing Council adjusted key ECB interest on two occasions in 2013, so as to ensure price stability in the medium term amid low underlying price pressures and to support gradual economic recovery.

### 1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia's economic growth decelerated further in 2013. According to the Statistical Office of the Slovak Republic (SO SR), the annual growth rate of GDP at constant prices was 0.9%, down from 1.8% in 2012. Despite its deceleration, the Slovak economy was among the fastest growing economies in the euro area. External demand was the main driver of its growth, while domes-

tic demand made a negative contribution owing largely to lower investments. As regards GDP measured by production method, its growth was largely accounted for by agriculture, industry and some services.

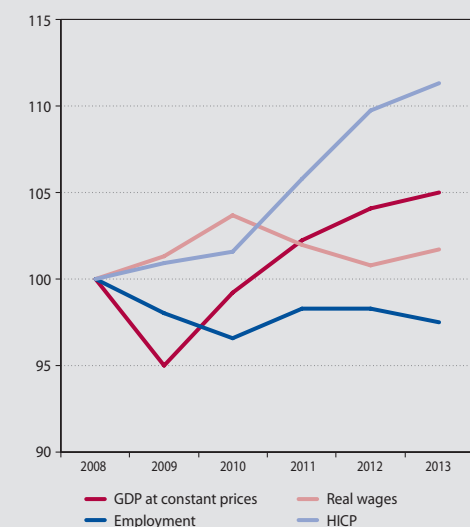
The balance of payments current account posted a surplus of 2.2% of GDP for 2013, unchanged from the previous year. Looking at its composition, the surplus was accounted for mainly by the trade balance, which was primarily boosted by external demand growth. Compared with the previous year, the contributions of other current account components were less favourable.

The labour market situation reflected the environment of subdued economic growth, showing somewhat negative trends and no significant upturn or downturn. Employment (according to ESA 95 methodology) fell by 0.8%, while the number of job seekers increased by 2.2% and the unemployment rate rose by 0.5 percentage point. Only in the second half of the year did employment increase in quarter-on-quarter terms; in the first six months employment trends remained on the negative path observed in late 2012. The number of hours worked declined, reflecting the shortage of labour demand that had been a feature of the economy since 2012. Annual nominal wage growth remained unchanged from its 2012 level, but real wages, unlike in the previous year, increased owing to depressed inflation. Labour productivity growth fell in both nominal and real terms. Real productivity growth exceeded real wage growth, while relatively low wage growth had a downward effect on unit labour costs.

Average annual HICP inflation fell to 1.5% in 2013, from 3.7% in 2012. This marked slowdown was largely attributable to the developments in administered energy prices and in prices of food, non-energy industrial goods, and services.

Looking at the main macroeconomic indicators, only employment has failed to return to its pre-crisis level of 2008. Real wages showed somewhat less downward flexibility, being at present at 1.7% above their pre-crisis level. GDP was appreciably higher in 2013 than before the crisis, even though its growth deceler-

**Chart 3 Post-crisis performance of key economic indicators (index: 2008=100)**



Source: SO SR.

Note: Real wages deflated by the CPI index; employment according to ESA 95 methodology.

ated last year. A similar situation pertained to the price level.

### 1.2.1 PRICE DEVELOPMENTS

#### HICP / CONSUMER PRICES

The average HICP inflation rate for 2013 was 1.5%, down from 3.7% in the previous year. Its slowdown was accounted for largely by lower inflation in administered energy prices and in food prices. Also recording lower annual rates of increase were non-energy industrial goods prices and services prices.

Electricity and gas prices increased more slowly in January owing to a decrease in prices of energy commodities (oil and electricity). Energy price developments at the beginning of the year contributed the most to the HICP's decline from 3.4% in December 2012 to 2.5% in January 2013. Fuel price inflation also began to decrease as the year progressed, owing to the effect of falling oil prices.

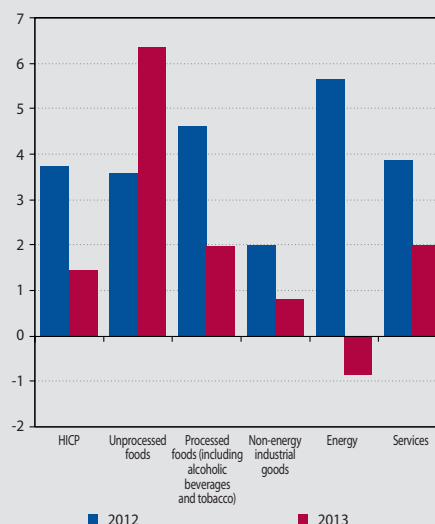
Food price inflation followed a downward path from the beginning of 2013. A good harvest led to lower agricultural commodity prices and created scope for a still more substantial drop in food prices in the second half of 2013. The annual rate of change in food price inflation fell from

4.0% in June 2013 to 0.7% in December, and so the food component accounted for most of the decline in HICP inflation in late 2013.

Annual inflation in non-energy industrial goods declined amidst subdued import price growth and relatively weak consumer demand. One factor in this slowdown was markedly lower inflation in non-durable goods (particularly washing powders in solid or liquid form, pharmaceutical preparations, electric personal care devices, and newspapers) and another was the annual rate of decline in prices of durable goods (particularly furniture, motor vehicles, washing machines, and sound recording and reproduction equipment), which may have reflected the effect of structural changes (a decline in manufacturing unit costs; technological progress; sales methods; the availability of goods; and easier comparability of prices).

The average rate of services price inflation was lower in 2013 than in the previous year due mainly to administrative interventions. After rail transport prices were raised sharply at the end of 2011, they posted a high average rate of increase in 2012. The fading of the base effect of increased transport prices had a downward effect on services prices inflation in 2013. No less significant was the cancellation of a levy on bank mortgage accounts in June 2013, the impact of

**Chart 4 HICP inflation and its components (average annual percentage changes)**



Source: SO SR, NBS calculations.



## MACROECONOMIC DEVELOPMENTS

which on the average HICP rate was put at -0.1 percentage point. Disregarding administrative interventions, the annual inflation rate in non-administrative services also decelerated, probably owing to subdued consumer demand and low wage growth.

### 1.2.2 GROSS DOMESTIC PRODUCT

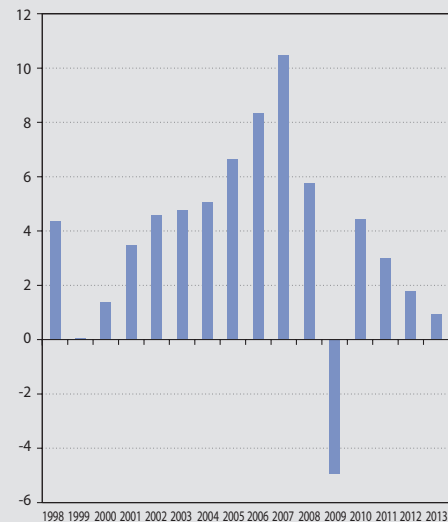
According to the SO SR, gross domestic product at constant prices grew in 2013 by 0.9% year-on-year, after increasing by 1.8% in 2012.

In the case of GDP measured by expenditure method, most of the growth was accounted for by external demand, which accelerated gradually over the course of the year. Domestic demand declined due to a fall in investment, while private consumption remained flat and public consumption increased gradually. Looking at GDP measured by production method, the main contribution to its annual growth rate was from the agriculture and industry sectors, and to a lesser extent from some services (trade, financial and insurance services, IT and communication, and other specialised services). Nominal GDP in 2013 amounted to €72,134 million, which was 1.5% higher compared with the previous year. Owing to the decline in consumer price inflation, as well as in producer price inflation, the increase in the deflator eased to 0.5% (from 1.3% in 2012).

#### SUPPLY SIDE OF GDP

The GDP figure for 2013 was affected by the annual rate of growth in value added (at constant prices), which slowed to 0.5% (from 2.8 % in 2012). There was, however, a positive contribution to GDP growth from net taxes on products (value added tax, excise tax, and import tax, less subsidies), which increased by 5.6 %.

**Chart 5 Real GDP (annual percentage changes)**



Source: SO SR.

The most marked increases in value added in 2013 were in the sectors of manufacturing industry, trade, and financial and insurance services. Value added declined in construction and in public services.

#### DEMAND SIDE OF GDP

In terms of the expenditure method of measuring GDP, it was net exports that accounted for economic growth in 2013, while domestic demand made a negative contribution with a further annual decline (including a decrease in inventories).

The negative effect of domestic demand stemmed mainly from a fall in investment. Household consumption remained flat and public consumption increased slightly. Because

**Table 1 GDP and its components (index: same period a year earlier = 100; constant prices)**

	2012	2013				
	Q1-Q4	Q1	Q1-Q4	Q1	Q1-Q4	Q1
Gross output	102.4	96.3	100.0	100.9	103.1	100.1
Intermediate consumption	102.1	94.1	99.8	101.5	104.1	99.9
Value added	102.8	100.2	100.4	99.9	101.5	100.5
Net taxes on products <sup>1)</sup>	92.1	103.8	104.9	111.4	102.3	105.6

Source: SO SR.

1) Value added tax, excise tax, import tax, less subsidies.

**Table 2 GDP measured by expenditure (index: same period a year earlier = 100; constant prices)**

	2012	2013				
	Q1-Q4	Q1	Q1-Q4	Q1	Q1-Q4	Q1
Gross domestic product	101.8	100.7	100.8	100.9	101.4	100.9
Domestic demand	97.0	96.6	99.7	99.0	101.6	99.2
Final consumption	99.6	99.3	100.4	100.6	100.9	100.3
Household final consumption	99.8	99.2	100.1	100.1	100.4	99.9
General government final consumption	98.9	99.4	101.1	102.5	102.6	101.4
Non-profit institutions serving households	100.7	99.1	98.2	99.0	98.6	98.7
Gross fixed capital formation	89.5	89.2	96.6	93.8	103.8	95.7
Exports of products and services	109.9	104.0	104.6	102.5	106.7	104.5
Imports of products and services	103.3	102.6	102.0	99.7	107.4	102.9

Source: SO SR.

unemployment was still high, and despite improving consumer sentiment and an increase in disposable income, household final consumption either declined moderately or stagnated. Public consumption increased as developments improved in the second half of the year. Investment continued to fall in 2013, albeit to a lesser extent compared with 2012. Towards the year-end, however, as uncertainty about the future diminished, investment began to rebound from its long downward trend and recorded year-on-year growth.

Except for slowing slightly in the third quarter, export growth increased gradually over the course of 2013. The amount of goods and services exports at constant prices rose by 4.5%. Growth in imports of goods and services was more moderate (2.9% at current prices), especially so in the first three quarters owing to low import intensity, subdued domestic demand and increasing uncertainty about the future situation. Import growth picked up significantly in the last quarter, reflecting an increase in investment activity. Annual net exports for 2013 amounted to an all-time high of €9,527.6 million (at constant prices). As regards price developments, the export deflator fell more than the import deflator, possibly indicating a deterioration in export conditions (and a loss of price competitiveness) and a decline in import prices.

The annual growth rate of exports increased by 1.0 percentage point in 2013, while the import intensity of the Slovak economy decreased year-on-year by 0.1 percentage point. The openness of the Slovak economy, as measured by the ratio of exports and imports of goods and services to nominal GDP, increased by 1.0 percentage point to 189.0%.

### 1.2.3 LABOUR MARKET

The labour market situation in 2013 was initially adverse and then stabilised in the second half of the year as activity picked up. This growth, however, was not sufficiently robust to translate into increased job creation. With labour supply exceeding labour demand, nominal wages did not increase significantly. This situation was reflected in low wage growth, declining employment, and a moderate increase in the unemployment rate.

### EMPLOYMENT

Employment (according to ESA 95 methodology) fell year-on-year by 0.8% in 2013, after rising by 0.1% in 2012; its annual rate of change was increasingly negative in the first two quarters, less so in the third quarter, and then turned positive in the last quarter for the first time in five quarters. The number of hours worked fell by 1.8% in comparison with the previous year. The sectors that accounted for most of the slowdown in annual employment growth were



## MACROECONOMIC DEVELOPMENTS

industry (where employment fell 0.8% year-on-year), and trade and transportation (with a drop of 0.7%). By contrast, employment in the IT and communication sector increased by 4.4%, while the decline in employment in the sector of public administration, education, and health care was more moderate in 2013 than in 2012. Not only did the overall number of employees decrease (by 0.5%), so did the number of self-employed persons (by 2.2%). According to the Labour Force Survey, the number of Slovak citizens working abroad in 2013 increased year-on-year by 13.1 % (or 15,800 people). This growth, representing an acceleration of a rising trend that began in 2012, abated toward the end of the year.

### UNEMPLOYMENT

The number of unemployed in 2013 increased year-on-year by 2.3%, according to the Labour Force Survey. Consequently, the average annual unemployment rate increased by 0.2 percentage point, to 14.2%. The registered unemployment rate according to labour office figures averaged 14.1% in 2013, which was 0.5 percentage points higher compared with the previous year.

### WAGES AND LABOUR PRODUCTIVITY

The average monthly nominal wage in 2013 increased to €824, and its annual growth rate was unchanged from the previous year, at 2.4%.

The sectors that recorded the highest nominal wage growth were professional, scientific and technical activities (9.4%), water supply (6.3%), education (5.9%), and health care (3.8%). In the sector of financial and insurance activities, wages declined by 7.7% (after recording the largest increase, 7.3%, in 2012), and in real estate activities they fell by 4.7%. Real wages increased by 1% since nominal wage growth was higher than inflation, interrupting the downward trend that had seen real wages fall by 1.2% in 2012 and 1.7% in 2011. Another factor behind real wage growth was a trend away from work agreements in favour of standard employment contracts.<sup>1</sup> Since employment fell year-on-year, GDP growth may be attributable more to intensive than extensive factors. Annual labour productivity growth (measured by GDP per employed person) in 2013 was the same as in 2012, and, similarly as in 2012, real labour productivity growth exceeded real wage growth. Such a situation supports competitiveness and the containment of inflationary pressures. With real labour productivity growth higher than wage growth, average unit labour costs declined year-on-year by 0.9%.

### 1.2.4 FINANCIAL RESULTS<sup>2</sup>

In 2013 the total profits of non-financial and financial corporations in Slovakia (excluding NBS) amounted to €10,412.5 million, down by €59.1

**Table 3 Labour market indicators (index: same period a year earlier = 100; percent)**

	2012	2013				
	Q1–Q4	Q1	Q1–Q4	Q1	Q1–Q4	Q1
Nominal wage (index)	102.4	102.5	103.2	102.4	101.4	102.4
Real wage (index)	98.8	100.3	101.5	101.1	100.9	101.0
Nominal compensation per employee – ESA 95 (index)	102.8	101.3	101.3	100.7	100.0	100.8
Labour productivity based on GDP (index, current prices)	103.0	102.5	103.1	102.0	101.5	102.3
Labour productivity based on GDP (index, constant prices)	101.7	101.5	102.2	101.7	101.5	101.7
Employment – ESA 95 (index)	100.1	99.0	98.7	99.1	100.1	99.2
Unemployment rate – LFS <sup>1</sup> (%)	14.0	14.5	14.0	14.1	14.2	14.2
Nominal unit labour costs (ULC) <sup>2</sup>	101.0	99.8	99.1	99.0	98.5	99.1

Source: SO SR, NBS calculations.

1) Labour Force Survey.

2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 95) at constant prices.

<sup>1</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/nbs-monthly-bulletin/2013>

<sup>2</sup> Earnings before taxation; quarterly financial statistics of the SO SR.



million from the previous year, according to the SO SR's preliminary data. That decline of 0.6% followed a drop of 2.7% in 2012. Profits of non-financial corporations declined more moderately in 2013 (3.6%) than in 2012 (8.1%), as did profits of financial corporations (a fall of 2.6% in 2013, down from 17.7% in 2012).

Non-financial corporations made an aggregate profit of €8,537.4 million in 2013, which was €320 million lower than in 2012. Profits fell mainly in agriculture, as well as in construction and industry. The industry segments in which profits fell most sharply were mining and quarrying, petroleum industry, and chemical industry. The decline in the overall profit was to some extent mitigated by improved results in manufacture of transport equipment, manufacturing of machinery and equipment, real estate activities, and trade.

The total profit of the financial sector (excluding NBS) in 2013 decreased by €31.9 million year-on-year, to €1,383.0 million. The composition of the aggregate profit was, however, markedly different from that in the previous year. The decline in profit was largely attributable to other financial intermediaries – including, for example, leasing companies, private health insurers, stock exchanges, and pension funds management companies – as their overall profit fell by 26% (after soaring by 633.2% in 2012). As for insurance corporations and pension funds, their aggregate profit slumped by 19.3% year-on-year, after increasing by 47.1% in 2012. By contrast, the banking sector's aggregate profit increased by 26% in 2013 (following a decline of 30.4% in 2012). The improved performance of the banking sector reflected gains from financial operations at certain banks and increased interest income.

### 1.2.5 BALANCE OF PAYMENTS

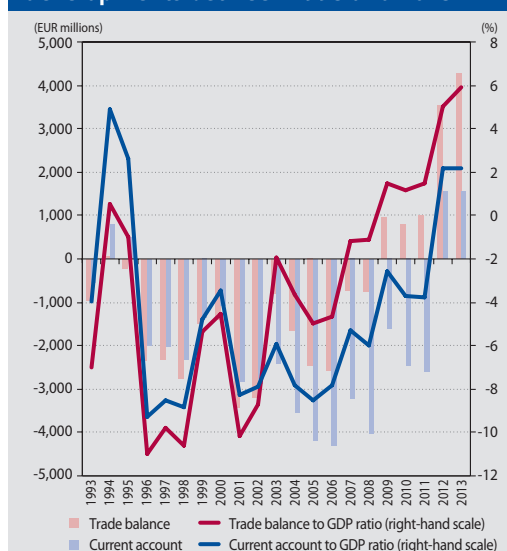
#### CURRENT ACCOUNT

The balance of payments current account posted a surplus of €1.6 billion in 2013, the same as in the previous year. While export performance improved – reflecting an increased surplus in external trade in goods – other components of the current account deteriorated. The ratio of the current account surplus to GDP (at current prices) was 2.2%, unchanged from 2012.

After expanding production in 2012 and consequently increasing its exports, the automotive sector reported a substantial slowdown in export growth in 2013. The electronics industry had the highest export growth. Through import intensity, the decline in export growth had a downward effect on import growth. Since export growth (3.6%) still exceeded import growth (2.5%), the annual trade surplus increased.

The services balance surplus was lower in 2013 than in 2012 owing to worse results in *other services* and *transportation* items. On the other hand, the surplus in *travel* rose moderately as a result of receipts increasing more than payments. The deficit in *other services* was largely attributable to a decrease in receipts from certain types of services. In the case of *transportation*, however, the decline in the surplus stemmed mainly from higher payments for the use of transport services. The income balance deteriorated slightly from its level in 2012 owing mainly to an increase in interest payments. In the current transfers balance, the deficit became more negative year-on-year. The main cause of that result was *other transfers*, in which receipts declined and payments increased.

Chart 6 Current account and trade balance developments between 1993 and 2013



Source: NBS and SO SR.





## MACROECONOMIC DEVELOPMENTS

**Table 4 Balance of payments current account (EUR billions)**

	2012	2013
Trade balance	3.6	4.3
Exports	62.8	64.4
Imports	59.2	60.1
Services balance	0.3	0.1
Income balance	-1.7	-1.8
of which: investment income	-3.0	-3.2
of which: reinvested earnings	-0.6	-0.8
Current transfers balance	-0.6	-1.1
Current account in total	1.6	1.6
Current account to GDP ratio (%)	2.2	2.2

Source: NBS and SO SR.

**Table 5 Capital and financial account of the balance of payments (EUR billions)**

	2012	2013
Capital account	1.4	1.0
Direct investment	2.2	0.9
abroad	0.1	0.3
of which: equity capital	0.0	0.0
reinvested earnings	0.0	0.0
in Slovakia	2.1	0.6
of which: equity capital	0.3	0.7
reinvested earnings	0.7	0.8
Portfolio investment and financial derivatives	8.2	6.9
Other long-term investment	0.3	0.4
Other short-term investment	-11.1	-6.6
<b>Capital and financial account in total</b>	<b>1.0</b>	<b>2.5</b>

Source: NBS.

### CAPITAL AND FINANCIAL ACCOUNT OF THE BALANCE OF PAYMENTS

The surplus of the capital and financial account of the balance of payments increased to €2.5 billion in 2013, from €1.5 billion in 2012.

In the *direct investment* category, the year-on-year fall in net inflow was related to an outflow of other capital caused by an increase in claims on direct investors (which itself resulted from the business activities of corporate entities). On the other hand, inflows in the form of participating interests increased year-on-year. *Portfolio investment* recorded a net inflow owing mainly to funding acquired through the issuance of government bonds and Treasury bills. In *other investment*, the net outflow stemmed mainly from NBS activities, as the debtor position vis-à-vis the Eurosystem (TARGET2) changed to a creditor position owing to an outflow of borrowed funds.

### EXTERNAL DEBT OF SLOVAKIA

Owing to balance of payments developments, the external debt of Slovakia increased by €6.0 billion (USD 11.4 billion) in 2013, to €59.7 billion (USD 82.3 billion). This reflected mainly the external liabilities of the Slovak Government and NBS, which increased by a substantial €4.5 billion. According to preliminary figures, Slovakia's ratio of total gross external debt to GDP at current prices was 82.7% as at

31 December 2013, up from 77.8% (4.9 p.p.) at the end of 2012. Over the same period, the ratio of short-term external debt to total gross external debt fell by 9.4 percentage points, to 30.3%. Debt per capita at the end of 2013 amounted to €11,051, representing a year-on-year rise of €1,098.

### NOMINAL AND REAL EFFECTIVE EXCHANGE RATES<sup>3</sup>

The nominal effective exchange rate (NEER) index appreciated year-on-year by an average of 1.1% in 2013, after depreciating by 1.0% in 2012. Appreciation against the Czech koruna was the largest contributor to that strengthening, with an impact of 0.4 percentage point. The NEER index was also strengthened by exchange rates against currencies of other key non-euro area trading partners of Slovakia.

With the NEER appreciating, the real effective exchange rate (REER) index based on industrial producer prices in manufacturing appreciated by 1.0% (after depreciating by 1.7% in 2012). The lower real appreciation compared with the NEER is the result of a negative inflation differential against Slovakia's main trading partners. The price competitiveness of domestic firms is not expected to have been jeopardised by the REER's appreciation, since labour productivity

<sup>3</sup> The methodology of the effective exchange rate calculation is published on the NBS website at: [http://www.nbs.sk/\\_img/Documents/\\_Statistika/VybrMakroUkaz/EER/NEER\\_REER\\_Methodology.pdf](http://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Methodology.pdf)



growth, being higher than that in the external environment, created leeway for sustainable appreciation of the real exchange rate without disrupting the economy's equilibrium. However, the REER had followed a depreciating trend in

previous years. The improvement in Slovakia's trade balance and increase in its exports as a share of global trade points to growing competitiveness.

## 2 EUROSYSTEM MONETARY POLICY

### 2.1 MONETARY POLICY OPERATIONS

The ECB's Governing Council adjusted key ECB interest on two occasions in 2013, so as to ensure price stability in the medium term amid low underlying price pressures and to support gradual economic recovery. At the monetary policy meeting in May the Governing Council decided to reduce the main refinancing rate, by 25 basis points, and the marginal lending rate, by 50 basis points, with effect from 8 May 2013, while keeping the deposit facility rate unchanged at 0.00%. At November's meeting the Governing Council decided to decrease both the main refinancing rate and marginal lending rate by 25 basis points, with effect from 13 November, and to leave the deposit facility rate unchanged. Overall in 2013 the main refinancing rate and marginal lending rate were cut, respectively, by 50 basis points and 75 basis points, to 0.25% and 0.75%, and the deposit facility rate stayed at 0.00%.

The EONIA remained below the main refinancing rate throughout the year except during end-month fluctuations. The composition of banks' deposits with the ECB altered slightly. Of the total, only 32% on average were held in the overnight deposit facility while the rest were held in current accounts with the ECB.

The European Central Bank implements monetary policy through the national central banks of the Eurosystem by means of various monetary policy instruments. The most widely used of these instruments are main refinancing operations, longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and standing facilities, which include the deposit facility (DF) and marginal lending facility (MLF).

During 2013 the Governing Council approved the continuation of selected non-standard monetary measures in order to enhance the transmission of accommodative monetary policy to the real economy in the medium term. In May the Governing Council announced that main refinancing operations (MROs) would continue to be conducted as fixed rate tender procedures with full allotment at least until the end of the sixth reserve maintenance period of in July 2015 (as at present).

The same procedure would remain in use for the Eurosystem's special-term refinancing operations with a maturity of one maintenance period, which will be conducted as long as necessary, but at least until the end of the second quarter of 2014, or 2015. The fixed rate in these special-term refinancing operations would be the same as the MRO rate prevailing at the time. Furthermore, it was decided to conduct the three-month longer-term refinancing operations (LTROs) as fixed rate tender procedures with full allotment until the end of the second quarter of 2014 or 2015. The rates in these three-month operations would be fixed at the average rate of the MROs over the life of the respective LTRO.

At its first monetary policy meeting in July the Governing Council engaged in forward guidance for the first time, announcing its expectation that the key ECB interest rates would remain at present or lower levels for an extended period of time. This expectation was based on the overall subdued outlook for inflation extending into the medium term, given the broad-based weakness in the real economy and subdued monetary dynamics. The Governing Council added that in the period ahead it would monitor all incoming information on



## EUROSYSTEM MONETARY POLICY

economic and monetary developments and assess any impact on the medium-term outlook for price stability. After its monetary policy meeting in November, the Governing Council announced that its monetary policy stance would remain accommodative for as long as necessary, as announced in its forward guidance in July 2013. The Governing Council reiterated its expectation that the key ECB interest rates would remain at present or lower levels for an extended period.

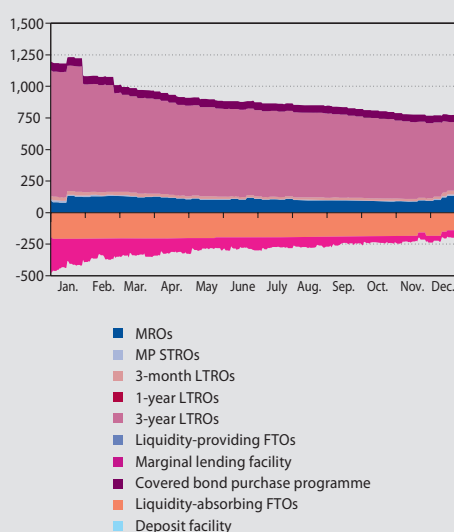
Early in 2013 euro area banks began invoking the option of early repayment of three-year LTRO funds obtained from two operations settled in 2011 and 2012 with a total allotment of more than €1 billion. Banks also reduced their borrowing in special-term refinancing operations with a maturity of one maintenance period as well as in three-month LTROs. Longer-term funding as a share of the total fell to an average of 84%. The lower uptake of longer-term funds in comparison with the previous year was partially offset by increased participation in short-term MROs. The reduction in banks' borrowing from the ECB was associated with increasing stability in the euro area and with measures taken in several euro area countries to support banking sector stability.

The utilisation of US dollar liquidity swap arrangements maintained by the ECB with the Federal Reserve System showed a falling tendency. The euro area banking sector substantially reduced its participation in seven-day US dollar liquidity-providing operations, presumably owing to banks' improved conditions for obtaining dollar funding from wholesale markets. Insofar as they used the ECB's dollar swap arrangements, euro area banks participated mainly in three-month operations. On average they borrowed only USD 0.3 billion, as against USD 4 billion in the previous year.

In 2013 the ECB along with the Federal Reserve, the Bank of Canada, the Bank of England, the Bank of Japan, and the Swiss National Bank announced that their existing temporary bilateral liquidity swap arrangements were being converted to standing arrangements, i.e. arrangements that will remain in place until further notice. The ECB's US dollar liquidity swap arrangements had previously been due to end at the end of February 2014.

In October the ECB and the People's Bank of China established a bilateral currency swap agreement that will be valid for three years. From the perspective of the ECB, the arrangement ensures

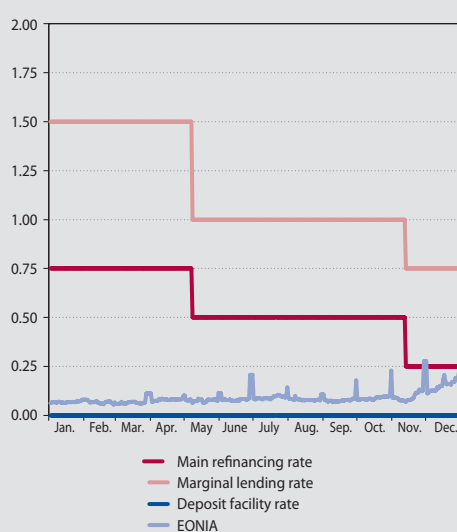
**Chart 7 Eurosystem operations in 2013 (EUR billions)**



Source: ECB.

Note: MP STRO – special-term refinancing operation with a maturity of one maintenance period.

**Chart 8 Key ECB interest rates and the EONIA in 2013 (percent per annum)**



Source: ECB and Bloomberg.

that euro area banks will have continuous access to yuan funding. The maximum size of the swap line is 350 billion yuan and €45 billion.

During the year the ECB continued with operations to absorb the liquidity injected through the Securities Markets Programme (SMP), thereby neutralising the SMP's impact on the monetary stance. The SMP programme for purchasing sovereign bonds of selected countries had run from 2010 until September 2012, when it was terminated concurrently with the announcement of the new programme of Outright Monetary Transactions (OMT). In essence, the OMT programme is a means of purchasing unlimited amounts of one-year to three-year government bonds issued by countries participating in an appropriate EFSF/ESM programme, with the ECB fully sterilising the OMTs (just as it absorbed liquidity injected by the SMP). A precondition for initiating OMT is that a euro area country applies for a loan from the EFSF. As at the end of 2013, no country had requested such assistance and therefore no OMTs had been activated. Nevertheless, the announcement of the programme has in itself helped significantly to reduce risk premia in periphery bond markets.

## 2.2 FOREIGN EXCHANGE OPERATIONS

The exchange rate of the euro against the US dollar was volatile during 2013. It reflected market expectations for euro area monetary policy, volatility in foreign exchange markets, and anticipation of the US Federal Reserve System's

Chart 9 USD/EUR exchange rate in 2013



Source: Bloomberg.

monetary policy decisions. The euro was positively affected by preparations for a euro area banking union, which the market sees as a stabilising move. In the second half of the year the exchange rate responded to capital flight from certain emerging economies, as well as to positive activity figures for the euro area. In 2013 the euro traded lowest against the dollar at the end of the first quarter, at 1.2772 USD/EUR, and strongest at the end of October, during the height of the US budget difficulties, when it reached a two-year high of 1.3805 USD/EUR. The euro's trading against the dollar was 4.5% stronger at the end of 2013 than at the end of 2012.

# 3 FINANCIAL MARKET DEVELOPMENTS<sup>4</sup>

Financial sector developments in Slovakia in 2013 reflected to some extent improvements in the external environment, stemming mainly from the euro area's emergence from recession. In Slovakia, too, economic growth accelerated moderately. This upturn was accompanied by partial stabilisation of the euro area debt crisis, which was largely the result of large-scale liquidity-supporting operations conducted by central

banks. As recent developments have indicated, however, the unwinding of support measures may pose an appreciable risk to the global financial system, particularly given the potential increase in risk premia. Despite the substantial efforts already made, the situation in Europe requires additional, relatively extensive, structural reforms and consolidation measures. In both Slovakia and the euro area as a whole, the labour

<sup>4</sup> Preliminary data as at 31 December 2013.



## FINANCIAL MARKET DEVELOPMENTS

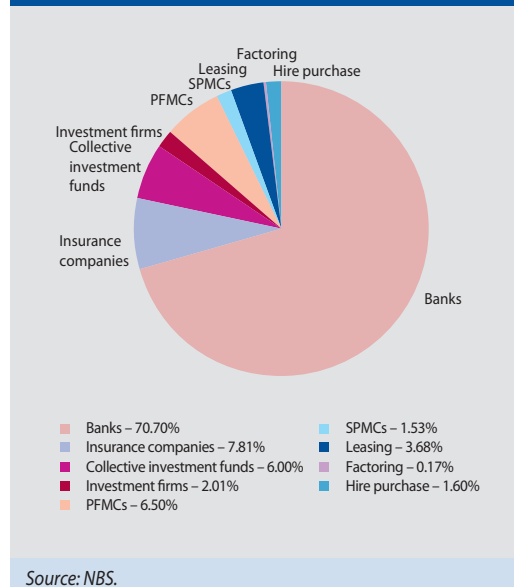
market situation shows no sign of significant improvement.

The potential for such adverse risks in the external environment and domestic economy to impinge on financial stability in Slovakia's financial sector is to a large degree mitigated by the strong resilience of domestic financial institutions in terms of solvency, profitability, and access to funding. In these respects the banking sector in Slovakia – the main pillar of the country's financial sector – reports better results than do the banking sectors of most other EU countries, and its position improved further during 2013. The aggregate profit of the banking sector increased by 12% in 2013, after falling in the previous year, while the aggregate capital adequacy ratio increased again, to an all-time high of 17.2% at end-2013. One of the main drivers of profit growth was the continuing increase in retail lending and its upward effect on net interest income. However, the higher capital adequacy ratio was due largely to equity capital again being raised by the retention of profits for the previous year as well as to a decline in the risk weights used to calculate capital requirements. The soundness of the banking sector as a whole is at present one of the most significant factors behind the Slovak economy's relatively strong resilience to external shocks.

Bank lending activity in 2013 continued to reflect a divergence in trends between the corporate and retail sectors. Corporate lending fell again in year-on-year terms, consistent with developments in the euro area, although in the second half of the year there was a slight moderation in the annual rate of decline. The situation in the corporate loan portfolio reflected continuing deterioration on both the supply and demand side, although not equally across segments. Indeed, lending to small- and medium-sized enterprises actually increased moderately.

As for retail lending, it increased by around 10% year-on-year, which was one of the highest growth rates observed in any EU country. Most of that increase was accounted for by housing loans, demand for which was boosted by relatively stable property prices as well as historically low interest rates. As a result, housing affordability is relatively high. Another driver of

**Chart 10 Financial sector assets broken down by market segments as at 31 December 2013**



the lending growth was refinancing, where the amount borrowed is larger than the original loan. As for new loans, they mostly had an initial rate fixation of between 1 and 5 years. Therefore the proportion of loans with up to one-year fixed rate declined, and so households became slightly less sensitive to a potential rise in interest rates.

A particularity of the Slovak banking sector, especially compared to foreign counterparts, is that investments in domestic (Slovak) government bonds constitute a high share of their banks' total assets. The size of this share is one of the highest in any national banking sector within the EU. It should be noted, however, that the bulk of the securities issued by domestic banks are mortgage bonds. Most mortgage bonds issued in 2013 had a fixed coupon, probably owing to low yields on Slovak government bonds.

Since the Slovak banking sector is heavily oriented to the domestic economy, the greatest risk to banks is that of a deterioration in credit portfolio quality in the event of adverse economic developments. Although non-performing loans (NPLs) in banks' corporate sector increased slightly in the first half of 2013, the rise was far lower than that observed dur-



ing the crisis period in 2009. The NPL ratio for corporate loans was 8.1% at the end of 2013, while for retail loans it was only 4.2%. Results of macro stress testing confirm that the Slovak banking sector is, owing to its currently high solvency, relatively resilient to adverse scenarios of significant economic headwinds as well as to increase in financial market uncertainty in the event of an escalation of the euro area debt crisis.

In other segments of the financial market there were some notable changes, particularly in the second pillar of the pension scheme. Legislative amendments in this sector resulted in significant switching of savers, as well as pension assets, between different types of pension fund. Consequently, from the beginning of May, more than 90% of savers found themselves enrolled in bond pension funds that alone remained guaranteed by law. Other pension funds catered for savers who sought higher investment risk, and therefore the range of portfolios in terms of risk-return profile became broader. Returns on pension funds and collective investment funds remained positive in 2013, albeit lower than in 2012. In the second pension pillar, however, owing to the above-mentioned changes, the variation in performance between different fund types increased considerably.

In the insurance sector, according to figures for the first three quarters of 2013, there was growth in traditional life insurance, supplementary insurance and, again, in unit-linked insurance. By contrast, non-life insurance saw a decline in premiums, caused mainly by falling premiums in motor third-party liability in-

surance and in comprehensive motor vehicle insurance.

In the third pension pillar, the supplementary pension scheme, the number of participants increased and the net asset value continued to grow. The asset composition of third-pillar funds remained largely unchanged. As regards their risk exposure, moderate increases of sensitivity to interest rate changes and growth in exposure to exchange risk were observed, especially in growth funds. Although the returns on third-pillar funds were positive, they fell short of their 2012 levels.

The collective investment sector experienced exceptional developments in 2013, particularly in regard to the amount of assets under management. Net asset value in the sector climbed by a fifth, its highest annual increase since the pre-crisis year of 2007. The main driver of this increase was positive net sales of investment funds to end investors. As in 2012, the largest inflows were observed in domestic special investment funds, specifically in special real estate funds and special securities funds. Special professional investor funds also recorded a marked rise in NAV through the issuance of unit certificates, although in this case the new investment came not from households, but banks. Investment in standard common funds also picked up in 2013, after falling in the previous year. Collective investment funds did not perform so well in 2013 as in 2012, with the average annual nominal return of 2.7% less than half of that of the previous year. A marked drop in performance was reported in all fund categories with the exception of equity funds.







NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

SECTION B

# NBS ACTIVITIES

B







# 1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

As a member of the Eurosystem, Národná banka Slovenska is subject to the monetary policy conducted by the European Central Bank (ECB). Based on the indicative calendar for the Eurosystem's monetary policy operations, NBS conducts these operations in the form of two types of tenders: standard tenders (carried out within 24 hours between their announcement and the certification of the allotment result) and quick tenders (executed within 90 minutes from the announcement of the operation).

Under Eurosystem rules, all credit institutions operating in the euro area are required to hold minimum reserves on account with the respective national central bank.

savings banks) and 14 branches of foreign credit institutions (including credit cooperatives). The average minimum reserve requirement in 2013 was €369.22 million, around 4.42% lower than in 2012. Throughout the year, the reserves that credit institutions held on accounts with NBS were far higher than the minimum requirement.

Whereas last year the average actual reserves exceeded the minimum requirement by only 42%, in 2013 they were higher by almost 100%. The difference was most marked at the end of 2013, when actual reserves were nearly three times higher than the minimum requirement.

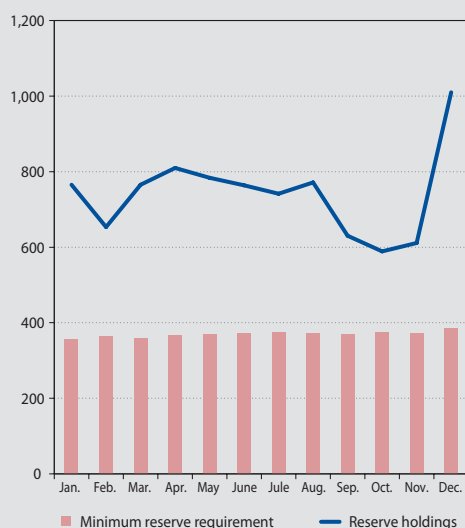
## 1.1 MINIMUM RESERVE REQUIREMENTS

In 2013 a total of 28 credit institutions operating in Slovakia were subject to minimum reserve requirements; they comprised 14 banks established in Slovakia (including three home

## 1.2 ELIGIBLE ASSETS

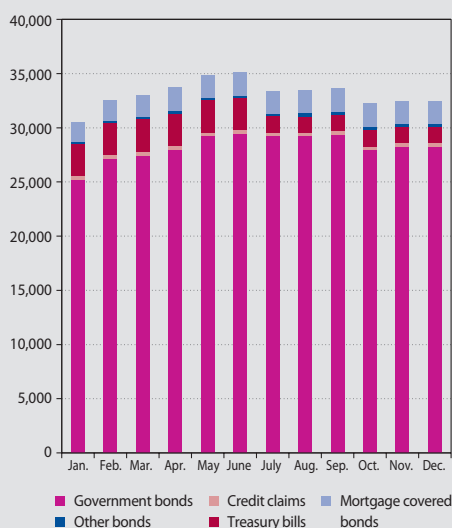
Collateral eligibility criteria for credit operations of the Eurosystem were subject to several adjustments in 2013. Most notably, haircuts for different types of asset were updated; in most cases they were reduced, but haircuts for certain higher-risk

Chart 11 Minimum reserve requirements and reserve holdings in 2013 (EUR millions)



Source: NBS.

Chart 12 Composition of Slovak eligible assets in 2013 (EUR millions)

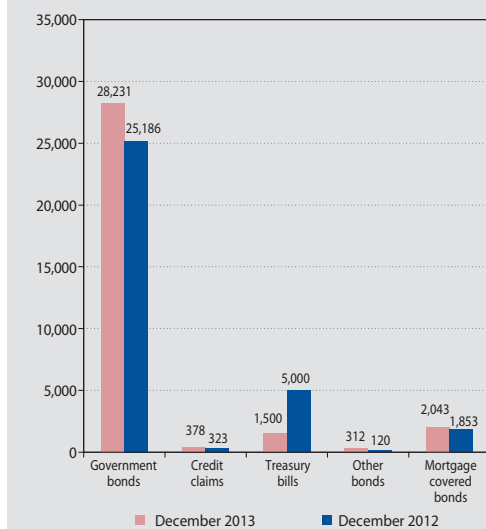


Source: NBS.



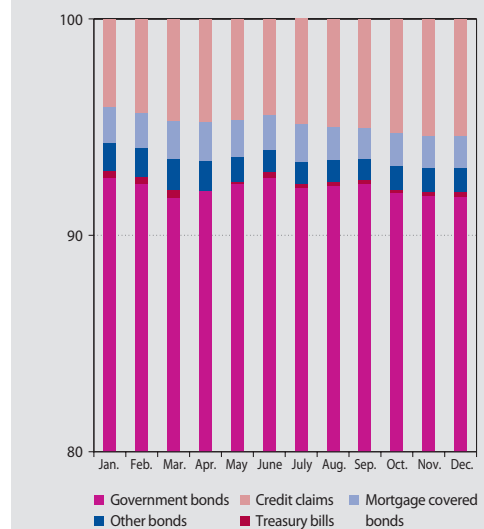
## MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

**Chart 13 Composition of Slovak eligible assets in December 2012 and December 2013 (EUR millions)**



Source: NBS.

**Chart 14 Use of eligible assets by counterparties in 2013 (%)**

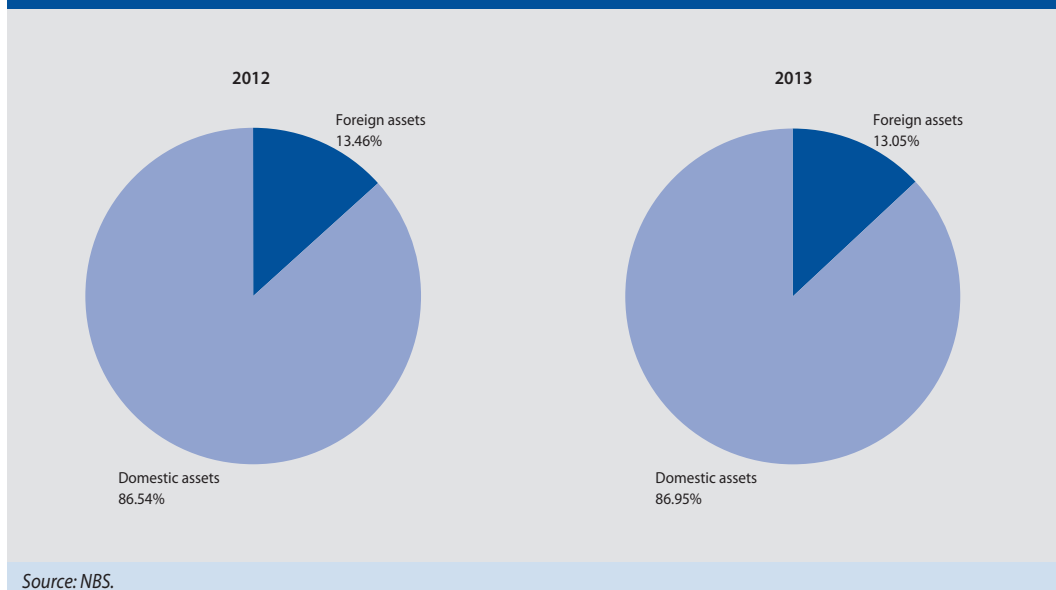


Source: NBS.

assets were increased. Additional haircuts were introduced for covered bonds where the counterparties using them as collateral have close links with the issuer of the bonds. In addition to haircut adjustments, specific loan-by-loan information requirements for asset-backed securities

(ABS) were established in order to increase the transparency of these assets and reduce risks to the Eurosystem. Applying these requirements allowed an easing of requirements for the level of credit risk accepted in respect of such debt securities, in addition to the reduction in haircuts.

**Chart 15 Use of domestic and foreign eligible assets (%)**



Source: NBS.



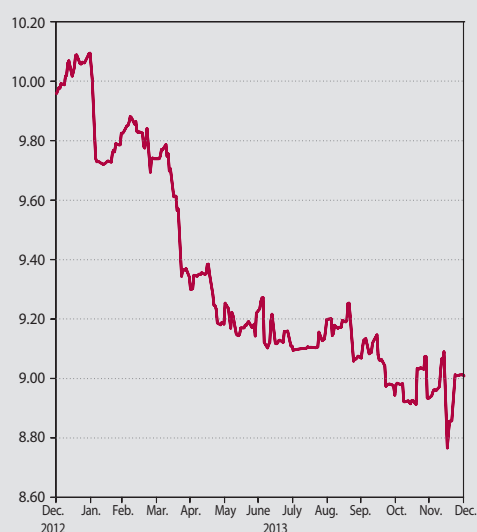
The value of all Slovak eligible assets, including credit claims, in 2013 was €32,465 million, only €16.6 million less than in the previous year. Slovak government bonds and Treasury bills constituted almost 93% of these eligible assets, and mortgage covered bonds almost 7%. The eligible assets recording the largest year-on-year drop in value were Treasury bills, which fell by as much as 70% from their level in December 2012.

The gradual reduction in the recourse to liquidity-providing operations was reflected in the total value of collateral used by NBS counterparties in 2013, which was at the year-end 13% lower than a year earlier. In 2013, as in the previous year, eligible assets issued in the Slovak market accounted for the large majority (almost 87%) of the overall collateral put forward by domestic counterparties in Eurosystem credit operations. Of that total, debt securities issued by central governments made up almost 92%, their share falling by around three percentage points compared to the previous year. NBS counterparties used a collateral pool to manage their collateral.

### 1.3 INVESTMENT PORTFOLIO MANAGEMENT

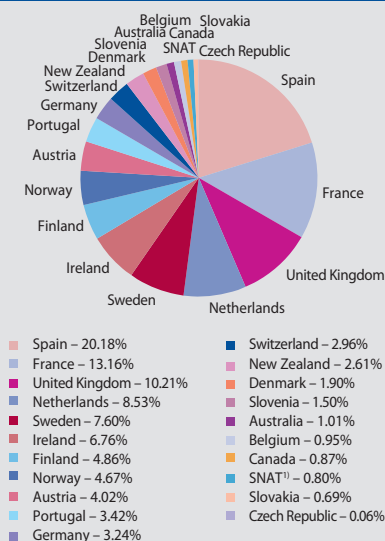
Národná banka Slovenska manages its investment portfolio with the aim of ensuring that its investments contribute positively to bank's overall financial result. The total value of NBS's investment portfolio as at 31 December 2013 was €9 billion (at corresponding exchange rates and market prices). NBS manages its asset portfolio in accordance with the principles laid down in the NBS Investment Strategy approved in 2008. Thus in the case of euro-denominated assets, which make up 98.3 % of the portfolio, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. The return on the euro-denominated portfolio in 2013, after taking into account interest expenses and hedging, stood at 2.05%. The portfolio of US dollar-denominated assets, worth €212.5 million, reported a relative return of 0.37% against the benchmark.

Chart 16 Value of NBS investment portfolio in 2013 (EUR billions)



Source: NBS.

Chart 17 Portfolio of euro-denominated assets at 31 December 2013 – broken down by country of issuer



Source: NBS.

1) Supranational institutions.



## 2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION<sup>5</sup>

The year under review saw a significant step forward to the creation of a banking union within the European Union. One of its three pillars, i.e. the Single Supervision Mechanism (SSM), acquired legal personality and entered the preparatory phase of its implementation. On 12 September 2013, the European Parliament approved a new system of supervision for the EU,<sup>6</sup> providing a framework for the direct supervision of the largest banking groups in the Union. At the present time, a one-year preparatory phase is underway for the transfer of competences from the national supervisory authorities to the European Central Bank. The Financial Market Supervision Unit of NBS ('the FMS Unit') actively participated in the preparation of a legislative and procedural framework for the introduction of the SSM, mainly in the preparation of a manual defining the supervisory processes used under the SSM and in the preparation of a comprehensive assessment of banks, which will take place in 2014. This was accompanied by the process of identification of 'significant banks' and the adoption of a uniform system and a form for data reporting.

force, requiring NBS to exercise macroprudential supervision, too. A framework for the pursuit of this policy was developed by the FMS Unit in the same year. The basic and strategic objective of this macroprudential policy is to help maintaining the stability of the financial system as a whole. Part of this objective is to strengthen the financial system's resilience, to reduce the level of systemic risk, and to ensure a sustainable contribution to economic growth from the financial system. Within the scope of its macroprudential policy, NBS identifies, monitors, assesses, and mitigates the risks that threaten financial stability.

An important part of the macroprudential policy is the instruments of this policy, in particular the additional capital requirement for banks (i.e. capital buffers) and the option to tighten some of the regulatory requirements above the limits defined in the harmonised EU requirements. The FMS Unit may also use other tools, such as own recommendations, comments, and recommendations in the Financial Stability Report of NBS, meetings with financial institutions, changes in risk monitoring, etc.

The FMS Unit's main objective in 2013 was to prepare internal processes for the pursuit of the new policy. Macroprudential policy decisions will be taken by the Bank Board of NBS, which will regularly discuss matters related to this policy after the CRD IV Directive<sup>8</sup> has been implemented. Another step was the definition of partial policy objectives in line with Recommendations of the European Systemic Risk Board (ESRB) on intermediate objectives and instruments of macroprudential policy and on the communication strategy of policy.

The main objective in the analytical area in 2013 was preparation for the pursuit of macro-prudential policy, in particular the continued development of its instruments in theoretical, analytical, and regulatory terms, and analytical work aimed at setting of counter cyclical capital buffers. Further analyses focused on other policy tools, on changes in risk weights and in the parameters of

Considerable progress in 2013 was also achieved in the second pillar of the banking union: the Single Resolution Mechanism (SRM). Efforts are currently under way to complete a draft regulation stipulating uniform rules and procedures for the solution of crisis situations in credit institutions and certain investment firms within the scope of a single resolution mechanism and a joint bank resolution fund. On 18 December 2013, ECOFIN approved a joint position on the draft regulation concerning the SRM, which is one of the steps taken within the legislative process and is to be completed in 2014.

The third pillar of the banking union is formed by a joint deposit protection fund, an area in which little progress was made in 2013, but has remained the Union's priority task.

### 2.1 FINANCIAL STABILITY

In June 2013, an amendment to the Act on Supervision of the Financial Market<sup>7</sup> came into

<sup>5</sup> A detailed report on the activities of the Financial Market Supervision Unit of NBS for 2013 is at <http://www.nbs.sk/en/financial-market-supervision/analysis-reports-and-publications-in-the-field-of-financial-market/reports-on-the-activities-of-the-financial-market-supervision>

<sup>6</sup> The new system of supervision in the EU is regulated by Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, which came into force on 3 November 2013.

<sup>7</sup> Act No 747/2004 Coll. on supervision of the financial market and on amendments and supplements to certain laws, as amended.

<sup>8</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.



internal risk calculation models for loans secured by residential or commercial real estate property, and on the impacts of capital conservation buffer establishing.

The second main task was to prepare the Financial Stability Report of NBS<sup>9</sup> with the aim of keeping the public periodically informed of the financial sector's stability and of the trends posing a threat to this stability. The Financial Stability Report of NBS is part of the communication strategy used within the scope of its macroprudential policy and focuses on the main systemic risks faced by the Slovak financial sector.

## 2.2 SUPERVISION OF THE FINANCIAL MARKET

### THE BANKING SECTOR

As at 31 December 2013, there were 13 banks and 15 branches of foreign banks operating in the banking sector of Slovakia. In the year under review, a total of 112 authorisation proceedings were conducted in regard to the banking sector. Most proceedings (70 decisions) concerned the granting of prior approval to replace a member or members of the statutory body of a bank, a bank's supervisory board, a managerial employee or general proxy. No sanction proceedings were brought in the year under review. One proceeding initiated in 2012 came to an end in 2013 with the issuance of a final decision to impose a penalty.

The most important decisions were as follows: a decision to grant a banking authorisation to a foreign bank, namely *UniCredit Bank Czech Republic, a.s., Praha, CR*, to conduct special mortgage transactions and perform the function of a depository through its organisational unit, i.e. *UniCredit Bank Czech Republic and Slovakia, a.s.*, and a decision to grant prior approval to a foreign bank, namely *ING Bank N.V., Netherlands*, to return its banking authorisation to perform the function of a depository through its organisational unit, *ING Bank N.V., branch of a foreign bank*<sup>10</sup>.

In 2013, *AXA Bank Europe, branch of a foreign bank*, providing banking services on the basis of single passport, ended its operations in the territory of Slovakia. In the same year, *KDB Bank Europe Ltd., Budapest, Hungary*, and *UniCredit Bank*

*Czech Republic, a.s., Praha, CR*, commenced banking activities in Slovakia through their branches.

In the year under review, NBS registered 14 foreign credit institutions that notified their intention to provide cross-border banking services in the territory of Slovakia without establishing a branch.

On the basis of a notification sent by NBS to the supervisory authorities of the Member States concerned, *Sberbank Slovensko, a.s.* (formerly *Volksbank Slovensko, a.s.*) is authorised to provide cross-border banking services in the territory of France and Romania.

Supervision in the banking sector in 2013 (over banks and branches of foreign banks) was exercised on the basis of the annual supervision plan, the evaluated risk profiles of the supervised entities, and the applications of banks to use an own model for the calculation of capital adequacy requirements. The top priorities in 2013 were to monitor the credit and market risks of banks, their capital adequacy and liquidity, and to evaluate the internal credit and market risk models of banks and the changes made to these models.

In 2013, the FMS Unit carried out monthly analyses of the statements and reports received from banks and branches of foreign banks, quarterly analyses of the risk profiles of individual banks, and compiled comprehensive annual reports on the banking sector, including a detailed assessment of each bank. For the purposes of an aggregate assessment of banking groups in terms of risk and capital, the FMS Unit also prepared detailed risk profile reports for the home supervisors of banks that are the subsidiaries of banks based in the territory of another EU country.

In 2013, a total of ten thematic on-site inspections were commenced in banks and branches of foreign banks, seven of which were completed in the same year. Within the scope of these inspections, the FMS Unit also assessed eleven applications for the use of, or for its change, an internal risk measurement model for capital requirement calculation for credit risk and operational risk. One of the top priorities of on-site inspections was to assess the risk management system's effectiveness, mainly for credit risk, market risk, operational risk, and liquidity risk. Apart from

<sup>9</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/financial-stability-report>

<sup>10</sup> The branch still operates and provides banking services in the territory of Slovakia under the 'single passport system,' i.e. it conducts banking activities on the basis of an authorisation issued by the competent supervisory authority of its home country.



this priority, on-site inspections also focused on the provision of investment and payment services, the internal system of administration and management of banks and branches of foreign banks, and on protection against money laundering and terrorist financing.

#### THE SECTOR OF PROVISION OF PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

As at 31 December 2013, there were nine payment institutions operating in the Slovak financial market. As a result of a recent amendment to the law on payment services<sup>11</sup>, an electronic money institution is not allowed to issue electronic money or to provide payment services unless it had been duly authorised by 31 January 2013 to issue electronic money with or without limitations under the law on payment services. Under this amendment, *Slovak Telekom, a.s.*, *Telefónica Slovakia, s.r.o.*, and *Orange Slovensko, a.s.*, which were authorised by NBS to issue electronic money, ceased to issue and administer electronic money in a limited range by 31 January 2013. As of 1 February 2013, there were no electronic money institutions operating in the territory of Slovakia on the basis of an authorisation granted by NBS.

The most important decisions were the following: the decision to authorise *Slovak Telekom, a.s.*, to provide payment services without limitation on the range (1 February 2013) and a decision to authorise *Telefónica Slovakia, s.r.o.*, and *Orange Slovensko, a.s.*, to provide payment services in a limited range (1 February 2013).

In 2013, NBS registered 45 foreign payment institutions and 15 foreign electronic money institutions that had notified their intention to provide payment and other services in the territory of Slovakia without establishing a branch.

On-line inspections in payment institutions were conducted according to the annual plan of inspections and the evaluation of activities performed by such financial market entities and their overall risk profile. In 2013, one comprehensive on-site inspection (started in 2012) was completed and two comprehensive on-site inspections were commenced, with the focus being on verifying and evaluating the provision of payment services, compliance with the business conditions stipulated for payment institutions, the system of internal control and internal audit,

the risk management system and selected risks, and the prevention of money laundering and terrorist financing. One of these inspections was formally completed in the same year.

Off-site supervision comprised the following activities: verification of compliance with the statutory obligations of entities under supervision in accordance with the law on payment services, collection of data according to the decree on the submission of statements by payment institutions and electronic money institutions, and regular monthly evaluations and analyses of the data obtained during the monitoring of individual entities under supervision.

#### THE FOREIGN EXCHANGE SECTOR

In this sector, NBS granted seven foreign exchange authorisations for currency exchange activities in 2013. As at 31 December 2013, there were 1,188 entities in Slovakia holding a foreign exchange authorisation. In 2013, seven sanction proceedings were instituted, six of which were completed with a final decision to impose a penalty.

Supervision in this sector focused on verifying compliance with the Foreign Exchange Act<sup>12</sup>, mainly in the area of trade in foreign exchange assets in the range of currency exchange activities, consisting in the purchase or sale of foreign currency for euros in cash, and compliance with the foreign-exchange reporting requirement by entities engaged in business. In 2013, ten on-site inspections were carried out in the area of currency exchange activities and one on-site inspection in the area of compliance with the foreign-exchange reporting requirement.

#### THE INSURANCE SECTOR

As at 31 December 2013, there were 17 insurance companies operating in the Slovak insurance market, with a registered office in the Slovak Republic. The decisions issued in 2013 concerned mainly the granting of prior approval for the nomination of members to a company's board of directors, changes in authorisations for the conduct of insurance activities and for the acquisition of qualifying holdings in insurance companies. The most significant decisions concerned the granting of an authorisation to *NOVIS Poistovňa, a.s.*, to conduct insurance activities and the granting of prior approval for the merger of *D.A.S. legal protection insurance, a.s.*, and *D.A.S.*

11 Act No 492/2009 Coll. on payment services and on amendments to certain laws, as amended.

12 Act of the National Council of the Slovak Republic No 202/1995 Coll., the Foreign Exchange Act and the act amending and supplementing Act of the Slovak National Council No 372/1990 Coll. on infringements, as amended.





*Rechtsschutz AG, insurance company.* In 2013, a total of 41 authorisation proceedings were conducted, 36 of which came to an end with the issuance of a final decision.

As regards sanction proceedings, one proceeding was brought and conducted in the area of insurance, but no final decision was issued by the end of 2013.

From the supervisory authorities of other Member States, 53 notifications were received concerning insurance or reinsurance companies intending to operate in Slovakia on the basis of the freedom to provide services directly or through a local branch.

In 2013, a total of 13 on-site inspections were commenced in line with the annual plan of inspections: one comprehensive inspection, three follow-up inspections, and nine thematic inspections focused on unit-linked insurance. Eight thematic on-line inspections were completed in the same year. They focused on verifying the adequacy of rates of premium and the correct calculation of insurance payments in the area of compulsory contractual third-party motor insurance.

In connection with the floods that hit Slovakia in June 2013, NBS verified the six largest insurance companies by using off-site supervision to assess the impact of insurance events on their financial situation.

In connection with the recommendations of NBS concerning the handling of insurance complaints<sup>13</sup>, NBS exercised off-site supervision in 2013 to verify the handling of complaints in the individual insurance companies. The off-site supervision focused on the acceptance, registration, handling, and evaluation of insurance complaints.

#### THE PENSION SECTOR

As at the end of 2013, there were six pension asset management companies and four supplementary pension management companies operating in this segment of the Slovak financial market. Decisions issued in 2013 concerned the granting of prior approval for the replacement of a depositary, prior approval for the merger of pension funds requested by three pension asset management companies in connection with a legislative change, and prior approval for a change in a pen-

sion fund's articles of association. In regard to this sector, only authorisation proceedings were conducted in 2013. A total of 92 proceedings were brought, 88 of which came to an end in 2013 with the issuance of a final decision.

Off-site supervision in the pension sector covered six pension asset management companies (managing a total of 21 pension funds) and four banking institutions performing depositary activities. In the supplementary pension sector, off-site supervision was conducted in regard to four supplementary pension management companies (managing a total of 15 supplementary pension funds) and four banking institutions performing depositary activities under the supplementary pension scheme<sup>14</sup>.

In the pension sector, two comprehensive on-site inspections were carried out in pension asset management companies in 2013. In the supplementary pension sector, one comprehensive on-site inspection was carried out. In 2013, thematic on-site inspections were commenced in two banking institutions performing depositary activities for the pension and collective investment sectors.

#### FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

As at the end of 2013, a total of 44,634 entities were registered in the *Register of Financial Agents and Financial Advisors* kept by NBS. Within the scope of authorisation proceedings, decisions were issued in 2013 to grant or modify an authorisation to act as an independent financial agent or financial advisor.

Within the scope of sanction proceedings, decisions were issued in regard to the imposition of a penalty (114 decisions), the revocation of an authorisation (7 decisions), the imposition of a penalty and a measure for the elimination of shortcomings (1 decision), and the restriction of an authorisation to act as an independent financial agent (1 decision).

In 2013, a total of 386 proceedings were conducted, including 114 authorisation proceedings and 272 sanction proceedings, of which 118 authorisation proceedings and 155 sanction proceedings came to an end in the same year with the issuance of a final decision.

<sup>13</sup> Recommendation of the FMS Unit of NBS of 17 December 2012 No 5/2012 on EIOPA Guidelines on Complaints-Handling by Insurance Undertakings (EIOPA-BoS-12/069 SK).

<sup>14</sup> Act No 650/2004 Coll. on supplementary pension saving and on amendments to certain laws, as amended.





In 2013, a total of 81 new entities were registered and 80 financial agents / advisors were removed from the register. In addition, 262 financial agents from other Member States were entered into the register, mostly agents entitled to mediate insurance and reinsurance services in Slovakia on the basis of the principle of free provision of services directly or through a local branch. NBS also accepted and processed 5,390 electronic proposals for the registration or deregistration of affiliated entities.

In 2013, NBS exercised off-site supervision to verify compliance with the statutory reporting requirement by the entities under supervision, i.e. the reporting of certain information to NBS via the internet or in writing. Off-site supervision was also used to verify compliance with the requirement to submit to NBS a report prepared by a senior manager of each independent financial agent / financial institution on any breach of duty by a subordinate or tied financial agent, a report prepared by a senior manager of each independent financial agent / advisor on the performance of tasks in the previous calendar year, and a statement of financial intermediation and financial advisory services. In addition, the following areas were subject to off-site supervision: compliance with the requirement to submit a proposal for the entry of financial intermediation or financial advisory services into the commercial register by each independent financial agent / advisor within three months of the date of authorisation and 31 submissions received from natural and legal persons in regard to the activities of financial agents or financial advisors.

Four comprehensive and one follow-up on-site inspections were carried out in 2013, and one on-site inspection that started in 2012 was formally completed.

#### THE SECURITIES MARKET SECTOR

As at the end of 2013, there were 14 non-bank investment firms operating in the Slovak financial market. A total of 185 notifications were received during the year from foreign investment firms that intended to provide cross-border investment services in Slovakia. One of the most important decisions concerned a change in the authorisation of *PROXENTA Finance, o.c.p., a.s.*, and *Sympatia Finance, o.c.p., a.s.*, to provide investment services in the securities market. Another

major decision was the granting of prior approval to *Continental Asset Management, o.c.p.*, for the return of its authorisation to provide investment services. The authorisation became null and void on the date of return, i.e. 22 May 2013.

Regarding the public offering of securities, a total of 61 securities prospectuses were approved in 2013 under Article 125(2) of the Securities Act, three supplements to securities prospectuses, and one separate registration document. During the year, 61 notifications were received in regard to the approval of securities prospectuses or supplements to such prospectuses, from the supervisory authorities of other EU Member States.

In the area of investment certificates (which are not issued by way of public offering and are not requested by the issuer to be admitted to trading on a regulated market), eight investment certificate prospectuses were approved in 2013 under Article 4a(7) of the Securities Act, in addition to one separate registration document.

Regarding the public offering of assets, four public offerings were made in 2013 on the basis of investment prospectuses approved by NBS<sup>15</sup>. Compared with 2012, the issuers of public offerings in 2013 were less interested in this form of fund raising for investment purposes, owing to a prepared amendment to the Collective Investment Act<sup>16</sup>, which came into force on 22 July 2013.

As part of the Bank's authorising activity in the segment of share issuers whose ordinary shares are traded on a regulated market of the Bratislava Stock Exchange (BCPB, a.s.), two proceedings were conducted in regard to proposals for compulsory take-over bids, which came into force in the same year.

In the area of authorising activities regarding the Central Securities Depository of the SR (CDCP SR, a.s.), four proceedings were conducted in 2013. In the year under review, NBS granted one prior approval for depository activities, i.e. to *UniCredit Czech Republic, a.s., Praha*. As at the end of 2013, the Central Securities Depository had 20 members.

Within the scope of authorising activities concerning the Bratislava Stock Exchange, two proceedings were conducted in 2013.

<sup>15</sup> Act No 566/2001 Coll. on securities and investment services (the Securities Act) and on amendments and supplements to certain laws, as amended.

<sup>16</sup> Act No 203/2011 Coll. on collective investment.



In 2013, there were six domestic asset management companies operating in the Slovak financial market. A total of eleven licences were granted to these companies to establish or manage an investment fund. Over the course of the year, 70 prior approval decisions were issued by NBS, specifically 30 decisions concerning prior approval for a change in the articles of association of investment funds, eight decisions concerning prior approval for the merger of investment funds, seven decisions concerning prior approval for the acquisition of a qualifying holding in a management company, and one decision concerning prior approval for the sale of a firm to a management company.

Act No 206/2013 Coll., enacted to amend the Collective Investment Act with effect from 22 July 2013, has introduced a new form of collective investment, i.e. investment in alternative investment funds (AIFs). Investors now have an option to invest in AIFs managed by a management company authorised under Article 28a of the Collective Investment Act or to invest in AIFs or SAIFs (self-governing alternative investment funds) operating under Article 31a of the Collective Investment Act on the basis of registration in the *Register of Managers* kept by NBS. In 2013, NBS assessed one application for the registration of an SAIF, which satisfied the conditions for registration and was registered in the register of asset managers as an SAIF. In this period, no AIF manager was registered and no one requested such registration.

Within the scope of authorisation proceedings in the area of securities, 189 proceedings were commenced in 2013 and 182 proceedings came to an end with the issuance of a final decision.

As regards sanction proceedings, five proceedings were instituted in 2013 (three proceedings were brought against a natural person – for failure to implement an NBS decision imposing a sanction for not submitting a compulsory take-over bid and two proceedings were brought against a legal person for failure to submit a compulsory take-over bid). Overall, six sanction proceedings were conducted in the year under review. In this area, one decision was issued to impose a sanction on an issuer for failure to submit a compulsory take-over bid.

In the securities market sector, off-site supervision in 2013 covered six domestic management

companies (managing a total of 56 standard investment funds and 20 alternative investment funds) and five banking institutions performing depositary activities under the Collective Investment Act. At the same time, seven standard investment funds managed by a foreign management company were under supervision. In addition, 14 domestic investment firms and seven foreign investment firms operating in Slovakia through a local branch according to the MiFID<sup>17</sup> guideline were supervised in 2013.

In the securities market sector, three comprehensive and eleven thematic on-site inspections were carried out in 2013. In the year under review, two comprehensive and two thematic on-site inspections were carried out in the collective investment sector and two thematic on-line inspections in the area of depositary activities.

## 2.3 FINANCIAL MARKET REGULATION

### THE BANKING SECTOR

In 2013, the FMS Unit focused its regulatory activities on the preparation and implementation of a new regulation in connection with the transposition of international standards (Basle III) into the EU legislation. The original plan to create a new regulatory framework for banks in the form of a new capital requirements directive (CRD IV) proved unfeasible in regard to the creation of a single market governed by uniform rules. For that reason, the regulatory rules were divided into a directive (CRD IV Directive) and, in larger part, into a regulation (CRR<sup>18</sup>) with a direct binding force. In connection with the adoption of the CRD IV Directive and CRR Regulation, NBS closely cooperated with the Ministry of Finance in the finalisation of this legislative package in order to ensure that the national supervisory authority has sufficient powers in exercising supervision over banks in its jurisdiction and to ensure appropriate tools for the maintenance of stability in the financial sector and for the prudent operation of banks at the national level. The new regulatory framework is expected to improve the functioning of banks and investment firms in any phase of the economic cycle, as well as in the event of financial market shocks. The EU's intention was to introduce a 'single rule book', i.e. uniform rules for a single market, for all EU banks without regulatory differences at the national level.

<sup>17</sup> Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

<sup>18</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.



The harmonisation of the Slovak legal system in connection with the implementation of the CRD IV Directive and the directly binding CRR Regulation was a big challenge for NBS. In cooperation with the Ministry of Finance, NBS drafted an amendment to the Banking Act<sup>19</sup> with the aim of transposing the said legislative package into the Slovak legal system with effect in the course of 2014.

In connection with the implementation of the CRR Regulation and CRD IV Directive, the secondary legislation was to be amended, too. Hence, the FMS Unit drafted a new NBS decree on the submission of statements by banks and investment firms for the purpose of data collection according to the EBA's implementing technical standards.

The FMS Unit also prepared an amendment to the decree on liquidity and the method of liquidity risk management for banks and branches of foreign banks with the aim of updating the current liquidity indicators so that they better reflect the actual situation in the economy and in the financial sector.

#### THE SECTOR OF PROVISION OF PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

In 2013, the most noteworthy project in this area was the implementation of the Single European Payments Area (SEPA) project. The legislative framework for SEPA was given by a regulation imposing requirements for payments and collections in euros<sup>20</sup>. This directive set the final deadline for migration to SEPA payments and SEPA collections at 1 February 2014. Each country adopting the SEPA system is required to ensure migration to SEPA payment instruments in accordance with the regulation. Thus, 2013 saw the final phase of Slovakia's migration to the SEPA standards.

#### THE FOREIGN EXCHANGE SECTOR

Last year, NBS drew up and issued a decree specifying the elements of an application for a foreign exchange authorisation and the elements of an application for trading in foreign exchange assets. The decree took into account the changes in the Foreign Exchange Act, as well as the Bank's practical experience in foreign exchange supervision.

#### THE INSURANCE SECTOR

In 2013, NBS drew up and issued an amendment to the decree specifying the minimum amount

of guarantee funds for entities from this sector on the basis of data published by the Statistical Office of the European Communities on the European consumer price index for all Member States, with effect from 1 June 2013. In another decree, NBS set the value of the maximum technical interest rate in life insurance at 1.9%, in accordance with the directive concerning life assurance<sup>21</sup>.

In connection with the new Solvency II Directive<sup>22</sup>, the European Insurance and Occupational Pensions Authority (EIOPA) issued guidelines on 31 October 2013 to ensure that the Member States' supervisory authorities adopt a uniform convergence approach to the implementation of the Solvency II Directive. NBS transposed the EIOPA guidelines into four recommendations, which were issued at the end of 2013 and came into force on 1 January 2014. These recommendations regulate the process of applying for internal models, the system of governance, own risk and solvency assessment (ORSA), and the supply of information to NBS by insurance and reinsurance companies.

#### THE PENSION SECTOR

Regarding the pension sector, a significant amendment (so-called 'annuity amendment') was drafted in 2013 for the second pension pillar. NBS actively participated in this work as part of a working group set up by the Ministry of Labour and Social Affairs. The said amendment to the Old-Age Pension Scheme Act<sup>23</sup> concerning the saving phase was sent to the ministries concerned for comments procedure in the autumn of 2013, but the legislative process continues in 2014.

September 2013 saw the enactment of a major amendment to the Supplementary Pension Scheme Act. The amendment has changed several provisions of the law in order to ensure that the supplementary pension scheme meets its purpose better, introduced new rules for the activities of supplementary pension funds, including rules for risk management, and made the provisions governing investment more flexible for such funds. The amendment was drawn up by the Ministry of Labour and Social Affairs in cooperation with the FMS Unit of NBS, and came into force on 1 January 2014. On the basis of this amendment, the FMS Unit drafted two decrees

19 Act No 483/2001 Coll. 2001 on banks and on amendments and supplements to certain laws, as amended.

20 Regulation (EU) No 260/2012 of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

21 Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance.

22 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

23 Act No 43/2004 Coll. on the old-age pension saving scheme and on amendments and supplements to certain laws, as amended.



to implement the provisions of the law concerning the authorisation of supplementary pension companies and the granting of prior approval. The FMS Unit also cooperated with the Ministry in the drafting of implementing decrees concerning key information on contributory supplementary pension funds and on statements of personal pension accounts.

#### FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES SECTOR

A significant change in this area was brought about by an amendment to the law on financial intermediation and financial advisory services<sup>24</sup>, which came into force in June 2013. The change consisted in the introduction of a regulatory framework for intermediation and advisory activities in the old-age pension sector. Before the entry into force of this amendment, old-age pension saving agreements could only be arranged by the staff members of pension asset management companies. Since 10 June 2013, however, such agreements can also be made via independent, subordinate or tied financial agents. The amended law allows NBS to recognise an untrustworthy person as trustworthy under the conditions laid down therein. On the basis of this amendment, the FMS Unit drafted and issued two decrees and one methodological guideline on the application of the provisions of the said law.

#### THE SECURITIES MARKET SECTOR

In the first half of 2013, the FMS Unit focused a significant part of its activities on cooperation with the Ministry of Finance in the preparation of an amendment to the Collective Investment Act. This amendment transposed, into the Slovak legal system, the Alternative Investment Fund Managers Directive (AIFMD)<sup>25</sup> that covers the management of non-UCITS funds, throughout the territory of the EU. The said amendment came into force on 22 July 2013. From that date on, the FMS Unit focused on the practical application of the amended law on collective investment, primarily the provisions pertaining to the new legal framework, for both domestic and foreign participants in the financial market. An important matter, for example, was a position taken on temporary provisions, which enabled the law to come into force gradually, and a methodological guideline on the anticipated re-authorisation of existing asset management companies.

The law on securities was also amended with effect from 10 June 2013. Under the amended law, NBS has become a national authority for the regulation of short sales and credit default swaps, as well as for OTC derivatives, central counterparties, and trade repositories in accordance with the European Market Infrastructure Regulation (EMIR). The requirements for the derivatives market arising from the EMIR regulation<sup>26</sup> significantly affected the FMS Unit's activities in 2013. Since this area was relatively new within the scope of regulation, the FMS Unit organised a one-day workshop in May for the financial market entities concerned, including a large-scale presentation of the EMIR regulation, with the objective of helping the entities to handle this issue and of answering questions concerning the duties and requirements arising from this regulation. Over the course of 2013, numerous guidelines, templates of notifications, and positions were issued as to how the individual duties are to be performed according to the said regulation.

In 2013, the FMS Unit also issued several methodological guidelines and recommendations concerning the securities market to transpose the European Securities and Markets Authority (ESMA)'s guidelines concerning collective investment, investment services, rules against market manipulation, and the regulation of short selling.

As regards **money laundering and terrorist financing**, the FMS Unit drawn up and issued methodological guidelines in 2013 for all segments of the financial market in respect of protection against money laundering and terrorist financing, including detailed instructions for money laundering prevention.

## 2.4 FINANCIAL CONSUMER PROTECTION

On 10 June 2013, an amendment to the Financial Market Supervision Act came into effect, allowing NBS in scope of financial market supervision to handle submissions received from the customers of supervised entities, mainly complaints about the provision of financial services or the conduct of other business of supervised entities. From that date on, NBS also served as a 'single contact point' for the financial consumers of all financial institutions, by accepting submissions from the customers of all financial institutions concerning financial products.

<sup>24</sup> Act No 186/2009 Coll. on financial intermediation and financial counselling and on amendments and supplements to certain laws.

<sup>25</sup> Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers.

<sup>26</sup> The Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties (CCPs) and trade repositories (TRs).





## ISSUING ACTIVITY AND CURRENCY CIRCULATION

More detailed information on the handling of submissions received from financial consumers are available on the NBS website<sup>27</sup>. In order to make the submission handling process more effective, NBS allows financial consumers to deliver submissions in electronic form by filling in an electronic form and ensures the acceptance of submissions personally at its head office, as well as at its branches, where printed forms for submissions by financial consumers are available.

The number of submissions delivered by financial consumers to NBS showed a growing tendency in 2013. During the year, NBS received a total of 1,410 submissions from financial consumers, which was 37% more than a year earlier. Since the time when NBS started to serve as a single contact point, the average number of submissions delivered to NBS had increased to 126 submissions per month.

Among the financial market sectors, most submissions in 2013 were again made in the insurance sector (896 or 64%). The insurance sector was followed by the banking sector with 339

submissions delivered, i.e. 24% of all submissions. In other sectors, the number of submissions as a percentage of all submissions ranged from 0.1% to 4%.

In the insurance sector, the submissions concerned mostly motor third-party liability insurance, i.e. claims for compensation for damaged windshields on motor vehicles, and life insurance products, i.e. capital life insurance and investment life insurance products. The complaints again indicated that financial consumers do not understand financial products and often confuse them with saving products.

The most frequent subject matter of submissions in the area of banking concerned, as in 2012, mortgage loans and other housing loans, specifically the amount of bank charges, early loan repayment charges, and interest rate changes.

The subject matter of submissions concerning financial intermediation was the method, range, and quality of information supplied to financial consumers before the financial service was provided.

<sup>27</sup> <http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/ochrana-financneho-spotrebitela> (in the Slovak language only).

<sup>28</sup> Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2013 refers to the difference between the value (volume) of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009, when Slovakia joined the euro area, and 31 December 2013.

<sup>29</sup> The NNI increased by 12.7% in 2012, by 21.6% in 2011, and by 30.8% in 2010.

<sup>30</sup> The value of currency in circulation throughout the euro area as at 31 December 2013 was €956.2 billion, and the share of that currency issued in Slovakia was 0.9100%, or around €8.7 billion.

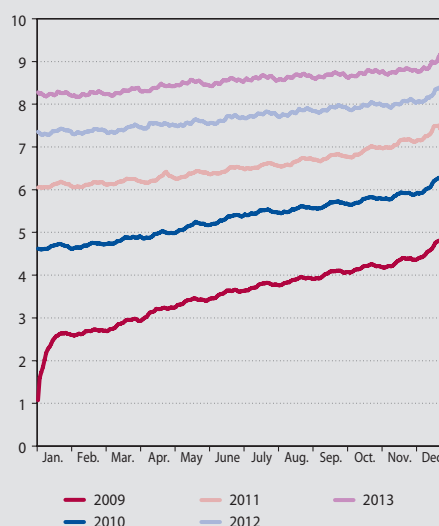
## 3 ISSUING ACTIVITY AND CURRENCY CIRCULATION

### 3.1 CUMULATIVE NET ISSUANCE

The cumulative net issuance (CNI)<sup>28</sup> of euro banknotes and coins in Slovakia had a total value of €8.9 billion as at 31 December 2013, with a year-on-year increase of 7.5% (€620.9 million). The CNI's growth rate in 2013 was lower than in 2012 and indicates that the CNI value is stabilising.<sup>29</sup> The value of the item *currency in circulation*, corresponding to Národná banka Slovenska's allocated share in the Eurosystem's production of euro banknotes (Banknote Allocation Key), amounted to €8.7 billion as at 31 December 2013.<sup>30</sup>

Looking at the CNI development on a daily basis, it was virtually the same in 2013 as in previous years, with the year-on-year difference ranging between 0.7 billion and 1.0 billion (Chart 18). The CNI usually peaks during the pre-Christmas pe-

Chart 18 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

**Table 6 Composition of the cumulative net issuance of euro banknotes and coins**

	Cumulative net issuance				Share in %	
	CNI as at 31 December 2013		Difference versus 31 December 2012		Share as at 31 December 2013	
	number	value (EUR)	number	value (EUR)	number	value (EUR)
€500 ES1	6,634,028	3,317,014,000.00	478,091	239,045,500.00	1.03	37.23
€200 ES1	531,084	106,216,800.00	-133,070	-26,614,000.00	0.08	1.19
€100 ES1	24,316,517	2,431,651,700.00	1,545,977	154,597,700.00	3.76	27.29
€50 ES1	40,241,839	2,012,091,950.00	3,102,804	155,140,200.00	6.23	22.58
€20 ES1	31,017,549	620,350,980.00	2,858,364	57,167,280.00	4.80	6.96
€10 ES1	24,184,381	241,843,810.00	3,199,774	31,997,740.00	3.74	2.72
€5 ES1	6,173,543	30,867,715.00	-2,825,830	-14,129,150.00	0.96	0.35
€5 ES2	3,442,615	17,213,075.00	3,442,615	17,213,075.00	0.53	0.19
<b>Total banknotes</b>	<b>136,541,556</b>	<b>8,777,250,030.00</b>	<b>11,668,725</b>	<b>614,418,345.00</b>	<b>21.13</b>	<b>98.51</b>
€2	37,277,566	74,555,132.00	2,760,419	5,520,838.00	5.77	0.84
€1	21,021,424	21,021,424.00	-612,345	-612,345.00	3.25	0.24
50 cent	25,580,038	12,790,019.00	-26,469	-13,234.50	3.96	0.14
20 cent	32,999,469	6,599,893.80	-837,380	-167,476.00	5.11	0.07
10 cent	47,154,786	4,715,478.60	2,481,718	248,171.80	7.30	0.05
5 cent	60,268,819	3,013,440.95	4,345,191	217,259.55	9.33	0.03
2 cent	128,757,710	2,575,154.20	9,346,865	186,937.30	19.92	0.03
1 cent	156,365,341	1,563,653.41	21,892,053	218,920.53	24.19	0.02
<b>Total coins</b>	<b>509,425,153</b>	<b>126,834,195.96</b>	<b>39,350,052</b>	<b>5,599,071.68</b>	<b>78.83</b>	<b>1.42</b>
<b>Collector coins</b>	<b>291,184</b>	<b>5,643,490.00</b>	<b>42,732</b>	<b>891,200.00</b>	<b>0.04</b>	<b>0.07</b>
<b>Total</b>	<b>646,257,893</b>	<b>8,909,727,715.96</b>	<b>51,061,509</b>	<b>620,908,616.68</b>	<b>100.00</b>	<b>100.00</b>

Source: NBS.

Note: ES1 – euro banknotes of the first series; ES2 – euro banknotes of the second series. The second series will replace the first series, with the other banknotes in the second series to be introduced gradually over several years in ascending order of denomination.

riod and in 2013 it reached a high of €9.17 billion) on 20 December.

Euro banknotes accounted for almost the entire value of the CNI (98.5%) but only for 21% of the CNI in terms of volume, with euro coins (including euro collector coins) making up the remaining 79%.

The cumulative net issuance as at 31 December 2013 comprised almost 136 million euro banknotes, more than 509 million euro circulation coins, and approximately 291,000 euro collector coins (Table 6). The €50 banknote accounted for the largest share of the total number of banknotes included in the CNI, almost 30%. The most-issued

euro coins were the lowest-value coins of 1 and 2 cent, which made up more than half (56%) of all the coins included in the CNI. In value terms, however, their share was a mere 3%.

Looking at the CNI breakdown, NBS has reported negative net issuance of €200 banknotes since approximately mid-2010, meaning Slovakia is a net recipient of these banknotes.<sup>31</sup>

The average value of the currency mark,<sup>32</sup> calculated on the basis of the net-issued euro cash (including collector coins), was €14. For euro banknotes, the average value of the currency mark was €65 and for euro coins (including collector coins) it was €0.26.

<sup>31</sup> In other words the number of the given banknote denomination that the NBS puts into circulation is lower than the number it withdraws from circulation.

<sup>32</sup> All the average values are calculated on the basis of the average issuance, which in 2013 stood at €8.5 billion. Average value of the banknotes and coins = average value of the CNI / average number of banknotes and coins included in the CNI.



## ISSUING ACTIVITY AND CURRENCY CIRCULATION

The €50 was the most numerous denomination with around seven per capita in circulation. As for euro coins, the most numerous denominations were the lowest-value coins of 1 and 2 cent, with an average volume of 23 and 27 per capita respectively.

On 5 July 2013 NBS issued a €2 commemorative coin marking the 1150th anniversary of the arrival of the mission of Constantine and Methodius to Great Moravia.

### ISSUANCE OF THE SECOND SERIES OF THE €5 BANKNOTE

On 2 May, in accordance with a decision of the ECB, Národná banka Slovenska and other euro area NCBs began issuing the second series of the €5 banknote. By 31 December 2013 a total of 3.4 million €5 banknotes of the second series (€5 ES2) were included in the CNL. The share of ES2 banknotes in the total volume of €5 banknotes in the CNL was 35.8%.

### SLOVAK KORUNA BANKNOTES AND COINS

On 2 January 2014, redemption period for the coins of the former Slovak koruna currency expired. Národná banka Slovenska will continue to exchange koruna banknotes and commemorative coins for an indefinite period.

In the last three months of 2013, NBS stepped up efforts to inform the public about the forthcoming deadline for the exchange of koruna coins, and consequently there was increased public interest in returning these coins.

A total of 1.8 million koruna coins worth approximately SKK 4.9 million were returned to NBS in 2013 (including 2 January 2014),<sup>33</sup> with the coins returned in the last month accounting for almost half of that volume and value. Of the total value of koruna coins in circulation as at 31 December 2008,<sup>34</sup> 51.3% were returned. The unreturned coins had a total volume of 390.5 million and value of SKK 716.3 million (€23.78 million).

By 31 December 2013 unreturned koruna banknotes and commemorative coins totalled, respectively, 19.2 million (including 10.1 million 20 koruna banknotes) and 934,000. Their combined value was SKK 3.1 billion, or around 2% of the total value of banknotes and commemorative coins issued.

## 3.2 PRODUCTION OF EURO BANKNOTES AND COINS

In 2013 Národná banka Slovenska procured for the Eurosystem the production of 32.35 million €20 banknotes (first series). The banknotes were produced by the German company Bundesdruckerei GmbH. The central bank also made preparations for the production of €50.04 million €10 banknotes of the second series.

Besides euro banknotes, NBS procured the production of 26.06 million 1 cent euro coins and the production of one million €2 commemorative coins marking the 1150th anniversary of the arrival of the mission of Constantine and Methodius to Great Moravia. All the euro coins commissioned by NBS are produced by the state-owned mint Mincovňa Kremnica. The coins minted in 2013 included 28,000 euro coins of each denomination that were used in annual collector sets of Slovak euro coins.

In addition to ordinary and commemorative euro coins, Národná banka Slovenska issued four silver collector coins and one gold collector coin in 2013 (Table 7) in accordance with its issue plan for commemorative and collector euro coins.<sup>35</sup> Further information about the themes of these collector coins can be found on the NBS website.<sup>36</sup> NBS arranges the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

## 3.3 PROCESSING OF EURO BANKNOTES AND COINS

In 2013 NBS put into circulation more than 359 million euro banknotes, while 347.5 million euro banknotes were returned to it.

During the year NBS processed over 345 million euro banknotes in accordance with the common procedures laid down by the ECB for all national central banks in the euro area. The total number of euro banknotes returned to NBS was approximately three times higher than the average number of euro banknotes issued by NBS. Therefore each euro banknote issued by NBS was returned to it once every four months on average. In order to maintain public confidence in the currency, NBS checks

<sup>33</sup> In January 2014 NBS was still exchanging koruna coins that had been returned by post during the last days of 2013 and on 2 January 2014.

<sup>34</sup> The value of koruna circulation coins as at 31 December 2008 did not include the value of 10 and 20 halier coins.

<sup>35</sup> <http://www.nbs.sk/en/banknotes-and-coins/euro-coins/issue-plan>

<sup>36</sup> [www.nbs.sk/en/banknotes-and-coins/euro-coins/collector-coins](http://www.nbs.sk/en/banknotes-and-coins/euro-coins/collector-coins)

**Table 7 Collector coins issued by Národná banka Slovenska in 2013**

Denomination	Theme	Issuing volume		NBS notification of coins issuance
		Total	of which proof	
€10 <sup>1)</sup>	20th anniversary of Národná banka Slovenska	13,250	9,150	408/2012 Coll.
€20 <sup>1)</sup>	Historical Preservation Area of Košice	9,700	6,350	407/2012 Coll.
€10 <sup>1)</sup>	300th anniversary of the birth of Jozef Karol Hell	8,850	5,750	55/2013 Coll.
€10 <sup>1)</sup>	150th anniversary of Matica slovenská	9,100	5,950	93/2013 Coll.
€100 <sup>2)</sup>	Bratislava coronations – 450th anniversary of the coronation of Maximilian	4,300	4,300	386/2013 Coll.

Source: NBS.

1) Silver collector coin.

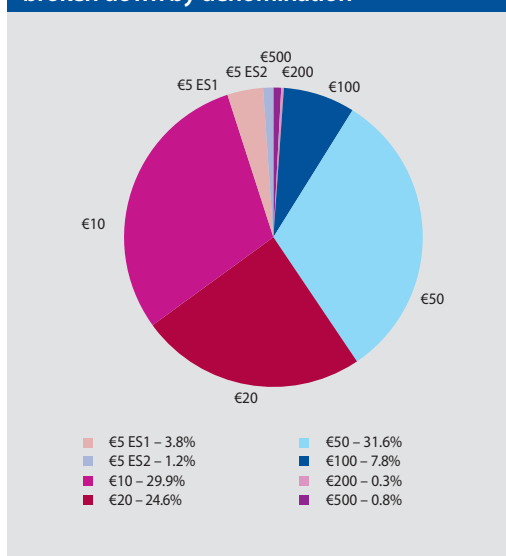
2) Gold collector coin.

returned banknotes for both authenticity and fitness for circulation. The €50 banknote was the most frequently processed in 2013 (Chart 19), being the most numerous euro banknote in circulation and the most frequently issued via cash dispensers.

In the processing of euro banknotes during 2013, 43 million banknotes were identified as being unfit for circulation. The average unfit rate of euro banknotes was 12.6%, (i.e. the share of banknotes that needed to be replaced because they became unfit in banknotes that NBS processed), which is one of the lowest such rates in comparison with other euro area countries.

In 2013 NBS put more than 312 million euro coins into circulation, while more than 273 million euro coins were returned to it. The coins were processed in automated coin processing machines, which checked the coins for both authenticity and fitness for circulation. Since coins have a longer lifespan than banknotes, only around 304,000 of the 275 million coins that NBS processed were sorted as unfit. The number of euro coins that NBS processed did not vary significantly between denominations.

Not only does NBS process and recirculate euro banknotes and coins, so too do banks and other cash handlers which have received approval from NBS to process euro cash. The activities of these cash handlers are subject to regular supervision by NBS.

**Chart 19 Euro banknotes processed in 2013 broken down by denomination**

Source: NBS.

Note: ES1 – first series; ES2 – second series.

### 3.4 COUNTERFEIT BANKNOTES AND COINS RECOVERED IN SLOVAKIA

A total of 35,288 counterfeit banknotes and coins were recovered in Slovakia in 2013 (Table 8), including 2,801 banknotes and 32,487 coins. The vast majority (99%) of these counterfeits were euro counterfeits. The number of counterfeits recovered was far higher in 2013 than in 2012 owing to one operation in which the criminal law enforcement authorities seized 26,735 counterfeit €2 coins before they entered circulation. Only 24%





## ISSUING ACTIVITY AND CURRENCY CIRCULATION

**Table 8 Number of counterfeit banknotes and coins recovered in Slovakia**

	EUR	SKK	Other	Total
<b>2009</b>	2,903	297	267	3,467
<b>2010</b>	2,837	14	83	2,934
<b>2011</b>	7,888	15	64	7,967
<b>2012</b>	4,451	22	65	4,538
<b>2013</b>	35,202	19	67	35,288

Source: NBS.

of the total counterfeits were recovered from circulation by banks, branches of foreign banks, non-bank entities, and cash handlers. As for the regional breakdown of counterfeit recoveries, more than three-quarters of the total were found in Banská Bystrica Region, where the above-mentioned operation occurred. Abstracting that case, Bratislava Region accounted for the largest share (27%) and Trenčín Region for the smallest share (1.6%).

Of the total counterfeits removed from circulation in 2013, NBS recovered around one-fifth, commercial banks operating in Slovakia almost one-half (49.5%), cash handlers 15%, the police 7%, and other non-bank entities recovered the rest.

A moderate improvement in the quality of counterfeits was observed in 2013, especially in counterfeits of euro banknotes and coins. Nevertheless, neither the number of counterfeits recovered, nor the technical level of their production posed a serious risk to the integrity and smooth operation of cash circulation in Slovakia.

### EURO COUNTERFEITS

The number of counterfeit euro banknotes and coins recovered in Slovakia in 2013 was 35,202 and they had total face value of €400,482.

The number of counterfeit euro banknotes detected was 2,715, of which 2,648 were recovered from circulation. Of counterfeit euro banknotes recovered from circulation, the €100 denomination accounted for 50.6%, €50 for 18.1%, and €20 for 13.3%. Banks and foreign bank branches recovered more than half of the counterfeit euro banknotes. Only 2.5% of the counterfeits were recovered other than from circulation. In addition to the counterfeit banknotes, 23 altered banknotes comprising different parts of banknotes of the same denomination were recovered.

As for euro coins, the total number recovered in 2013 was 32,487 and the number removed from circulation stood at 5,752, representing a year-on-year increase of 91%. Counterfeit €2 coins accounted for by far the largest share (86%) of counterfeit euro coins recovered from circulation. Although the number of counterfeit coins increased, their share of the total number of euro coins in circulation remains very low.

The counterfeit euro banknotes and coins recovered in Slovakia represented only 1.0% of the total number of such counterfeits recovered

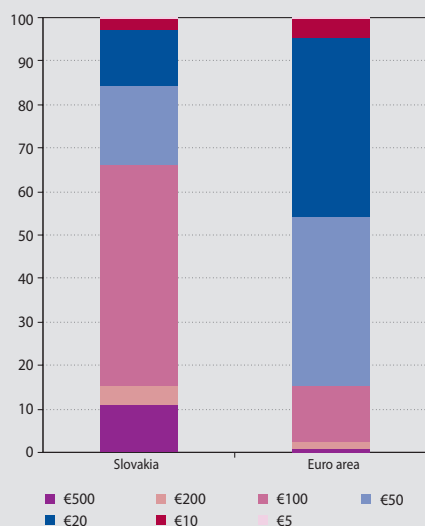
**Table 9 Number of euro counterfeits recovered in Slovakia**

	Denomination										Total
	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	
<b>2009</b>	37	109	664	29	37	274	827	775	144	7	2,903
<b>2010</b>	208	224	977	35	38	313	503	392	91	56	2,837
<b>2011</b>	348	239	1,041	29	31	425	495	4,103	91	1,086	7,888
<b>2012</b>	476	245	2,286	16	28	400	359	289	254	98	4,451
<b>2013</b>	580	247	31,660	9	59	412	481	1,341	123	290	35,202

Source: NBS.



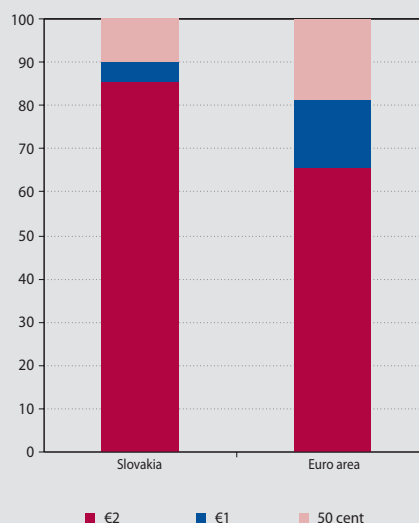
**Chart 20 Counterfeit euro banknotes recovered in 2013 in Slovakia and in the euro area as a whole (%)**



Source: NBS.

Note: Chart presents counterfeit euro banknotes recovered from circulation.

**Chart 21 Counterfeit euro coins recovered in 2013 in Slovakia and in the euro area as a whole (%)**



Source: NBS.

Note: Chart presents counterfeit euro coins recovered from circulation.

in the euro area as a whole in 2013. In Slovakia, euro counterfeits make up a very low proportion of the currency in circulation and therefore the probability of a natural or legal person coming into contact with a counterfeit euro banknote or coin is very small.

#### SLOVAK KORUNA COUNTERFEITS

Following the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply. Only 19 Slovak koruna counterfeits were recovered in 2013. Although the period in which Slovak koruna banknotes may

be exchanged for euro is indefinite, further incidence of koruna counterfeits is expected to be only sporadic.

#### COUNTERFEITS OF OTHER FOREIGN CURRENCY

US dollar counterfeits recovered in Slovakia totalled 44 in 2013, slightly more than in 2012. As in 2012 the \$100 dollar banknote was the most counterfeited denomination, accounting for 93% of the recovered counterfeits. The number of counterfeits of other foreign currencies fell slightly, to 23, including 16 British pound counterfeits.

## 4 PAYMENT SERVICES AND PAYMENT SYSTEMS

### 4.1 PAYMENT SERVICES

One of the main tasks of Národná banka Slovenska is to provide for the smooth and efficient functioning of payment systems. Payment services and payment systems in Slovakia are governed mainly by Act No 492/2009 on payment services and on amendments to certain laws (hereinafter „the Payment Services Act“),

which transposes into Slovak law Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market.

Slovak law in the area of payment services also includes Decree No 8/2009 of Národná banka Slovenska (laying down the structure of domestic and international bank account



## PAYMENT SERVICES AND PAYMENT SYSTEMS

numbers and details about the issuance of an identifier code converter) and the following Regulations of the European Parliament and of the Council:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001;
- Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds; and
- Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009.

In 2012 Národná banka Slovenska approved the proposal of the Slovak Banking Association (SBA) that the SBA should not pay any contribution for that year to the operation of the SBA's Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), having regard to the Court's financial results and the existence of sufficient funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to Payment Services.

### 4.2 PAYMENT SYSTEMS OF THE SLOVAK REPUBLIC

#### 4.2.1 TARGET2 AND TARGET2-SK

Národná banka Slovenska operates the TARGET2 component system TARGET2-SK. In 2013 the system functioned well and without problems. During the year TARGET2 did not record any serious incidents such that would jeopardise the system and its users or disrupt the system's smooth processing of payments or operation.

Besides overseeing the TARGET2-SK's daily operation, providing its participants with advice and support, and performing regular testing of recovery procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing, and implementation of software releases for the Single Shared Platform (SSP) that forms the technical infrastructure of the TARGET2 system. New software releases, approved by the Eurosystem in response to the requirements of system users, bring enhanced functionalities and modifications to the SSP.

NBS organises regular working meetings with representatives of TARGET2-SK participants. These meetings provide opportunities to discuss proposed and planned changes in TARGET2, to evaluate the day-to-day operation of the system, to coordinate testing of new SSP software releases with participants, and to communicate any other relevant information.

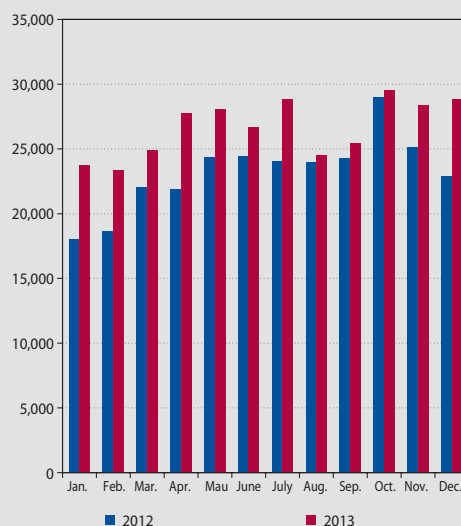
In 2013 the European Central Bank adopted Guideline ECB/2013/37 amending Guideline ECB/2012/27 on TARGET2. This guideline did not affect NBS Decision No 3/2010 on conditions of participation in TARGET2-SK or NBS Decision No 4/2010 on ancillary system settlement procedures in TARGET2-SK.

#### 4.2.2 PAYMENTS EXECUTED VIA TARGET2-SK

By the end of 2013 TARGET2-SK had 32 participants, comprising 29 direct participants and three ancillary systems (SIPS, the Central Securities Depository of the Slovak Republic, and the company First Data Slovakia, s.r.o.).<sup>37</sup> The number of direct participants fell by one in 2013.

In 2013 TARGET2-SK processed almost 320,000 transactions with a total value of over €630 billion. In comparison with 2012, TARGET2-SK traffic increased in volume by 14.7% (or 41,000 transactions) and in value by 25% (€210 billion). Charts

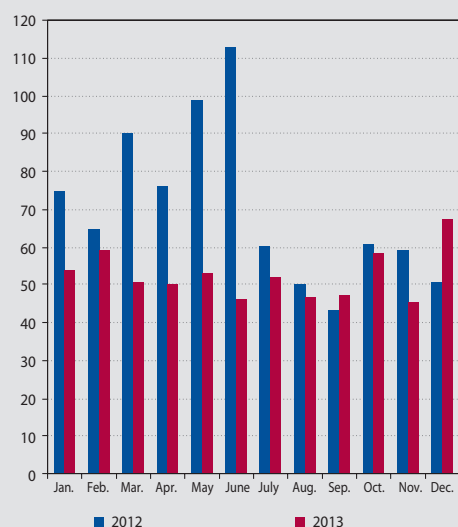
Chart 22 Number of transactions processed in TARGET2-SK in 2012 and 2013 (millions)



Source: NBS.

<sup>37</sup> The list of TARGET2-SK participants is published at: <http://www.nbs.sk/en/payment-systems/target2/list-of-target2-sk-participants>

**Chart 23 Value of transactions processed in TARGET2-SK in 2012 and 2013 (EUR billions)**



Source: NBS.

22 and 23 show, respectively, the number and value of transactions processed in TARGET2-SK in each month of 2013 and 2012.

TARGET2-SK had 255 operating days in 2013, and its average daily traffic by volume and value was 1,255 transactions and almost €2,469 million.

Looking at the payment traffic in 2013 broken down into customer and interbank transac-

tions, customer payments have the higher share by number (78:22) while interbank payments have the overwhelmingly larger share by value (8:92).

As at the end of 2013 there were 24 central banks of EU Member States connected to TARGET2. Looking at the number of outgoing payments executed by TARGET2-SK participants in 2013, 21.34% were domestic, 69.90% were cross-border within the EU and almost 8.76% were cross-border outside the EU. In terms of value, however, domestic payments account for the highest share (55:45). Chart 24 shows the breakdown of outgoing payments executed via TARGET-SK in 2013.

#### 4.2.3 THE SIPS PAYMENT SYSTEM

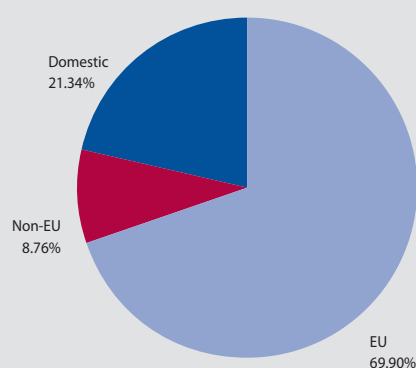
The Slovak Interbank Payment System (SIPS) serves mainly for the processing and clearing of domestic retail payments. In line with the objectives of SEPA implementation, as incorporated in the SEPA Implementation Plan adopted by the Bank Board of Národná banka Slovenska, SIPS underwent further significant developments during 2013.

Since 4 November 2013, SIPS has been:

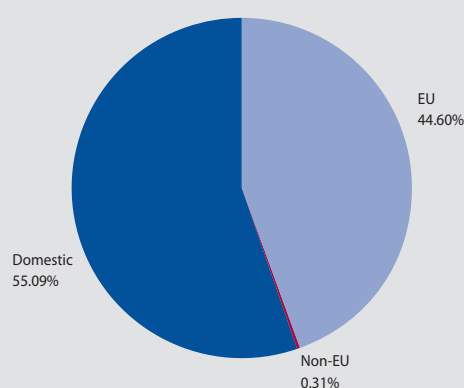
- using only the international XML message format;
- processing SEPA credit transfers and SEPA direct debits;

**Chart 24 Outgoing TARGET2-SK payments in 2013 broken down by number**

Down by number



Down by value



Source: NBS.



## PAYMENT SERVICES AND PAYMENT SYSTEMS

- connected to the STEP2 pan-European cross-border clearing house, which provides processing of both domestic and cross-border SEPA credit transfers and SEPA direct debits throughout the European Economic Area.

Migration to the new version of SIPS took place gradually through several key steps:

- migration from the domestic format of payment instruction to the international XML format;
- introduction of SEPA credit transfers in the domestic payment system from 1 December 2012;
- extending the functionality of SIPS from 4 November 2013 to cover SEPA direct debits and ensure interoperability with STEP2.

Migration to the new version of SIPS went smoothly, with neither participants nor NBS experiencing any problems.

From 1 September 2013, as part of the process of implementing SEPA direct debits, NBS took over from the Slovak Banking Association the task of maintaining the Register of Creditor Identifiers (the CID Register).

SIPS processes and clears payments in clearing cycles with all payments executed in euro. The

resulting cash positions in this ancillary system are settled by TARGET2-SK.

### 4.2.4 PAYMENTS EXECUTED VIA SIPS

The number of active participants in the SIPS retail payment system declined from 29 at the beginning of 2013 to 28 at the year end.<sup>38</sup>

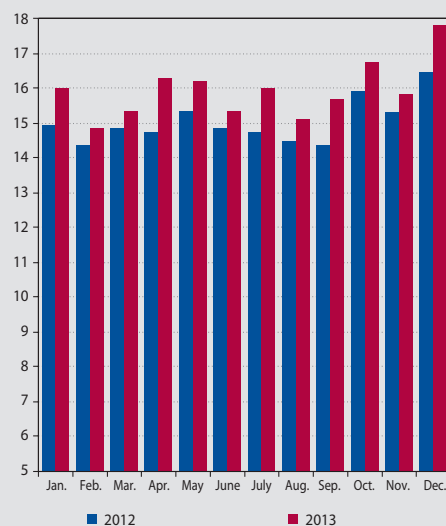
In 2013 SIPS processed 191,181,000 transactions with a total value of €178,381 million. While the number of transactions increased by 6% over the previous year, their total value rose by only a few thousandths of a percent. In both cases, the year-on-year change was similar to that in 2012 (5.43% and less than one percent, respectively) and in line with the trend of previous years.

Charts 25 and 26 show the number and value of transactions that SIPS processed in each month of 2012 and 2013.

### 4.2.5 PAYMENT CARDS

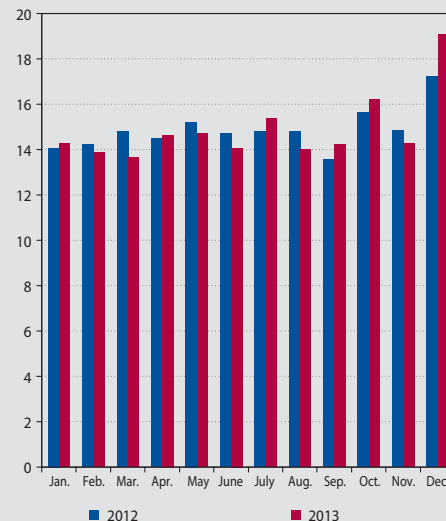
In 2013 the number of payment cards in circulation increased by 4.4% year-on-year, to 4.79 million. The number of contactless cards increased by 78% and by the year-end accounted for 45% (2.15 million) of all payment cards, while the number of contactless transactions surged from 2.8 million in 2012 to 21 million in 2013.

Chart 25 Number of transactions executed via SIPS in 2012 and 2013 (millions)



Source: NBS.

Chart 26 Value of transactions executed via SIPS in 2012 and 2013 (EUR billions)



Source: NBS.

<sup>38</sup> The list of SIPS participants is published at: <http://www.nbs.sk/en/payment-systems/sips>

<sup>39</sup> Source: Slovak Banking Association.



The number of ATMs and point-of-sale (POS) terminals in Slovakia increased in 2013 by 81 and 3,554 respectively (to 2,590 and 41,039).<sup>39</sup>

### 4.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE PAYMENT SYSTEMS FIELD

#### THE SINGLE EUROPEAN PAYMENTS AREA (SEPA) – THE ECB AND EUROPEAN PAYMENTS COUNCIL

The Eurosystem, of which Národná banka Slovenska is a member, has been supporting the implementation of SEPA since 2002 in order to ensure that Europe has a competitive and innovative payment services market. In 2013 the Eurosystem continued to monitor migration towards SEPA credit transfers and SEPA direct debits. Národná banka Slovenska was involved in the related coordination and communication activities.

The European Central Bank published two SEPA migration reports in 2013, describing how the migration process was progressing in the euro area. In this regard, Slovakia was bracketed among the best prepared euro area countries. As operator of the SIPS payment system, Národná banka Slovenska ensured that SIPS was connected to the international STEP2 system as from 4 November 2013 and was therefore able to process cross-border SEPA credit transfers and SEPA direct debits.

In 2013 the migration to SEPA payment instruments (SEPA credit transfers and SEPA direct debits) was a key issue in the euro area. By the end of 2013, according to ECB figures, SEPA credit transfers and SEPA direct debits as a share of all credit transfers and direct debits in the euro area stood at 73.8% and 41% respectively.

The European Payment Council (EPC) is the decision-making and coordination body of the European banking industry in relation to payment services. The EPC, which periodically updates the rules for SEPA payment instruments, decided in 2013 to postpone the effective date for the latest versions of the SEPA Rulebooks<sup>40</sup> from 16 November 2013 to 1 February 2014, in order that market participants could adapt their systems

and processes to comply with Regulation (EU) No 260/2012.

As regards payment card requirements, in June 2013 the EPC published version 6.5 of the SEPA Cards Standardisation Volume. The most recent update of the SEPA Cards Framework is version 2.1 of December 2009.

#### ASSESSMENT OF SECURITIES SETTLEMENT SYSTEMS (SSSS) AND THEIR LINKS

In 2013 new links between securities settlement systems were assessed against the “Standards for the use of EU securities settlement systems in ESCB credit operations”, as is required for each new link. Národná banka Slovenska acted as second assessor for the direct link between Clearstream Banking S.A. and Centrálny depozitár cenných papierov SR, a.s. (CDCP) and for two relayed links, from LuxCSD via Clearstream Banking S.A. to Oesterreichische Nationalbank and from Clearstream Banking AG – Creation via Clearstream Banking S.A. to CDCP. In 2014 the final report will be completed and recommendations will be sent.

#### THE EUROSISTEM – TARGET2-SECURITIES

The Eurosystem continued development work on the securities settlement platform TARGET2-Securities (T2S).<sup>41</sup> The ECB Governing Council took decisions on several matters that support the T2S preparations in line with the T2S Programme Plan. The Eurosystem began training future T2S users through programme entitled “train the trainer”. In 2013 a further two depositories signed the T2S Framework Agreement with the Eurosystem, namely BNY Mellon and the Latvian depository.

Meetings between NBS and Slovakia’s T2S National User Group (NUG-SK) were held at the central bank during 2013.<sup>42</sup> NUG-SK members also provided feedback within the Eurosystem’s T2S consultation process, which aims to obtain the views of national markets on T2S issues as well as information on national practices in post-trade services, so as to maximise harmonisation in T2S. Market representatives continue to implement harmonised standards into national practices so as to ensure the harmonisation of T2S settlement processes.

<sup>40</sup> The SEPA Credit Transfer (SCT) Rulebook version 7.0, the SEPA Direct Debit (SDD) Core Rulebook version 7.0, and the SDD Business to Business (B2B) Rulebook version 5.0.

<sup>41</sup> Further details about the T2S project are available in English on the ECB website at: <http://www.ecb.europa.eu/paym/t2s/html/index.en.html>

<sup>42</sup> The meeting agendas and issues addressed are published on the NBS website at: <http://www.nbs.sk/sk/platobne-systemy/target2-securities/nug-sk>





## 5 STATISTICS

Národná banka Slovenska develops, collects, compiles and disseminates a wide array of statistics which support in particular the implementation of the single monetary policy of the Eurosystem, the maintenance of financial stability, various other tasks of the ESCB, and the tasks of the European Systemic Risk Board (ESRB).

The statistics are based on data reported by financial and non-financial entities; they serve not only users at Národná banka Slovenska (when compiling assessment reports for the financial sector or preparing analyses and summaries), but also financial market participants, the media, public authorities (e.g. the Statistical Office of the Slovak Republic, when compiling aggregate macroeconomic data for the financial sector), and, not least, the general public. In 2013 the data used for compilation of the statistics were reported in accordance with the requirements of the ECB/ESCB, Eurostat, the BIS and other international institutions.

### 5.1 MONETARY AND FINANCIAL STATISTICS

In the area of monetary and financial statistics, NBS activities in 2013 were related mainly to the drafting and approval of ECB/ESCB legislation governing the reporting of MFI balance sheet and interest rate statistics and statistics on investment funds, securities issues, and, for the first time, holdings of securities.

The compilation and transmission of statistical outputs on a periodic basis continued according to schedule, and with the requirements for source data unchanged from the previous year. Internal activities centred on quality improvement in the processing of time series data and of month-on-month changes in data submitted by reporting agents.

NBS met ECB requirements for interest-rate time series estimations regarding selected items of new transactions for the years 2000 to 2003. Besides current individual data, historical data going back to 2009 were requested.

As regards statistics on other financial intermediaries, the sample of reporting agents was updated and will be valid for the next three years. A requirement for the sample was that the total assets of the companies included had to amount to at least 95% of the total assets of all the companies under review.

The presentation of statistical data continued to be enhanced in 2013, through the quarterly *Statistical Bulletin*, the publication of new time series for selected interest rate and balance sheet statistics, and an expanded graphical representation of euro area data.

### 5.2 FINANCIAL ACCOUNT STATISTICS

Financial account statistics provide current data on stocks and flows of financial assets and liabilities in the economy during the year. The main purpose of financial accounts is to record the amount and form of financial flows between different sectors in the domestic economy and between resident and non-resident entities. They are a key analytical tool for monitoring the monetary policy transmission mechanism and analysing financial stability.

Financial account statistics are compiled in close cooperation with the Statistical Office of the Slovak Republic (SO SR) and the Ministry of Finance of the Slovak Republic (MF SR), particularly in regard to checking whether methodological procedures for general government statistics are compliant with the European accounting rules and ECB methodology.

Work continued in 2013 on the implementation of the ESA 2010 revised system of national accounts into the financial accounts statistics, with an emphasis on stepping up communication with financial market participants and increasing the quality of data on amounts of revaluations, reclassifications, and exchange-rate differences of bonds and equity securities.

As regards preparations for the new Statistics Collection Portal (SCP) – a system for the col-





lecting, processing and storing of data for statistical purposes and financial market supervision – there were regular meetings from early in the year with the SCP's external supplier. In addition there was ongoing development of a new SCP data model that will facilitate data collection on the basis of an unambiguous economic definition.

The STATUS and STATUS DFT information systems continued to be used for data collection and processing in 2013, but they did not undergo any further development given that the new system is being prepared.

### 5.3 STATISTICS ON THE INSURANCE, CAPITAL MARKET AND PENSION SECTORS

Data reported by participants in the insurance, capital market and pension sectors were used for supervision and statistical purposes, for both national and supranational institutions. The data quality in terms of timeliness, accuracy and comparability was maintained. As at the end of 2013 there were 214 registered reporting agents, including 39 in the insurance sector, 129 in the capital market sector and 46 in the pension sector.

Insurance statistics in 2013 continued to be shaped by preparations for the implementation of Solvency II, scheduled for 2016, the purpose of which is to harmonise data release conditions and ensuring the transparency and consistency of insurance data within the European Union. The costs that insurance companies and branches of foreign insurance companies in Slovakia will face in relation to requirements more stringent than those under Solvency II were assessed as part of the continuing drafting process for the respective ECB Regulation.

Investment fund statistics were affected by the adoption of an amendment (Act No 206/2013 Coll.) to the Collective Investment Act (No 203/2011 Coll.) that transposed Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No

1095/2010 (AIFMD Directive). Apart from regulating the management of AIFs, the amending law lays down a requirement for the registration of AIF managers, risk and liquidity management requirements, rules for the management of collective investment undertakings, and a reporting obligation to Národná banka Slovenska.

Statistics on pension companies were adjusted following the entry into force of certain provisions of Act No 252/2012 Coll. amending Act No 461/2003 Coll. on social insurance as amended and also by the adoption of NBS Decrees amending certain aspects of the old-age pension saving scheme, such as the mandatory establishment of guaranteed and non-guaranteed pensions distinguishable by name. There were also adjustments to the risk management and measurement system of pension funds and the calculation their global exposure, as well as to the methods and procedures for determining the asset value of old-age pension funds and supplementary pension funds. A major change occurred in the second pension pillar on 30 April 2013 when those savers who had not expressed their wish to be enrolled in a non-guaranteed pension fund were switched automatically to a guaranteed pension fund.

In 2013 NBS adopted a Decree to make Slovak law compliant with Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (ESA 2010), namely Decree No 10/2013 on the submission of statements by insurance undertakings, reinsurance undertakings, branches of foreign insurance undertakings, branches of foreign reinsurance undertakings, insurance undertakings and reinsurance undertakings from other Member States, pension funds management companies, and supplementary pension management companies for statistical purposes. This Decree follows ESA 2010 methodology in regard to the reporting and definitions of individual financial instruments and national economy sectors for statistical purposes and serves as the basis for compiling statistics on insurance and pension companies as well as financial account statistics for the euro area.



## STATISTICS

### 5.4 STATISTICS ON NON-BANK ENTITIES

Statistics on non-bank entities are collected and processed from statistical reports submitted by legal entities other than banks and foreign bank branches, for the compilation of the balance of payments, the international investment position, and foreign direct investment statistics.

The reporting obligation is governed by Article 8(6) of Act No 202/1995 Coll. – the Foreign Exchange Act – including amendments to Act No 372/1990 Coll. on non-indictable offences, as amended by Act No 602/2003 Coll.

The structure, scope and content of the reports, the deadlines for their submission, and the method, procedure and place of submission are laid down in NBS Decree No 332/2012 Coll. of 16 October 2012 amending NBS Decree No 467/2010 Coll. on the submission of reports in accordance with the Foreign Exchange Act. The reports are collected on a monthly, quarterly and annual basis. For processing the data, NBS uses the IS DEVOHP system. In 2013 the obligation to submit monthly and quarterly reports

applied to 1,620 entities, while annual reports on foreign direct investment were required from 3,797 entities.

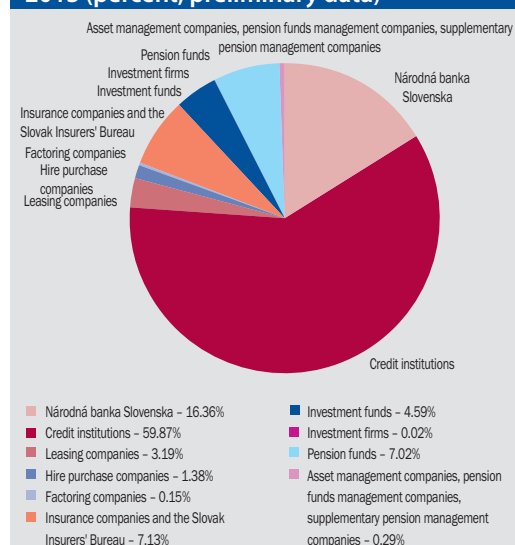
The harmonisation of statistics on non-bank entities continued in 2013 in line with the recommendations of international institutions (primarily the ECB) made in regard to the compilation methodology for balance of payments statistics, international investment position statistics and foreign direct investment statistics.

In 2013 NBS began the collection and processing of a new quarterly report, SLUZ(NBS)1-04, addressed to 4,007 entities. In this case, the reporting agent enters data on services received from non-residents and provided to non-residents during the reporting quarter.

New requirements of the OECD and other international institutions in regard to foreign direct investment statistics were implemented during 2013.

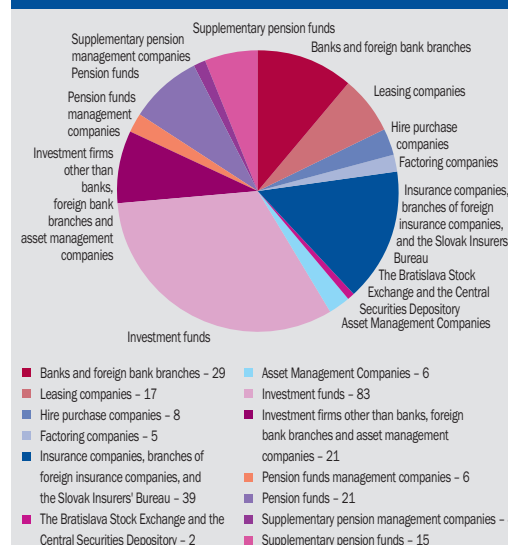
Furthermore, preparations continued for the implementation of requirements laid down in the Sixth Edition of the IMF Balance of Payments Manual.

**Chart 27 Reporting agents in the financial market broken down by share in total financial market assets as at 31 December 2013 (percent; preliminary data)**



Source: NBS.

**Chart 28 Reporting agents in the financial market broken down by category (number of agents as at 31 December 2013)**



Source: NBS.



## 6 ECONOMIC RESEARCH

Economic research at Národná banka Slovenska focuses on in-depth analysis of relations in the domestic and external economy and on addressing difficult economic, monetary and financial issues that require non-standard, wide-ranging solutions. Research work provides functional and substantive support to the analytical activities of the central bank's specialist departments, for whom timeliness and accuracy of information are particularly important. There is an emphasis on applied research, the results of which provide a basis for decisions related to monetary policy and financial stability. Research is conducted by the Research Department, often in cooperation with experts from other NBS departments as well as with researchers from Slovakia and abroad.

The priority areas of research derive from NBS's medium-term research strategy and comprise: monetary policy; fiscal policy; financial stability; the labour market and real economy; economic modelling; and the functioning of monetary union. Specific research topics are selected with regard to NBS's information requirements, recommendations of the NBS Research Committee, informed debate in wider society, and research collaboration at the international level. The Research Committee, comprising experts from Slovakia and abroad, sets the direction of the research agenda by approving the research aims of each NBS researcher and by monitoring their outputs on a regular basis.

To help ensure the current relevance of its research in terms of both subject-matter and methodology, the Research Department engages in international cooperation at various levels and its researchers are involved with international research teams. In 2013 NBS researchers participated in the work of the following four ESCB research networks:

1. The *Household Finance and Consumption Network* (HFCN) – Cooperation on the HFCN project provides new knowledge derived from comparable data on the financial situation and expenditure of euro area households. With such information it is possible to assess how different household cohorts are affected by various macroeconomic shocks and by monetary-policy and institutional changes.
2. The *Macro-prudential Research Network* (MaRs) – NBS cooperation with the MaRs focused mainly on the development of early warning systems and systemic risk indicators.
3. The *Competitiveness Research Network* (CompNet) – The aim of CompNet is to develop a consistent analytical framework for assessing competitiveness, taking into account aggregate measures of competitiveness, firm-level data, and global value chains. In cooperating with CompNet, NBS researchers mainly examine competitiveness using hitherto under-researched firm-level data sets.
4. The *Wage Dynamics Network* (WDN) – The new wave of the WDN survey, prepared by its members, is expected to provide up to date information on how firms have adjusted during the global economic crisis through wage and price formation and employment patterns.

NBS researchers also contribute to informed public debate by their participation in seminars and conferences. The regular research seminars hosted by NBS are particularly appreciated by domestic analysts and economists. Established experts from Slovakia and abroad are invited to speak and debate at the *Bratislava Economic Seminars*, organised jointly by NBS, the Department of Economic Policy at the University of Economics in Bratislava, and the Centre for Economics and Finance at the Faculty of Mathematics, Physics and Informatics at Comenius University in Bratislava.

For the Research Department, the most prestigious event in 2013 was an international research conference entitled *Twenty Years of Transition – Experiences and Challenges*. Held as part of events marking the 20th anniversary of Národná banka Slovenska, this conference on economic, mone-



tary and financial changes in transition countries benefited greatly from the knowledge and experience of several prominent participants, including ECB Executive Board Member Yves Mersch, the governors of the Finnish, Austrian and Italian central banks, and Ottmar Issing, President of the Center for Financial Studies.

The most notable results of NBS research in 2013 were published in academic journals. The topics ranged from the aforementioned financial situation of households and economic convergence to, for example, the relationship between income and life expectancy, debt thresholds of EU countries, and alternative indicators of country performance.

The more extensive works were published as peer-reviewed working papers (WPs), while other analyses were published as policy papers (PPs), occasional papers (OPs) or discussion paper (DPs).<sup>43</sup>

In 2013 the Research Department completed five peer-reviewed working papers and two specialist analyses. Media attention was directed mainly at the results of the first wave of the Eurosystem's Household Finance and Consumption Survey. The paper on these results, published at the beginning of 2013, provides a detailed summary not only of household assets, liabilities and net wealth, but also of the income, consumption and borrowing of households in euro area countries.

The regular analysis of economic convergence assesses the nominal and, in particular, real convergence of the Slovak and other economies to the EU average. Also it provides an overview of the convergence situation in EU candidate and potential candidate countries. The main conclusion is that Slovakia's real economy has converged towards the EU average after growing modestly amidst negative growth in the EU as a whole. In addition, indicators of nominal convergence have also improved. The outlook for coming years does not envisage any significant acceleration in Slovakia's catching-up process, nor fulfilment of conditions for euro adoption in any other new EU Member State.

Compared with previous years, NBS research in 2013 had a greater focus on specific issues relat-

ed to statistics and econometrics. One such issue is time-series asymmetry, which can significantly affect the accuracy of economic and monetary analyses. This is illustrated by, for example, the extent to which developments in the indicator under review are dependent on the phase of the business cycle. An indicator's diverse responses at times of recession and expansion require different settings of monetary or economic policy. The tests so far used to identify time-series asymmetry are deficient in several ways. A key outcome of NBS research in this area has been the proposal of a new, unique and easily applicable test that will make it possible to determine whether the probabilistic distribution of given indicators is symmetric or asymmetric.

Another important issue, particularly in connection with the design and use of macroeconomic models, is the linearity, or non-linearity, of relationships between analysed variables. To estimate non-linear models and produce forecasts on that basis remains a computationally demanding and time-consuming task. It is therefore necessary to have test statistics that can reliably identify non-linear behaviour in economic time series. The reliability of available tests is contingent on the use of a large number of observations. However, the time series used by central banks usually have a very limited length. NBS experts therefore modified two frequently used tests to make them usable for short time series. These modifications enable not only reliable verification of non-linearity, but also the application of a highly specific Markov switching model when using a time series.

The Research Department worked together with the Council for Budget Responsibility on joint research into labour supply, the result of which was a microeconomic model that can be used to analyse the responsiveness of labour supply (demand for work) to changes in taxes or to social and health contributions. According to estimations based on this model, the groups most responsive to changes in taxes and transfers are women, low-skilled people, and people aged over 50 years.

In the area of competitiveness, research focused on how qualitative factors affect the competitiveness of the largest Slovak firms. Referring to an older survey of specific financial and eco-

<sup>43</sup> The Research Department's published reports, papers and analyses are available on the NBS website at: <http://www.nbs.sk/en/publications-issued-by-the-nbs/working-papers>



conomic indicators for certain firms over a multi-year period, the research confirmed, using an econometric approach, the impact of most of the qualitative factors covered by the survey. The most significant qualitative factors in firms' competitiveness appear to be EU membership, energy costs, and the existence of developed consumer sectors.

As well as being published in NBS working papers, several research outputs are published

in papers of other central banks. Noteworthy results of joint research projects conducted in cooperation with other ESCB central banks were disseminated in ECB papers. One such paper examined the transmission of financial shocks to the economy. It addressed a number of pressing questions in this area, from the view of both specific countries and country groups.<sup>44</sup> A further two ECB papers focused on the results of the Europe-wide Household Finance and Consumption Survey.<sup>45</sup>

## 7 EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION

### 7.1 EUROPEAN AFFAIRS

#### THE EUROSISTEM

On 1 January 2009 NBS became a member of the Eurosystem, which comprises the ECB and the national central banks of all the EU Member States that have adopted the euro. The NBS Governor is, by virtue of his position, a member of the ECB Governing Council, the ECB's highest monetary-policy authority (its main responsibility being to formulate monetary policy for the euro area). The Governor is also a member of the ECB General Council, a transitional decision-making body that will cease to exist once all EU Member States have adopted the single currency. The ECB's decision-making bodies are assisted in their tasks by the committees of the Eurosystem/European System of Central Banks, established for each of the principal areas of central bank activities. During 2013 more than 80 NBS employees participated directly in the work of these committees and their working groups. The participation of NBS departments in Eurosystem tasks constitutes a substantial part of the central bank's activities.

In May 2013, for the first time in its history, Slovakia hosted a meeting of the ECB Governing Council. On that same day the new €5 banknote of the second series was launched into circulation, and ECB President Mario Draghi marked the occasion with an address after the post-meeting press conference.

#### THE EUROPEAN UNION

In 2013 the NBS Governor attended the two informal meetings of the Council of Ministers for Economic Affairs and Finance (ECOFIN), which are hosted by the country that holds the rotating EU Presidency; the first was in Dublin in March and the second in Vilnius in September. A number of NBS staff members were involved in activities of committees, sub-committees and working groups of the European Council and European Commission.

### 7.2 NBS COOPERATION WITH INTERNATIONAL INSTITUTIONS

#### THE INTERNATIONAL MONETARY FUND (IMF) AND THE WORLD BANK (WB)

The main events of the Bretton Woods institutions in 2013 were the IMF/WB Spring Meeting in April and Annual Meeting in October, both held in Washington D.C. The NBS Governor attended each meeting in his capacity as Governor of the IMF for Slovakia.

Slovakia's exposure to the IMF increased in 2013. Under a bilateral loan agreement that entered into force in September 2013, Slovakia pledged €1.56 billion to the IMF as part of a €150 billion commitment by euro-area countries to IMF resources. As at 31 December 2013 Slovakia's commitments to the IMF under the Financial Transactions Plan (FTP) and bilateral loan agreement were, respectively, SDR 137.2 million and SDR 53.9 million.

<sup>44</sup> Occasional Paper 143: *Financial Shocks and the Macroeconomy. Heterogeneity and Non-linearities.*

<sup>45</sup> ECB Statistics Paper 1: *The Eurosystem Household Finance and Consumption Survey: Methodological Report for the First Wave* and ECB Statistics Paper 2: *The Eurosystem Household Finance and Consumption Survey: Results from the First Wave.*





## EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION

At the end of May and beginning of June 2013, Slovakia hosted a regular IMF mission that conducts economic policy consultations under Article IV of the IMF's Articles of Agreement. Further discussions took place in December 2013, when an IMF Staff Visit came to Slovakia.

In November 2013 Slovakia contributed €3.2 million to the IMF Poverty Reduction and Growth Facility (PRGF), using funds received from the IMF's windfall gold sales profits. In 2013 Slovakia's contribution to the International Development Association (IDA) amounted to €820,000 and its contribution to the Multilateral Debt Relief Initiative (MDRI) was €70,000. The contributions were made under the terms of Slovakia's participation in the 16th replenishment of IDA funds and in the financing of the MDRI.

### THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

At the beginning of October 2013 the deputy governors of Národná banka Slovenska and Česká národní banka participated in a specialist seminar at the OECD's headquarters in Paris, held to mark the 20th anniversary of the two central banks. The presentations focused on how monetary policy and financial market supervision had developed in the Slovak and Czech republics over the previous twenty years. In recognition of the anniversary, the NBS exhibition *The Euro – Our Currency* was displayed on the OECD premises.

### THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

In May 2013 the Board of Governors of the EBRD held its 22nd Annual Meeting in Istanbul, Turkey. The EBRD continued laying foundations for future growth in the southern and eastern Mediterranean (SEMED) by the establishment of a special SEMED Fund serving for project funding in the region. The meeting approved a contribution of €65 million to the Shareholder Special Fund in order to ensure the financial sustainability of projects in current countries of operation for 2014 and 2015. In November 2013 Jordan, Morocco, and Tunisia became recipient countries while Egypt remains a potential recipient country.

### THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The NBS Governor attended the regular BIS meetings of central bank governors in 2013. The issues discussed were closely related to current

challenges, including: the need for structured bank regulation; draft reforms of central banks' institutional framework; the impact of financial system structural changes on national economic growth; and the practice of 'forward guidance'. The 83rd Annual General Meeting of the BIS was held in Basel in June 2013, with NBS represented by its Governor. The main item on the agenda was the approval of the BIS's financial results and the distribution of its profit and dividends.

## 7.3 INTERNATIONAL ACTIVITIES IN THE FIELD OF SUPERVISION

### EUROPEAN SYSTEMIC RISK BOARD (ESRB)

Main risks to the European financial system were the topic of discussion at meetings of the General Board of the European Systemic Risk Board (ESRB) in 2013, attended by senior NBS representatives. The gravest risks stem from weak economic growth and uncertainty surrounding the valuation of bank assets. Another significant area of activity for the ESRB was the EU's macro-prudential policy framework. In this regard, the ESRB issued a Recommendation on intermediate objectives and instruments of macro-prudential policy, in which it elaborated on the current intermediate objectives and potential instruments of such policy. In 2013 NBS sent the ESRB a report on its implementation of the ESRB's Recommendation on the macro-prudential mandate of national authorities. The ESRB also responded to certain consultations from European supervisory authorities and issued thematic publications on analyses conducted in 2013, which did not, however, lead to a formal ESRB recommendation. In addition, the ESRB continued to publish the quarterly Risk Dashboard, in which it identifies and measures risks to financial stability in the EU.

### EUROPEAN BANKING AUTHORITY (EBA)

As a member of the European Banking Authority (EBA), NBS helped to ensure the fulfilment of tasks laid down by the EBA Management Board. Conducted through EBA committees, the cooperation between NBS and the EBA was largely related to the drafting of technical and regulatory standards in accordance with the EU's CRR Regulation and CRD IV Directive (CRR/CRD IV). NBS was actively involved in this agenda at all levels of competence, from working groups to the highest approval bodies. As regards anti-



money laundering and combating terrorist financing (AML/CTF) activities, NBS cooperated with the EBA through the Joint Committee by consulting and commenting on documents concerning a basic framework for performance of risk-based supervision in this area and a summary of grounds for refusing the registration of payment institutions' agents.

#### EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

In its cooperation with the European Securities and Markets Authority (ESMA), NBS in 2013 participated in a wide range of ESMA's regulatory activities, particularly in regard to prospectuses, corporate governance, takeover bids, and collective investment. Another priority was work related to the implementation of the European Market Infrastructure Regulation (EMIR). To support ESMA's activities in this regard, the NBS Financial Market Supervision Unit organised regular staff coordination meetings, the aim being to coordinate work and to ensure a uniform approach and common strategy in key areas of interest, based on specific financial market conditions and on information exchange between NBS staff in different working groups.

As part of the ESMA Review Panel's activities in 2013, NBS participated in three ESMA peer review assessments of the uniformity of the supervisory approaches and procedures followed by national supervisory authorities in supervision performance. In November 2013 the ESMA Management Board approved a new Review Panel Methodology, which inter alia will allow assessment teams to conduct on-site visits to national supervisory authorities in order to review specific areas of supervisory practice.

#### EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

As a member of the European Insurance and Occupational Pensions Authority (EIOPA), NBS was actively involved in EIOPA activities in 2013 through its representatives on many of the authority's working groups. Their work in these groups concerned mainly the preparation of guidelines concerning Solvency II Directive (a so-called Level 3 regulation), issues of supervision and group supervision, and regular monitoring and analysis of the financial market. In 2013 EIOPA carried out an impact assessment of the insurance market, focusing mainly on guaranteed insurance products and seeking to determine how financial entities in the insurance

sector would be affected by the proposed regulatory requirements. In November 2013 EIOPA published guidelines for the period before the coming into effect of the regulation under Solvency II Directive, the purpose being to encourage consistency among insurance and reinsurance companies in their preparations for the Solvency II regulatory environment and to ensure that the transition is smooth and not excessively demanding. These guidelines were subsequently published by NBS.

As part of its work with EIOPA in 2013, NBS was heavily engaged in preparations for a Europe-wide consumer protection framework in the area of personal pension products.

In line with the Solvency II Directive, NBS in 2013 continued to cooperate with home competent authorities in regard to the pre-application process for internal risk measurement models of insurance companies and it began a preliminary ORSA assessment.

## 7.4 FOREIGN TECHNICAL ASSISTANCE

Národná banka Slovenska was one of 21 Eurosystem/ESCB central banks which in 2013 were partners in the technical assistance programme for the National Bank of Serbia / Народна банка Србије. In view of savings in the planned costs, the programme was extended until 31 December 2013 and expanded to include other areas of technical assistance. In the context of this expansion, NBS organised a two-day seminar on accounting and financial reporting.

In 2013 NBS and 11 other Eurosystem/ESCB central banks were partners in the technical assistance programme for the National Bank of the Republic of Macedonia (NBRM) / Народна банка на Република Македонија. For its part, NBS reviewed NBRM activities in three areas: risk management, publications, and the development of its library and archive.

In late 2013 the ECB Governing Council approved a further long-term programme of technical cooperation with the central banks of the Western Balkans, scheduled to begin in 2014. Participating in the programme will be nine Eurosystem/ESCB central banks, including the ECB. As part of its cooperation with the programme, NBS con-





## COMMUNICATION

firmed it would be providing technical assistance to the Bank of Albania / Banka e Shqipërisë, involving a review of the bank's human resources and communication requirements.

In 2013 the Slovak central bank continued its long-standing provision of technical assistance to the National Bank of Ukraine / Національний банк України. Two specialist events were held in Bratislava, related in one case to international relations and in the other to the development of a documentation centre and library.

NBS cooperation with the National Bank of the Republic of Belarus (NBRB) / Нацыянальны банк

Рэспублікі Беларусь also continued in 2013. As part of NBS technical assistance, experts from the bank gave lectures at educational events in Belarus on the subjects of on-site supervision and human resources management. NBRB representatives visited NBS in 2013 during the Slovak central bank's Visitor Day.

Cooperation increased with central banks of countries of the EU's Eastern Partnership, resulting in a pilot project with the Central Bank of Armenia (CBA). CBA representatives made a study visit to NBS in June, which focused on the area of statistics.

## 8 COMMUNICATION

Národná banka Slovenska regularly publishes information on monetary developments in the euro area, on key indicators of Slovak and other European economies, and on activities of banks and all other participants in the Slovak financial market. Information, reports and analyses presented by NBS are a basis not only for many decisions by the Slovak Government and Parliament, but also support the work of the media, economic research institutes, and educational institutions. NBS is constantly striving to develop, modernise and improve the quality of its communication tools. Emphasising openness and transparency, the central bank aims to respond as effectively as possible to the demand for information and to address target groups with maximum efficiency, so as to maintain its high standing in the eyes of the Slovak public.

A central pillar of NBS communication policy is participation in the Eurosystem's joint communications procedures, which primarily involves regular provision of information about monetary developments in the euro area and real-time communication of monetary-policy decisions.

In 2013 NBS celebrated the 20th anniversary of its establishment. Among the events held to mark this occasion were two scientific conferences: *Twenty Years of Transition – Experiences and Challenges*, in May, and *The History of Central Banking in Slovakia* in November. On the occasion of the

latter, NBS published a book bearing the same title as the conference. In 2013 the NBS Governor's Award Competition for outstanding dissertations or doctoral theses in the field of economics was held for the first time and attracted 20 entries. In the first half of the year NBS ran a competition for primary schoolchildren entitled *Povieme to farbičkami* (We say it with crayons), subheaded *Čo vieme o Národnej banke Slovenska* (What we know about Národná banka Slovenska), with participation from schools from across Slovakia. As part of its anniversary celebrations, NBS also held a Open Day, hosted the ECB's travelling exhibition *New Face of the Euro*, and produced a publication on commemorative and collector euro coins and a publication on banknotes and coins of the former Slovak koruna currency.

During 2013 NBS provided extensive information to the public about the new Europa series of euro banknotes, including all key facts regarding the appearance and new security features of the first banknote of the series, the €5 denomination. The new banknote was officially put into circulation in Bratislava on 2 May 2013. In addition, NBS informed the public about new rules for SEPA credit transfers and direct debits and about the end of the redemption period for Slovak koruna coins.<sup>46</sup>

NBS also communicates directly with members of the public by e-mail. In 2013 it dealt with 3,362

<sup>46</sup> For further details see Chapter 3, Issuing activity and currency circulation.



enquiries and comments from the public concerning various matters, including 64 requests for information under the Freedom of Information Act (No 211/2000 Coll.).

#### NBS PUBLICATIONS

NBS regularly publishes specialist publications providing information on, and analysis of, its main fields of activity. These publications include the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, Monthly Bulletin, Medium-Term Forecast, and Statistical Bulletin<sup>47</sup>. In 2013 NBS launched periodical Analytical Reports on selected issues and Flash Reports on selected macroeconomic indicators, which are valued for their up to date information. NBS also published analyses and working papers on current economic issues. In line with the principles of the Eurosystem/ESCB's multilingual communication system, NBS was involved in the preparation of Slovak language versions of official ECB publications.<sup>48</sup>

The majority of NBS official publications are issued only in electronic form. To make its information as easy to access as possible, NBS publishes the Annual Report also in ePub format and uses QR codes in its information materials.

The Biatec journal continued to play an important role in NBS communication activities, providing specialist articles in the area of banking, finance and economics. Through Biatec, the central bank interrelates with authors and readers from the banking and financial sector, academia, and the educational sector. Written in Slovak with English-language summaries of selected articles, Biatec is published ten times per year and the full text is available on the NBS website.<sup>49</sup>

#### NBS WEBSITE

The NBS website is a crucial tool for external communication, informing the public about the tasks and activities of NBS and of the Eurosystem as a whole. To mark NBS's 20th anniversary, the website included a separate page that highlighted the most important events in the bank's history since 1993, with an accompanying photo gallery. In the Financial Market Supervision section of the website, a new subsection was added showing the operative parts of decisions to grant authorisations and impose sanctions, and including a range of search options. The Monetary



and Financial Statistics section was expanded to include a presentation of selected graphical statistics for the euro area. As for the number of visits to the NBS website, its moderate rising tendency continued in 2013 with a daily average of around 17,400.

#### NBS OPEN DAY

NBS held an Open Day on 25 May 2013 at which around 5,000 members of the public took the opportunity to tour the bank's headquarters. They were shown among other things a gold bar, a million euro in banknotes, and counterfeit banknotes recovered from circulation, and they could ask the bank's experts how to check banknotes for authenticity. Other highlights of the tour included visits to the meeting room of the NBS Bank Board and the office of the NBS Governor, a meeting with the Governor, Jozef Makúch, a meeting with ECB staff members who provided information about the Eurosystem, and the award ceremony of the NBS drawing competition *We say it with crayons* for primary schoolchildren. All children at the *Open Day* were given a special visitor's pass on which they could collect stamps at designated points on the tour. At the end, after collecting all the stamps, they were rewarded with a present. Throughout the day people visiting the bank could exchange Slovak koruna and damaged euro banknotes for euro. Slovak koruna banknotes worth SKK 72,622 in total were exchanged, while 32 people returned damaged euro banknotes worth €1,156.91. As many as 250 visitors asked to exchange money for one or more €5 banknotes of the second series.

#### LECTURES, EXHIBITIONS AND COMPETITIONS

During 2013 NBS hosted lectures attended by almost 2,650 people, mainly schoolchildren and university students. In cooperation with the Eu-

<sup>47</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications>

<sup>48</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/ecb-publications>

<sup>49</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/journal-biatec>



European Central Bank, NBS organised an expert seminar entitled *Monetary policy of the ECB and its implementation framework*.

The ECB's travelling exhibition *New Face of the Euro* came to NBS headquarters in Bratislava in 2013. The opening ceremony was held on 24 May, led by Harm Metselaar, Head of the ECB's Currency Management Division, and Viliam Ostrožlík, Executive Director of the NBS's Cash Management Department.

NBS's travelling exhibition *The Euro – Our Currency* was installed at the bank's headquarters during its Open Day in 2013 and it was also displayed at the OECD's headquarters in Paris.

The second annual running of *Generation Euro*, a Eurosystem educational competition for secondary schoolchildren, was completed in April 2013, and the winners received their prizes at the ECB's headquarters in Frankfurt am Main. The competition attracted above-average participation from secondary schools in Slovakia, indicating their strong interest in raising students' awareness of central banking issues. NBS and other euro area NCBs will continue their involvement in this project. The third running of the competition began in October 2013 with lectures for participating teachers.<sup>50</sup>

#### NBS ARCHIVES

The Archives of Národná banka Slovenska administers 4,900 shelf metres of archival documents, most of which came from NBS's predecessor institutions. The oldest of its fonds comprises materials of Bratislavská sporiteľňa, a former savings bank established in 1841. The Archives focuses on processing and inventorying the fonds of former central and commercial banks, adding

to the archival collections, and providing archival services to the general public.<sup>51</sup>

In 2013, to mark the 20th anniversary of NBS, the Archives produced a collective monograph entitled *The History of Central Banking in Slovakia*. It is the first publication to describe how the financial sector in the territory of what is now Slovakia has developed from the 19th century to the present day. In producing this work, the Archives drew mainly on its own sources and reference library, which include rare historical publications and periodicals, and it also cooperated with archivists at the Czech and Austrian central banks as well as with academic institutions in Slovakia and abroad. The book was published on the eve of an eponymous scientific conference organised by NBS in cooperation with the Institute of History of the Slovak Academy of Sciences.

In 2013 the Archives continued its cooperation with the European Association for Banking and Financial History (EABH) and with the ECB's Information Management Services Division. This cooperation focuses on research and on the creation of information databases in the area of European banking and financing.

Also in 2013 the Archives addressed requests by natural and legal persons for information on various properties, details of old deposits, loans and accounts, and biographical information on significant figures in the history of the Slovak financial sector. The Archives received 29 research visits, 46 external written requests and 85 internal requests, as well as many telephone and e-mail enquiries. The majority of researchers who accessed the Archives' reference library did so on the basis of search requests.

#### DOCUMENTATION CENTRE

The NBS's Documentation Centre (DC) provides a full range of library services – documentation, retrieval, lending, consultation, and electronic – to NBS staff members and interns as well as to the general public. The DC's specialised collections offer a range of publications and information related to central and commercial banking, financial supervision, monetary policy, issuance policy, payment systems, and financial management.

In 2013 the DC added more than 3,500 documents to its online catalogue and responded to

<sup>50</sup> [www.generaciaeuro.sk](http://www.generaciaeuro.sk)

<sup>51</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-archive/archive-use-by-public>



3,900 search requests and other electronic requests for information.

An integral part of the DC's work involves contact with the public through the provision of advisory, search request and library services<sup>52</sup>. In this way the DC contributes to financial education of the general public.

During the year, cooperation with the libraries of the ECB and BIS continued, and, in the framework of technical assistance, a working seminar for the library of National Bank of Ukraine / Національний банк України/ was prepared.

#### THE NBS MUSEUM OF COINS AND MEDALS IN KREMNICA<sup>53</sup>

Visitors to the Museum of Coins and Medals (MCM) in 2013 enjoyed the museum's permanent exhibition *Two Faces of Money* that display some of the most interesting artefacts from the history of money and medal-making in Slovakia, and other exhibition at the Town Castle showing pieces of art and artefacts. The *Two Faces of Money* exhibition was expanded in 2013 to include a new section entitled *Banknote and Coin Processing Equipment for Slovak Currency*, showing equipment used by NBS between 1993 and 2008. This part of the exhibition was first opened to the public during the Night of Museums event on 18 May 2013. On 3 April 2013 the MCM opened a new long-term exhibition called *The Charm of Stoneware Gardens*, installed at the Burgher's House. The exhibition features more than 800 products of the Kremnica Stoneware Factory, which operated from 1815 to 1956 and exported worldwide thanks to the high quality and artistic originality of its output.

In 2013, in addition to its permanent and long-term exhibitions, the MCM put on 11 variously-themed occasional exhibitions listed below.

- *From the Danube, Vltava and Vistula – Medalists and Their Works (Od Dunaja, Vltavy a Visly – Medailéri a ich diela)* – The 11th annual cycle of this international medal exhibition featured the work of eight medallists from Visegrad Four countries. The exhibition premiered in Wrocław (Poland) before coming to Kremnica and then Budapest.
- *Silvia Bartová – Cross-section (Priečny rez)* – An intimate exhibition by a young jewellery artist who studied at the Private School of

Applied Arts in Kremnica and Prešov University.

- *The Land Slovakia XI (Zem Slovensko XI.)* – A collective exhibition by members of the Visual Artists Association of Central Slovakia (Združenie výtvarných umelcov stredného Slovenska).
- *Students of Professor Rudolf Pribiš on the 100th Anniversary of His Birth (Žiaci profesora Rudolfa Pribiša k 100. výročiu narodenia)* – This included a memorial exhibition of works by Professor Pribiš.
- *Caricaturists (Karikaturisti)* – Held as part of the regular European Festival of Humour and Satire – Kremnica Gags, this exhibition featured works by caricaturists nominated for the festival's Golden Gander Award.
- *Milan and Marek Ormandík* – A selection of sculptures and paintings by father (Milan) and son (Marek) artists from Kremnica.
- *Ján Homola – Poézia v dreve ukrytá (Poetry hidden in wood)* – An exhibition of woodcarvings by Ján Homola.

The following were held alongside the *Two Faces of Money* exhibition.

- *Phaleristics for all (Faleristika pre každého)* – An exhibition put on in cooperation with the Slovak Phaleristics Society (Slovenská faleristická spoločnosť).
- *Revealing / International Symposium of Jewellery Art 2013 (Odkrývanie/ Medzinárodné sympóziu umeleckého šperku 2013)* – An exhibition of works produced at the 18th annual running of this symposium.
- *This Isn't Jewellery! (Toto nie je šperk!)* – Part of an international project for secondary art schools, this exhibition was held in cooperation with the Private School of Applied Arts in Kremnica.
- *12th International Symposium of Medals in Kremnica 2013* – An exhibition of the medals produced at the town's symposium of the year.

The MCM also cooperated on two external exhibitions: *Sixteen Spiš Towns from 1412 to 1876* held at the Ľubovňa Museum in Stará Ľubovňa and the Eastern Slovakia Museum in Košice; and *The Beauty of Tiles* at the Central Slovakia Museum in Banská Bystrica.

Some of the exhibitions were held along with educational programmes and creative workshops for various target groups. In addition, throughout the year, the MCM ran several educational programmes

<sup>52</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-library>  
<sup>53</sup> <http://www.muzeumkremnica.sk>





## LEGISLATION

for school groups, covering various topics related to the history of money, mining and minting in Slovakia and to regional and cultural education.

On 18 May 2013 the MCM again took part in the international museum event Night of Museums. In the summer it organised a series of family events: *Picnic at the Castle*, *Picnic in the Museum*, and *Summer Night of the Muses*. Also during the summer a series of creative workshops for children were held at the MCM's Gallery. As part of the Europe-wide initiative 'European Cultural Heritage Days', the MCM commemorated the Arrival of Constantine and Methodius to the territory of present-day Slovakia with the programme *Messages* and with choir performances under the name *Old Slavonic Choral Singing*. The

MCM also organised eight concerts in 2013, with most of them held at St Catherine's Church.

In autumn the MCM held its *12th International Symposium of Medals*, a four-week event in which invited participants made designs for struck and cast medals. The medals produced on the basis of these designs were added to the MCM's collection. The medallists at this symposium were Vladimír Durbák (Slovakia), George Cuhaj (United States), Hugo Maciel (Portugal), Miroslav Kovářík (Czech Republic) and László Zagya (Hungary).

Last year the various exhibitions and events of the NBS Museum of Coins and Medals in Kremnica attracted more than 38,000 visitors from Slovakia and abroad.

## 9 LEGISLATION

In 2013 Národná banka Slovenska continued to exercise its competences in the drafting of legislation (including the transposition of relevant EU laws), in accordance with Act No 566/1992 on Národná banka Slovenska as amended (the NBS Act). Under Article 30(1) of the NBS Act, the central bank submits draft laws on currency circulation to the Slovak Government. Under Article 30(2) of the NBS Act, draft laws concerning payment systems, payment services or the financial market (including the banking sector and NBS activities) are jointly submitted by NBS and the Slovak Finance Ministry to the Slovak Government. Also within its legislative competences, NBS drafts and issues secondary legislation in the form of NBS regulations and decrees. Its authority to issue generally binding legislation is based on Article 56(2) of the Constitution of the Slovak Republic, according to which NBS may issue such legislation where authorised by statutory law to do so.

### AMENDMENTS MADE IN 2013 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 483/2001 Coll. on banks (including amendments to certain laws), as amended, was

amended in 2013 by Act No 132/2013 Coll. and Act No 352/2013 Coll.

Act No 566/2001 Coll. on securities and investment services (including amendments to certain laws) (the Securities Act), as amended, was amended in 2013 by Act No 132/2013 Coll., Act No 206/2013 Coll. and Act No 352/2013 Coll.

Act No 492/2009 Coll. on payment services (including amendments to certain laws), as amended, was amended in 2013 by Act No 352/2013 Coll.

Act No 747/2004 Coll. on financial market supervision (including amendments to certain laws), as amended, was amended in 2013 by Act No 132/2013 Coll. and Act No 352/2013 Coll.

Act No 8/2008 Coll. on insurance (including amendments to certain laws), as amended, was amended in 2013 by Act No 32/2013 Coll., Act No 132/2013 Coll. and Act No 352/2013 Coll.

Act No 203/2011 Coll. on collective investment, as amended, was amended in 2013 by Act No 206/2013 Coll. and Act No 352/2013 Coll.

Act No 43/2004 Coll. on the old-age pension saving scheme (including amendments to certain



laws), as amended, was amended in 2013 by Act No 132/2013 Coll. and Act No 352/2013 Coll.

Act No 650/2004 Coll. on the supplementary pension saving scheme (including amendments to certain laws), as amended, was amended in 2013 by Act No 318/2013 Coll. and Act No 352/2013 Coll.

Act No 186/2009 Coll. on financial intermediation and financial advisory services (including amendments to certain laws), as amended, was amended in 2013 by Act No 132/2013 Coll.

Act No 381/2001 Coll. on compulsory motor third-party liability insurance (including amendments to certain laws), as amended, was amended in 2013 by Act No 180/2013 Coll.

Act No 310/1992 Coll. on home savings, as amended, was amended in 2013 by Act No 132/2013 Coll.

Act No 118/1996 Coll. on deposit protection (including amendments to certain laws), as amended, was amended in 2013 by Act No 352/2013 Coll.

Act No 530/1990 Coll. on bonds, as amended, was amended in 2013 by Act No 36/2013 Coll.

Act No 429/2002 Coll. on the stock exchanges, as amended, was amended in 2013 by Act No 352/2013 Coll.

## **IMPLEMENTING LEGISLATION OF GENERAL APPLICATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2013**

### **DECREES PUBLISHED IN FULL IN THE COLLECTION OF LAWS OF THE SLOVAK REPUBLIC**

Decree No 5/2013 Coll. of Národná banka Slovenska of 18 December 2012 on the risk management system, risk measurement, and the calculation of global exposure and counterparty risk in pension funds.

Decree No 6/2013 Coll. of Národná banka Slovenska of 18 December 2012 on the elements of an application for prior approval of Národná banka Slovenska made in accordance with the Act on the old-age pension saving scheme.

Decree No 38/2013 Coll. of Národná banka Slovenska of 12 February 2013 amending Decree No 180/2012 Coll. of Národná banka Slovenska on methods and procedures for determining the asset value of pension funds and supplementary pension funds.

Decree No 139/2013 Coll. of Národná banka Slovenska of 14 May 2013 laying down detailed provisions on the elements of an application for a foreign exchange licence and on requirements for trade in foreign exchange assets.

Decree No 452/2013 Coll. of Národná banka Slovenska of 10 December 2013 amending Decree No 467/2010 Coll. of Národná banka Slovenska on the submission of reports in accordance with the Foreign Exchange Act, as amended by Decree No 332/2012 Coll.

### **DECREES REFERRED TO IN THE COLLECTION OF LAWS OF THE SLOVAK REPUBLIC BY THE PUBLICATION OF A NOTIFICATION OF THEIR ISSUANCE**

Decree No 1/2013 of Národná banka Slovenska of 19 March 2013 on the elements of an application for prior approval of Národná banka Slovenska made in accordance with Article 102(1) of Act No 566/2001 Coll. on securities and investment services (including amendments to certain laws) (the Securities Act) – (Notification No 76/2013 Coll.).

Decree No 2/2013 of Národná banka Slovenska of 30 April 2013 amending Decree No 25/2008 of Národná banka Slovenska on the solvency margin and the amount of the minimum guarantee fund of insurance company, branch of foreign insurance company, reinsurance company and foreign reinsurance company, as amended by Decree No 12/2009 – (Notification No 113/2013 Coll.).

Decree No 3/2013 of Národná banka Slovenska of 25 June 2013 on the maximum amount of the technical interest rate – (Notification No 199/2013 Coll.).

Decree No 4/2013 of Národná banka Slovenska of 20 August 2013 on the register of financial agents, financial advisers, financial intermediaries from another Member State within the insurance or reinsurance sector, and tied investment agents – (Notification No 238/2013 Coll.).



## INSTITUTIONAL DEVELOPMENTS

Decree No 5/2013 of Národná banka Slovenska of 20 August 2013 amending Decree No 9/2010 Národná banka Slovenska on the professional examination and professional certification examination for the purposes of the Act on financial intermediation and financial advisory services – (Notification No 239/2013 Coll.).

Decree No 6/2013 of Národná banka Slovenska of 20 August 2013 on direct debit payee identifiers and the register of direct debit payee identifiers – (Notification No 240/2013 Coll.).

Decree No 7/2013 of Národná banka Slovenska of 30 September 2013 repealing Decree No 6/1999 of Národná banka Slovenska which lays down conditions for regulating the balance of payments of the Slovak Republic, as amended – (Notification No 330/2013 Coll.).

Decree No 8/2013 of Národná banka Slovenska 30 September 2013 amending Decree No 8/2012 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska – (Notification No 315/2013 Coll.).

Decree No 9/2013 of Národná banka Slovenska of 26 November 2013 amending Decree No 17/2011 of Národná banka Slovenska on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes – (Notification No 413/2013 Coll.).

Decree No 10/2013 of Národná banka Slovenska of 10 December 2013 on the submission of statements by insurance company, reinsurance company, branch of foreign insurance company, branch of foreign reinsurance company, insurance company and reinsurance company from another Member State, pension management company, and supplementary pension management company for statistical purposes – (Notification No 453/2013 Coll.).

Decree No 11/2013 of Národná banka Slovenska of 10 December 2013 amending Decree No 6/2008 of Národná banka Slovenska on the submission of statements, reports and other disclosures by reinsurance companies and branches of foreign reinsurance companies, as amended by Decree No 24/2008 – (Notification No 454/2013 Coll.).

# 10 INSTITUTIONAL DEVELOPMENTS

## 10.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska (NBS) was established as the independent central bank of the Slovak Republic on 1 January 1993, under Act No 566/1992 Coll. on Národná banka Slovenska.

The primary objective of Národná banka Slovenska is to maintain price stability. To this end the central bank:

- participates in the common monetary policy set for the euro area by the Governing Council of the European Central Bank (ECB);
- issues euro banknotes and euro coins in accordance with separate regulations that apply in the euro area to the issuance of euro banknotes and coins;
- promotes the smooth operation of payment and settlement systems; regulates, coordinates and oversees currency circulation, pay-

ment systems, and payment settlements; and ensures that these systems are run efficiently and cost-effectively;

- maintains and manages foreign reserves and conducts foreign exchange operations in accordance with separate regulations applicable to Eurosystem operations;
- performs other activities relating to its participation in the European System of Central Banks;
- perform other tasks, e. g. pursuant to the Act on financial market supervision.

NBS contributes to the stability of the financial system as well as to the security and smooth functioning of the financial market, with the aim of ensuring financial market credibility, customer protection, and compliance with competition rules. NBS is also the financial supervisory authority in Slovakia, including macroprudential supervision.





Note: Latvijas Banka became the 18th member of the Eurosystem on 1 January 2014.

On 1 January 2009, when Slovakia joined the euro area, NBS became a member of the Eurosystem, the central banking system of the euro area within the European System of Central Banks (ESCB).

The Eurosystem comprises:

- the European Central Bank (ECB); and
- the national central banks (NCBs) of the 18 EU Member States whose common currency is the euro.

The Eurosystem is thus a sub-set of the ESCB. Since the decisions of the ECB's Governing Council (on, for example, monetary policy) apply only to euro area countries, it is in reality the Eurosystem which carries out the central bank functions for the euro area. Therefore the ECB and the NCBs jointly contribute to attaining the common goals of the Eurosystem.

There are three main reasons for having a system of central banking in Europe:

- The Eurosystem approach builds on the existing competencies of the NCBs, their

institutional set-up, infrastructure, expertise, and excellent operational capabilities. Moreover, several central banks perform additional tasks besides those of the Eurosystem.

- Given the geographically large euro area and the long-established relationships between the national banking communities and their NCB, it was deemed appropriate to give credit institutions an access point to central banking in each participating Member State.
- Given the multitude of nations, languages and cultures in the euro area, the NCBs (rather than a supranational one) were best located to serve as access points of the Eurosystem.

The euro area NCBs, as an integral part of the Eurosystem, perform the Eurosystem's tasks in line with the rules set by the decision-making bodies of the ECB. The NCBs contribute to the activities of the Eurosystem and the ESCB by participating in different Eurosystem/ESCB committees.



## INSTITUTIONAL DEVELOPMENTS

### EUROSYSTEM/ESCB COMMITTEES

The Eurosystem/ESCB committees play an important role in assisting the ECB's decision-making bodies. They provide expertise in their fields of competence and perform specific tasks mandated by the ECB's Governing Council.

- Accounting and Monetary Income Committee
- Banknote Committee
- Committee on Controlling
- Eurosystem/ESCB Communications Committee
- Financial Stability Committee
- Information Technology Committee
- Internal Auditors Committee
- International Relations Committee
- Legal Committee
- Market Operations Committee
- Monetary Policy Committee
- Organisational Development Committee
- Payment and Settlement Systems Committee
- Risk Management Committee
- Statistics Committee
- Budget Committee
- Eurosystem IT Steering Committee
- Human Resources Conference

### THE ECB'S TASKS WITHIN THE SINGLE SUPERVISORY MECHANISM

Regulation (EU) No 1024/2013 confers on the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions (selected in accordance with the Regulation), with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the European Union and each Member State.

The ECB has the following tasks regarding:

- authorisations – to authorise credit institutions and to withdraw authorisations of credit institutions;
- qualifying holdings – to assess notifications of the acquisition and disposal of qualifying holdings in credit institutions;
- legislation – to issue legislation on matters not covered by the European Banking Authority;
- microprudential supervision – to exercise supervision with participation of national competent authorities;
- macroprudential supervision – to set additional capital requirements.

## 10.2 ORGANISATION AND MANAGEMENT

### THE BANK BOARD OF NÁRODNÁ BANKA SLOVENSKA

The highest governing body of Národná banka Slovenska is the Bank Board. The scope of its powers is laid down in the Act on Národná banka Slovenska (the NBS Act), other generally applicable legislation, and the Organisational Rules of NBS.

The number of Bank Board members has been set at five since 1 December 2009, under Article 7 of the NBS Act. The five members include the Governor and two Deputy Governors.

The Governor and Deputy Governors are appointed, and may be dismissed, by the President of the Slovak Republic at the proposal of the Government and subject to the approval of the Slovak Parliament. The other two members of the Bank Board are appointed, and may be dismissed, by the Slovak Government at the proposal of the NBS Governor.

The term of office of Bank Board members is five years, commencing as of the effective date of their appointment. There are no term limits for Bank Board members, but no one may serve as Governor or Deputy Governor for more than two consecutive terms.

The members of the Bank Board as at 31 December 2013 were:

- doc. Ing. Jozef Makúch, PhD., Governor;
- Mgr. Ján Tóth, M.A., Deputy Governor with responsibility for monetary policy, statistics and research;
- Ing. Štefan Králik, Executive Director for legal services and security;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services.

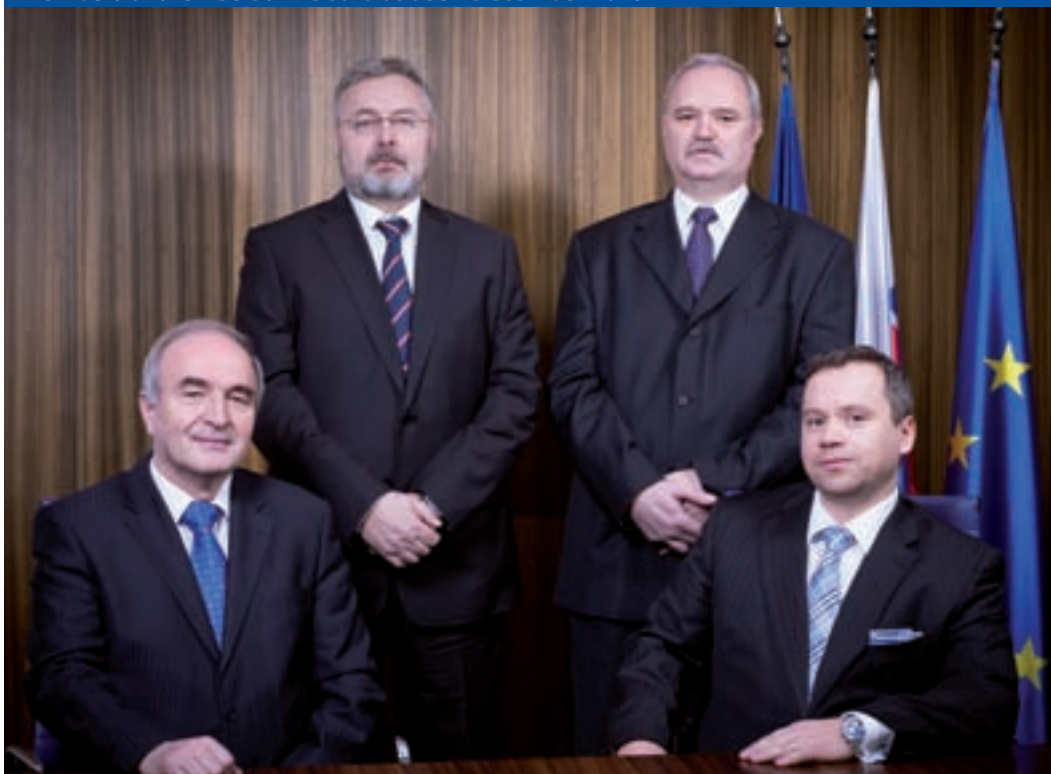
### THE EXECUTIVE BOARD OF NÁRODNÁ BANKA SLOVENSKA

The Executive Board of Národná banka Slovenska was established by the NBS Bank Board with effect from 1 August 2012, in accordance with Article 6(2)(i) of the NBS Act. The Executive Board is the managing, executive and coordination authority of NBS.

The Executive Board is composed of NBS's Governor, Executive Directors and other senior managers appointed by the Governor.



Members of the NBS Bank Board as at 31 December 2013



First row (from the left): Jozef Makúch, Ján Tóth  
Second row (from the left): Štefan Králik, Karol Mrva

The members of the Executive Board as at 31 December 2013 were:

- doc. Ing. Jozef Makúch, PhD., Governor;
- Ing. Štefan Králik, Executive Director for legal services and security;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services;
- Ing. Vladimír Dvořáček, Executive Director of the Financial Market Supervision Unit;
- Ing. Miroslav Uhrin, Executive Director for financial management, information technology and facility services;
- Ing. Renáta Konečná, General Director of the Monetary Policy Department.

In line with decisions of the NBS Bank Board, three amendments to the NBS Organisational Rules were approved in 2013, with two of them entering into force on 1 January 2014. The organisational changes made under these amendments included a change to the organisational structure of NBS and modifications to the duties and competences of certain senior managers.

### 10.3 HUMAN RESOURCES

Národná banka Slovenska had 1,007 employees as at 31 December 2013. A total of 50 employees left the bank in 2013, including 11 due to organisational changes. In 2013 the bank conducted 47 recruitment procedures for vacant posts and hired 46 new employees.

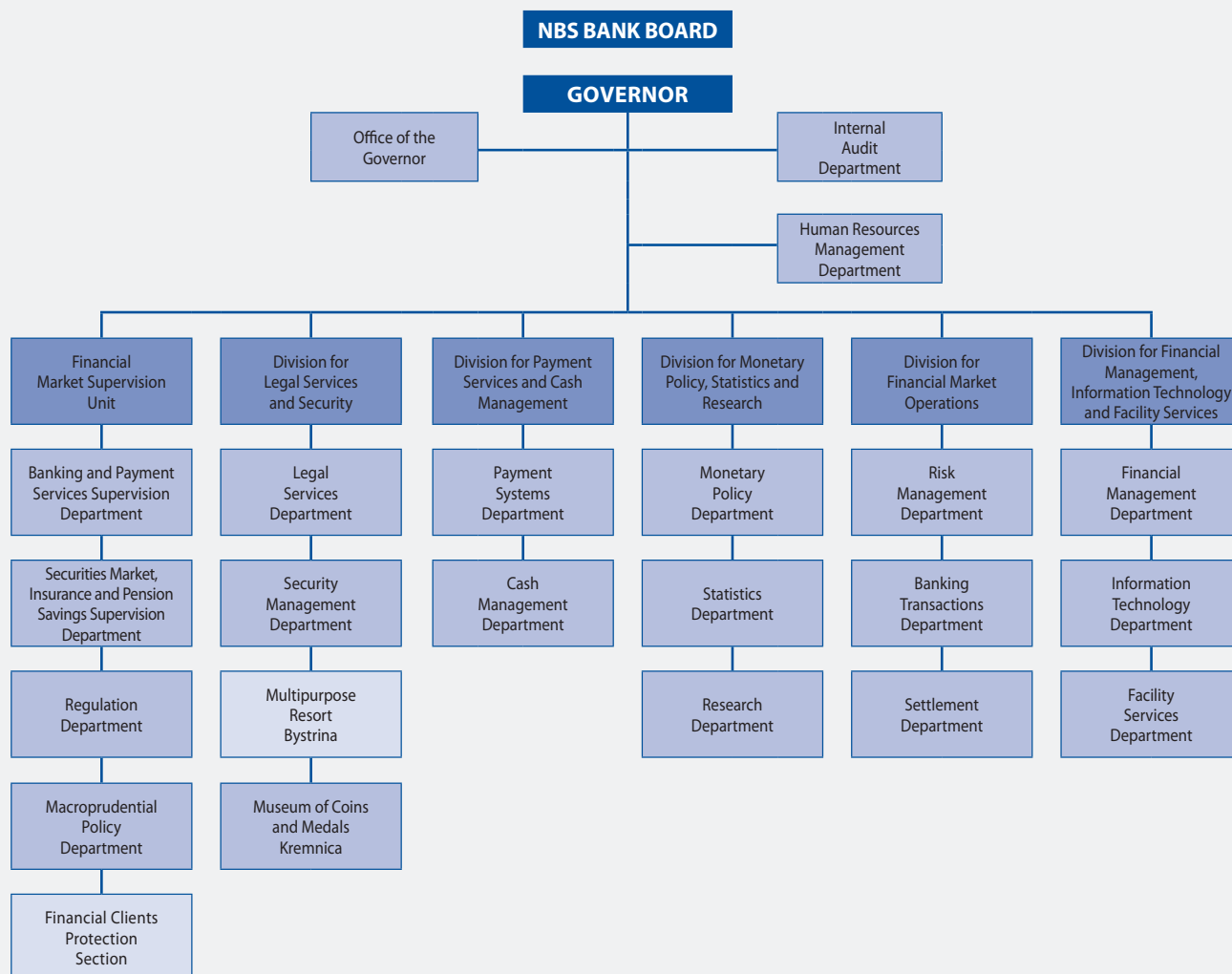
Staff exchanges between ESCB national central banks, the ECB and other international financial institutions support staff mobility within the ESCB, the exchange of experience and know-how, and the development of human resources. A total of nine NBS employees were on secondment to the ECB or European Banking Authority during the whole or part of 2013.

The rules and principles of staff remuneration at the bank are laid down in internal NBS Work Regulation No 28/2008 on the remuneration of NBS employees as amended. The average monthly salary in 2013 was €1,831.53.



## INSTITUTIONAL DEVELOPMENTS

### NBS organisation structure as at 31 December 2013



The employees who left the bank last year due to organisational reasons received all the payments owed to them under the Labour Code, NBS Collective Agreement, and internal work regulations.

Severance payments were made to 22 employees who left the bank on grounds of retirement, early retirement or invalidity.

The number of NBS employees enrolled in the supplementary pension scheme stood at 855 as at 31 December 2013.

#### 10.4 EDUCATION

To support staff in their educational and professional development, the Human Resources De-

partment, in cooperation with NBS's Institute of Banking Education, arranges staff participation in training courses tailored to their identified requirements and the needs of their respective unit.

Training courses in 2013 focused on the following areas:

- specialist training,
- management training and development,
- language training,
- IT training,
- social skills training,
- general training.

Altogether, 918 employees attended training courses



In 2013 NBS organised three international training projects: *Developing Presentation and Facilitation Skills*, *English in Legal and Contractual Central Banking Practice* and *English of European Law*.

Every year NBS staff members are involved in lecturing, teaching and consultation activities as part of specialist training. In 2013 there were 71

staff members from 18 departments who participated in such work.

Eight university students completed internships at NBS in 2013, including three from universities in Slovakia and five studying in other European Union countries.





NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

SECTION C

# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2013

C







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### Independent Auditors' Report

To the Bank Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia ('the Bank'), which comprise the balance sheet as at 31 December 2013, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements*

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended ('the ECB Guideline') and with Act No. 431/2002 Coll. on Accounting, as amended ('the Act on Accounting') and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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


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

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

11 March 2014  
Bratislava, Slovak Republic

  
Ernst & Young Slovakia, spol. s r.o.  
SKAU Licence No. 257

  
Ing. Dalimil Draganovský  
SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT



## FINANCIAL STATEMENTS OF NÁRODNÁ BANKA SLOVENSKA AS AT 31 DECEMBER 2013

<b>BALANCE SHEET</b>				
<b>of Národná banka Slovenska</b>				
		<b>Note</b>	<b>31 Dec 2013</b>	<b>31 Dec 2012</b>
			<b>EUR '000</b>	<b>EUR '000</b>
<b>ASSETS</b>				
A1	Gold and gold receivables	1	887,649	1,284,963
A2	Claims on non-euro area residents denominated in foreign currency	2	670,543	622,029
A3	Claims on euro area residents denominated in foreign currency	3	36,472	122,208
A4	Claims on non-euro area residents denominated in euro	4	2,931,025	2,583,387
A5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	328,900	1,941,900
A6	Other claims on euro area credit institutions denominated in euro	6	33,113	39,548
A7	Securities of euro area residents denominated in euro	7	7,727,275	9,751,667
A8	General government debt denominated in euro			
A9	Intra-Eurosystem claims	8	3,377,923	1,761,630
A10	Items in course of settlement			
A11	Other assets	9	6,083,461	6,595,059
A12	Loss for the year			
	<b>TOTAL ASSETS</b>		<b>22,076,361</b>	<b>24,702,391</b>
<b>LIABILITIES</b>				
L1	Banknotes in circulation	10	8,701,284	8,318,276
L2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	1,284,770	690,643
L3	Other liabilities to euro area credit institutions denominated in euro	12	2,960,118	5,634,841
L4	Debt certificates issued			
L5	Liabilities to other euro area residents denominated in euro	13	2,917,838	2,790,554
L6	Liabilities to non-euro area residents denominated in euro	14	3,059,016	3,519,406
L7	Liabilities to euro area residents denominated in foreign currency	15	115,946	90,304
L8	Liabilities to non-euro area residents denominated in foreign currency	16	62,995	64,970
L9	Counterpart of special drawing rights allocated by the IMF	17	380,758	396,896
L10	Intra-Eurosystem liabilities	18	75,966	
L11	Items in course of settlement			
L12	Other liabilities	19	777,770	1,171,826
L13	Provisions	20	304,654	257,136
L14	Revaluation accounts	21	587,603	1,210,303
L15	Capital and reserves	22	357,797	357,797
L16	Profit for the year	34	489,846	199,439
	<b>TOTAL LIABILITIES</b>		<b>22,076,361</b>	<b>24,702,391</b>



## PROFIT AND LOSS ACCOUNT of Národná banka Slovenska

	Note	31 Dec 2013 EUR '000	31 Dec 2012 EUR '000
1.1 Interest income		596,887	873,453
1.2 Interest expense		(284,544)	(428,787)
<b>1 Net interest income</b>	24	<b>312,343</b>	<b>444,666</b>
2.1 Realized gains arising from financial operations		220,717	168,124
2.2 Write-downs on financial assets and positions		(6,802)	(200,949)
2.3 Transfer to/from provisions for foreign exchange rate, interest rate and gold price risks		(50,000)	(250,000)
<b>2 Net result of financial operations, write-downs and risk provisions</b>	25	<b>163,915</b>	<b>(282,825)</b>
3.1 Fees and commissions income		577	1,166
3.2 Fees and commissions expense		(1,044)	(1,235)
<b>3 Net income / (expense) from fees and commissions</b>	26	<b>(467)</b>	<b>(69)</b>
<b>4 Income from equity shares and participating interests</b>	27	<b>19,224</b>	<b>7,506</b>
<b>5 Net result of pooling of monetary income</b>	28	<b>50,381</b>	<b>85,075</b>
<b>6 Other income</b>	29	<b>12,421</b>	<b>9,531</b>
<b>Total net income</b>		<b>557,817</b>	<b>263,884</b>
<b>7 Staff costs</b>	30	<b>(33,770)</b>	<b>(32,587)</b>
<b>8 Administrative expenses</b>	31	<b>(17,449)</b>	<b>(18,268)</b>
<b>9 Depreciation of tangible and intangible fixed assets</b>	32	<b>(9,007)</b>	<b>(9,499)</b>
<b>10 Banknote production services</b>	33	<b>(3,585)</b>	<b>(143)</b>
<b>11 Other expenses</b>	29	<b>(2,786)</b>	<b>(3,948)</b>
<b>12 Income tax and other government charges on income</b>		<b>(1,374)</b>	
<b>Profit / (Loss)</b>	34	<b>489,846</b>	<b>199,439</b>



## NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2013

### A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska ("NBS" or "the Bank") is the independent central bank of the Slovak Republic. The NBS was established in accordance with Act No. 566/1992 Coll. on Národná banka Slovenska as amended ("the NBS Act"). The NBS commenced its activities on 1 January 1993 as the bank issuing the currency of Slovakia.

Upon euro-adoption in Slovakia as at 1 January 2009, the NBS became a full member of the Eurosystem. The NBS abides by the Protocol on the Statute of the European System of Central Banks and of the European Central Bank ("the Statute").

In accordance with Article 39 (5) of the NBS Act, the NBS submits the annual report on results of its operations to the National Council of the Slovak Republic within three months after the end of the calendar year. In addition to the NBS financial statements and the auditor's opinion thereon, the report provides information on the NBS's operating costs. If so requested by the National Council of the Slovak Republic, the NBS is obliged, within six weeks, to supplement the report as requested and/or to provide explanations to the report as submitted.

The supreme governing body of the NBS is the Bank Board of the NBS ("the Bank Board").

### B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

#### (a) Legal framework and accounting principles

The Bank applies its accounting principles in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal

framework for accounting and financial reporting in the European System of Central Banks No ECB/2010/20, as amended ("the ECB Guideline"). In recognizing transactions not regulated by the ECB Guideline, the Bank observes International Financial Reporting Standards ("IFRS"). In other cases, the Bank acts in accordance with Act No. 431/2002 Coll. on Accounting, as amended ("the Act on Accounting"). In accordance with this legal framework, the Bank applies the following basic accounting principles:

- Economic reality and transparency
- Prudence
- Recognition of post-balance-sheet events
- Materiality
- Accruals principle
- The going-concern assumption
- Consistency and comparability

Assets and liabilities are held on the balance sheet only if it is probable that any future economic benefits attributable to them will flow to the credit or debit of the Bank, any risks and benefits have been transferred to the Bank and the assets or liabilities can be measured reliably.

Foreign exchange transactions and financial instruments, excluding securities and the corresponding accruals, are subject to the economic principle, i.e. transactions are recorded on off-balance sheet accounts on the trade date. On the settlement date, off-balance sheet booking entries are reversed and the transactions are recorded on the balance sheet. Other economic transactions, including transactions with debt securities, are recorded in accordance with the cash settlement principle, i.e. no accounting entries are made on the trade date and the transaction is recorded on the balance sheet on the settlement date.

Accruals of interest rates attributable to financial instruments are calculated and recorded on a daily basis. Accruals of premium and discount

**As at 31 December 2013, the Bank Board had the following structure:**

Name	Term of Office in the Bank Board		Current Position	Date of Appointment
doc. Ing. Jozef Makúch, PhD.	1 Jan 2006	12 Jan 2015	Governor	12 Jan 2010
Mgr. Ján Tóth, M.A.	5 Nov 2012	5 Nov 2017	Deputy Governor	5 Nov 2012
Ing. Štefan Králik	1 Apr 2009	1 Apr 2014	Member	1 Apr 2009
RNDr. Karol Mrva	1 Jun 2012	1 Jun 2017	Member	1 Jun 2012



are recorded using the internal rate of return method ("IRR"). In other cases, the linear method is applied.

When preparing the financial statements, the Bank acts in accordance with the recommended harmonized procedures for the preparation of disclosures to the financial statements of a national central bank within the Eurosystem.

#### b) Valuation of assets and liabilities

Financial assets and liabilities, excluding held to maturity securities and equity instruments are measured on a monthly basis at mid-rates and market prices. Foreign currencies, including balance sheet and off-balance sheet transactions, are measured for each currency separately; securities are measured for each ISIN separately and interest rate swaps and futures agreements are measured individually. In the case of gold, there is no distinction between price and exchange rate valuation differences. Securities that are classified as held to maturity are measured at amortized cost and are subject to an impairment test. In the event of impairment, provisions are created as at the end-of-year date and reassessed on an annual basis. Provision for certain types of impaired securities held for the purposes of monetary policy is shared within the Eurosystem, based on the shares in the paid-up capital of the ECB, valid at the time of the initial impairment.

Participating interests are measured at cost and are subject to an impairment test. Impairment in participating interests is recognized as impairment charges through profit/loss.

The exchange rates of key foreign currencies against EUR 1, used to value the assets and liabilities as at 31 December 2013, were as follows:

Currency	31 Dec 2013	31 Dec 2012	Change
GBP	0.83370	0.81610	0.01760
USD	1.37910	1.31940	0.05970
JPY	144.72000	113.61000	31.11000
XDR	0.89421	0.85785	0.03636
EUR/t oz*	871.220	1,261.179	-389.95900

\* t oz (troy ounce) = 31.1034807 g

#### (c) Accounting and recognition of revenues

Realized gains and losses are derived from the daily measurement of changes in assets and li-

abilities and represent the difference between the transaction value and the average value of the respective financial instrument or currency. They are recognized directly on the face of the profit and loss account.

Unrealized gains and losses result from the monthly measurement of assets and liabilities and represent the difference between the average value and the month-end value (fair value, ECB exchange rate) of the respective financial instrument or currency. Unrealized gains are shown in equity on revaluation accounts (see Note 21). Unrealized losses in excess of unrealized revaluation gains from the given financial instrument or currency are recognized in the profit and loss account. Unrealized losses on one financial instrument or currency are not set off against unrealized gains on another financial instrument or currency and are not reversed in the following accounting periods. In the event of an unrealized loss at year-end, the average acquisition cost is adjusted to the year-end exchange rate or fair value of the measured item. Unrealized revaluation losses on interest rate swaps are amortized to income in the following years.

Premiums and discounts of acquired securities are recognized net in the profit and loss account as interest income.

#### (d) Gold and Gold Receivables

Gold swap transactions are recognized as repurchase transactions with gold (see Notes 12, 14, and 15). The gold used in such transactions remains in the Bank's total assets under the item "Gold".

#### (e) Debt Securities

Securities are recognized together with the accruals of the premium and the discount. Coupons are recorded under "Other assets".

The impairment test for bonds held for monetary policy purposes acquired within the Securities Markets Programme ("SMP") is carried out centrally by the ECB and is subject to the approval of the Governing Council of the ECB. The impairment test for bonds acquired within the Covered Bonds Purchase Programme ("CBPP") is coordinated by the ECB. Based on the decision of the Bank Board, the NBS accepts the results of tests coordinated by the ECB.





#### **(f) Derivatives**

For the purposes of calculating the average acquisition cost of currencies and foreign exchange rates gains and losses, spot, forward and swap contracts are included in the net currency positions. They are recognized on off-balance sheet accounts at the spot rate of the transaction on the trade date.

The difference between the spot and forward values of the transaction is considered as interest expense or interest income.

In the case of currency swaps, forward positions are measured together with the corresponding spot position. Therefore, currency positions are only affected by accruals of interests in a foreign currency.

Interest rate swaps are recorded on the off-balance sheet from the trade date to the settlement date. They are measured based on generally acceptable valuation models using corresponding yield curves derived from listed interest rates.

In the case of swaps, if there is an increase or a decrease in the net swap position, a collateral adjustment in the form of deposits with daily prolongation is contractually agreed with selected counterparties. The interest is settled on a monthly basis (see Notes 9 and 19).

The Bank also deals in interest rate futures. The Bank recognizes futures contracts on off-balance sheet accounts from the trade date to the settlement at the nominal value of the underlying instrument. Initial margins to interest rate futures may be deposited in cash or in securities. There is no record on the Bank's accounts in case of an initial deposit provided in the form of securities. Futures contracts are re-valued daily at market prices into the profit and loss account.

#### **(g) Reverse Transactions**

Reverse transactions are those transactions the Bank conducts under reverse repurchase agreements or collateralized loan transactions.

Transactions conducted under a repurchase agreement (repurchase transaction) are recognized as a collateralized inward deposit on the li-

abilities side of the balance sheet, while the item provided as collateral remains on the assets side of the balance sheet. Securities provided under a repurchase transaction remain part of the Bank's portfolio.

Reverse repurchase agreements are recognized as a collateralized outward loan on the assets side of the balance sheet. Securities accepted under a reverse repurchase transaction are not accounted for.

If the collateral value deviates from the respective loan value, representing an increased counterparty credit risk, collateral is required in the form of a deposit. These deposits bear interest and are prolonged on a daily basis (see Notes 12 and 14).

The Bank does not account for security lending transactions conducted under an automated security lending programme. Revenues from these transactions are recognized in the profit and loss account.

#### **(h) Banknotes in circulation**

According to the Decision ECB/2010/29 as amended, euro banknotes are issued jointly by the national central banks within the Eurosystem and the ECB. The total amount of banknotes in circulation is allocated to individual central banks in the Eurosystem on the last working day of each month, according to the Banknote Allocation Key. The ECB's share in the total amount of banknotes in circulation is 8%. Pursuant to the Decision cited above, the NBS's share in the total issue of euro banknotes within the Eurosystem is 0.9100%. The share in banknotes in circulation is recognized under the liability item "Banknotes in Circulation" (see Note 10).

The difference between the banknotes allocated according to the Banknote Allocation Key and the banknotes actually in circulation represents an interest-bearing receivable or liability within the Eurosystem. This is disclosed under the item "Net Claims or Liabilities Related to Allocation of Euro Banknotes within the Eurosystem".

Over a period of five years from the Bank's transition to euro as cash (1 January 2009), receivables or liabilities relating to the allocation of euro



banknotes within the Eurosystem are adjusted in order to eliminate major changes in the yield position of the Bank compared to prior years. The adjustment is based on the average issue of banknotes of the local currency two years prior to accession to the Eurosystem. For the NBS, the period of adjusting banknotes issue ends on 31 December 2014.

Interest income or interest expense from these receivables/liabilities is disclosed net in the Bank's profit and loss account under the item "Net Interest Income" (see Note 24).

#### (i) ECB Profit Redistribution

In accordance with Decision ECB/2010/24 as amended, the ECB's income, consisting of the ECB's 8% share in euro banknotes issue and the net income from securities purchased by the ECB under the SMP, is re-allocated among the Eurosystem's individual central banks in the same financial year as accrued in the form of an interim distribution of the ECB's profit (see Note 27).

Under Article 33 of the Statute, the ECB's remaining net profit is re-allocated among the central banks within the Eurosystem upon approval of the ECB's financial statements, i.e. in the following calendar year.

#### (j) Fixed Assets

With effect from 1 January 2010 and pursuant to the ECB's Guideline, the NBS's fixed assets include tangible fixed assets and intangible fixed assets with an initial cost higher than EUR 10,000 and with a useful life of more than one year. Immovables, works of art, immovable historic landmarks and collections with the exception of those listed under separate regulations (e.g. Act No. 206/2009 Coll. on Museums and Galleries and on the Protection of Cultural Valuables) are recognized on the balance sheet irrespective of their input price. The assets listed under separate regulations are recognized on the off-balance sheet and in records maintained for collection items at acquisition cost. Tangible and intangible fixed assets up to EUR 10,000 that were acquired and put in use prior to 1 January 2010 are depreciated as put in use until they are fully depreciated.

Fixed assets held for sale are recognized at cost net of accumulated depreciation and provisions,

or at fair value net of cost of sale, whichever amount is lower.

Depreciation Group	Depreciation period in years
1. Buildings and structures	30 4 – 12 <sup>1)</sup>
2. Utility network	20
3. Plant and equipment	4 – 12
4. Transport means	4 – 6
5. Fittings and fixtures	4 – 12
6. Software	2 – 4
7. Other intangible fixed assets	2 – 4 or as per contract
8. Fixed property investments	30
9. Technical improvements of immovable historic landmarks	30
1) asset components	

#### (k) Taxes

In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes as amended, the NBS is not liable to corporate income tax. Only income taxed by withholding tax is subject to taxation. The NBS has been a registered VAT payer since 1 July 2004, pursuant to Act No. 222/2004 Coll., as amended.

#### (l) Provisions

The Bank can create a general provision for foreign exchange rate, interest rate, credit and gold price risks (see Note 20 and 25) which is presented as a part of the Bank's equity and its movements in the profit and loss account. It is reassessed on an annual basis with the impact on the profit and loss account. The Bank creates a provision in relation to the impairment of securities acquired as part of the common monetary policy of the Eurosystem (see Section B, Note e).

The Bank also creates provisions in line with the Act on Accounting (see Note 20).

#### (m) NBS Profit Redistribution

In accordance with Article 39 (4) of the NBS Act, profit generated by the Bank is allocated to the reserve fund and other funds created from profit, or it is used to cover accumulated losses from prior years. Any loss incurred in the current reporting period may be settled by the NBS from the reserve fund or from other funds. Alternatively, the Bank Board may decide to carry the accu-



mulated loss forward to the following reporting period.

## C. NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ITEMS

### 1. GOLD AND GOLD RECEIVABLES

EUR '000	31 Dec 2013	31 Dec 2012	Change
Gold in other form	1,371	1,984	(613)
Bars in repo transactions	840,582	1,178,949	(338,367)
Gold stored in banks	45,696	104,030	(58,334)
	<b>887,649</b>	<b>1,284,963</b>	<b>(397,314)</b>

As at 31 December 2013, gold comprises a total of 1,019 thousand t oz. of gold (1,019 thousand t oz. of gold as at 31 December 2012), of which 965 thousand t oz. of gold are used in repurchase transactions, 52 thousand t oz. are deposited in correspondent banks and 2 thousand t oz. of gold are deposited with the Bank.

The market value of gold as at 31 December 2013 was EUR 871.220 per t oz. (EUR 1,261.179 per t oz. as at 31 December 2012). Changes in the balances of gold and gold receivables were mostly affected by gold revaluation accounts (see Note 21).

### 2. CLAIMS ON NON-EURO AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY

EUR '000	31 Dec 2013	31 Dec 2012	Change
Receivables from/ payables to the IMF	630,013	607,726	22,287
Balance with banks and security invest- ments, external loans and other external assets	40,530	14,303	26,227
	<b>670,543</b>	<b>622,029</b>	<b>48,514</b>

#### Receivables from / Payables to the International Monetary Fund

The FTP reverse position represents the receivable of the NBS relating to loans provided to the IMF.

Liabilities in local currency change depending on the IMF representative exchange rate, which is recorded in the currency valuation adjustment account. A significant part of the liabilities consists of a note in the amount of EUR 312,533 thousand (EUR 332,417 thousand as at 31 December 2012).

The Bank records a liability to the IMF from the allocation recorded under L9 "Counterpart of special drawing rights allocated by the IMF" (see Note 17).

#### Receivables from / Payables to the International Monetary Fund

	31 Dec 2013		31 Dec 2012		Change EUR '000
	Equivalent XDR mil.	EUR '000	Equivalent XDR mil.	EUR '000	
<b>Receivables from IMF:</b>	<b>837</b>	<b>934,813</b>	<b>808</b>	<b>941,732</b>	<b>(6,919)</b>
1) Quota:	428	477,812	428	498,381	(20,569)
a) Quota in local currency	273	304,800	287	334,006	(29,206)
b) Reserve position	155	173,012	141	164,375	8,637
– Foreign exchange part of members' quotas	18	19,570	18	20,400	(830)
– FTP reserve position	137	153,442	123	143,975	9,467
2) Nostro account in IMF	355	396,691	326	380,485	16,206
3) Bilateral loans	54	60,310	54	62,866	(2,556)
<b>Payables from IMF</b>	<b>273</b>	<b>304,800</b>	<b>287</b>	<b>334,006</b>	<b>(29,206)</b>
1) Loro accounts in IMF	282	315,116	289	336,107	(20,991)
2) Valorization account	(9)	(10,316)	(2)	(2,101)	(8,215)
<b>Total balance (net)</b>		<b>630,013</b>		<b>607,726</b>	<b>22,287</b>

**Balance with Banks and Security Investments,  
External Loans and Other External Assets**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Debt securities		2,618	(2,618)
Other	40,530	11,685	28,845
	<b>40,530</b>	<b>14,303</b>	<b>26,227</b>

As at 31 December 2013, "Other" mainly included cash in foreign currency in nostro accounts and term deposits of non-euro area residents.

**3. CLAIMS ON EURO AREA RESIDENTS DENOMINATED IN  
FOREIGN CURRENCY**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Debt securities	36,363	122,026	(85,663)
Current accounts	109	182	(73)
	<b>36,472</b>	<b>122,208</b>	<b>(85,736)</b>

Debt securities categorized under this caption are denominated in US dollars. As per security issuers, as at 31 December 2013 the Bank recorded mainly securities of financial institutions.

The decrease in the volume of debt securities compared to the preceding period was due to their sale.

**4. CLAIMS ON NON-EURO AREA RESIDENTS  
DENOMINATED IN EURO**

As at 31 December 2013, the Bank recognized debt securities of non-euro area residents of EUR 2,931,025 thousand (EUR 2,583,387 thousand as at 31 December 2012). As for the security issuers, the Bank mainly recorded securities issued by monetary financial institutions.

**5. LENDING TO EURO AREA CREDIT INSTITUTIONS  
RELATED TO MONETARY POLICY OPERATIONS  
DENOMINATED IN EURO**

In accordance with the rules for monetary policy operations in the Eurosystem, the NBS recognizes longer-term refinancing operations of EUR 301,900 thousand as at 31 December 2013 (EUR 1,941,900 thousand as at 31 December 2012).

Longer-term refinancing operations are regular liquidity-providing reverse transactions of a longer period; as at 31 December 2013, transactions with a maturity of one to three years were recognized. These transactions are performed through standard tenders and bear interest at the main refinancing rate, which is 0.25%

p.a. from 13 November 2013. The decrease in the volume of recognized transactions compared to the preceding period, of EUR 1,640,000 thousand, was caused by the premature termination of transactions by counterparties, in line with the announcement of the ECB Governing Council of December 2011, to allow early repayment of any amount, one year after the transaction date.

As at 31 December 2013, the Bank recognized the main refinancing transactions of EUR 27,000 thousand at a 0.25% rate. The main refinancing transactions are regular liquidity-providing reverse transactions in one week intervals with a current maturity of one week.

The risks arising from monetary policy transactions are subject to sharing with the involved central banks in proportion to their capital key within the meaning of Art. 32.4 of the Statute.

**6. OTHER CLAIMS ON EURO AREA CREDIT INSTITUTIONS  
DENOMINATED IN EURO**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Redistribution loan	32,416	36,673	(4,257)
Current accounts	697	1,061	(364)
Deposits to reverse transactions		1,814	(1,814)
	<b>33,113</b>	<b>39,548</b>	<b>(6,435)</b>

A discounted rate redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. As at 31 December 2013, the redistribution loan bore interest of 0.5% p.a. (0.5% p.a. as at 31 December 2012).

As at 31 December 2013, the NBS recorded a state guarantee of EUR 33,830 thousand received for the redistribution loan on the off-balance sheet (EUR 38,341 thousand as at 31 December 2012). The amount of the state guarantee represents the principal and interest up to maturity.

**7. SECURITIES OF EURO AREA RESIDENTS DENOMINATED  
IN EURO**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Debt securities held for monetary policy purposes	1,670,087	2,211,160	(541,073)
Other securities	6,057,188	7,540,507	(1,483,319)
	<b>7,727,275</b>	<b>9,751,667</b>	<b>(2,024,392)</b>



### Debt Securities Held for Monetary Policy Purposes

As at 31 December 2013, under the "Securities held for monetary policy purposes" caption, the Bank disclosed securities purchased under the SMP of EUR 1,282,768 thousand (EUR 1,720,521 thousand as at 31 December 2012) and secured bonds amounting to EUR 387,319 thousand (EUR 490,639 thousand as at 31 December 2012) purchased within the CBPP programme. These securities are part of common monetary policy held to maturity. They were issued mainly by public authorities and monetary financial institutions of the euro area.

The decrease compared to the preceding period of EUR 541,073 thousand was due to the maturity of securities.

The purchase of securities within the CBPP programme was closed in June 2010; the purchase of securities within the SMP programme was closed in September 2012.

The total amount of SMP securities in the Eurozone as at 31 December 2013 was EUR 165,985,090 thousand. In accordance with Article 32.4 of the Statute, all risks, if material, are shared by NCB of the euro area states, according to their capital key.

On the basis of the result of the impairment test for securities acquired under the SMP programme conducted as at 31 December 2013, and pursuant to a decision of the Governing Council of the ECB, it is expected that all future cash flows related to these securities will be received. For this reason, the Bank did not create a provision for impairment (see Section B, Note e).

On the basis of the results of the impairment test for securities acquired under the CBPP programme, as coordinated by the ECB, the Bank Board decided that it was not necessary to create a provision for impairment losses (see Section B, Note e).

### Other Securities

As at 31 December 2013, the Bank recognized trading securities, issued by monetary financial institutions and public authorities of the euro area.

As at 31 December 2013, under the item referred to above, the Bank recorded securities issued by the Government of the Slovak Republic of EUR 62,854 thousand (EUR 208,450 thousand as at 31 December 2012). The securities were pur-

chased in compliance with the rules as defined in Article 123 of the Treaty on the European Union and Article 21 of the Statute.

The decrease compared to the preceding period of EUR 1,483,319 thousand was mainly due to the maturity of securities.

## 8. INTRA-EUROSYSTEM CLAIMS

EUR '000	31 Dec 2013	31 Dec 2012	Change
Participating interest in ECB	228,701	228,828	(127)
Claims equivalent to the transfer of foreign reserve	398,761	399,444	(683)
Net claims related to the allocation of euro banknotes within the Eurosystem		155,444	(155,444)
Other claims within the Eurosystem	2,750,461	977,914	1,772,547
	<b>3,377,923</b>	<b>1,761,630</b>	<b>1,616,293</b>

### Participating Interest in ECB

As at 31 December 2013, the Bank recorded a participating interest in the ECB's capital of EUR 74,487 thousand (EUR 74,614 thousand as at 31 December 2012). The decrease in the NBS's share in the ECB's capital was due to changes in capital and Eurosystem keys as a result of Croatia's entry into the European Union as at 1 July 2013.

In accordance with Article 49.2 of the Statute and the decision of the ECB Governing Council, the NBS contributed EUR 154,214 thousand to the ECB's provisions to cover credit, foreign exchange, interest rate and gold price risks and to the ECB revaluation accounts.

### Claims Equivalent to the Transfer of Foreign Reserves

The NBS recognizes a claim of EUR 398,761 thousand (EUR 399,444 thousand as at 31 December 2012), equivalent to the transfer of foreign reserves to the ECB, made according to the NBS capital key under Article 30.1 of the Statute. The claim decreased due to changes in capital and Eurosystem keys as a result of Croatia's entry into the European Union as at 1 July 2013. The receivable bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2013, interest income from the claim, equivalent



	Capital Key for Subscription of ECB's Capital (%) from 1.7.2013	Paid-up Capital (EUR) until 30.6.2013	Paid-up Capital (EUR) from 1.7.2013	Decrease(-) / Increase(+) in paid- up capital due to entry of Croatia	Eurosystem Key (%) from 1.7.2013
Banque National de Belgique	2.4176	261,010,384.68	261,705,370.91	694,986.23	3.4756
Eesti Pank	0.1780	19,261,567.80	19,268,512.58	6,944.78	0.2559
Deutsche Bundesbank	18.7603	2,037,777,027.43	2,030,803,801.28	-6,973,226.15	26.9706
Central Bank and Financial Services Authority of Ireland	1.1111	119,518,566.24	120,276,653.55	758,087.31	1.5973
Bank of Greece	1.9483	211,436,059.06	210,903,612.74	-532,446.32	2.8009
Banco de España	8.2533	893,564,575.51	893,420,308.48	-144,267.03	11.8653
Banque de France	14.1342	1,530,293,899.48	1,530,028,149.23	-265,750.25	20.3199
Banca d'Italia	12.4570	1,344,715,688.14	1,348,471,130.66	3,755,442.52	17.9087
Central Bank of Cyprus	0.1333	14,731,333.14	14,429,734.42	-301,598.72	0.1916
Banque centrale du Luxem- bourg	0.1739	18,798,859.75	18,824,687.29	25,827.54	0.2500
Central Bank of Malta	0.0635	6,800,732.32	6,873,879.49	73,147.17	0.0913
De Nederlandsche Bank	3.9663	429,156,339.12	429,352,255.40	195,916.28	5.7013
Oesterreichische Nationalbank	1.9370	208,939,587.70	209,680,386.94	740,799.24	2.7847
Banco de Portugal	1.7636	188,354,459.65	190,909,824.68	2,555,365.03	2.5354
Banka Slovenije	0.3270	35,381,025.10	35,397,773.12	16,748.02	0.4701
<b>Národná banka Slovenska</b>	<b>0.6881</b>	<b>74,614,363.76</b>	<b>74,486,873.65</b>	<b>-127,490.11</b>	<b>0.9892</b>
Suomen Pankki – Finlands Bank	1.2456	134,927,820.48	134,836,288.06	-91,532.42	1.7907
<i>Subtotal euro-area NCBs*</i>	<i>69.5581</i>	<i>7,529,282,289.35</i>	<i>7,529,669,242.45</i>	<i>386,953.10</i>	<i>100.0000</i>
Българска народна банка (Bulgarian National Bank)	0.8644	3,505,013.50	3,508,926.04	3,912.54	
Česká národní banka	1.4539	5,839,806.06	5,901,929.17	62,123.11	
Danmarks Nationalbank	1.4754	5,986,285.44	5,989,205.79	2,920.35	
Latvijas Banka	0.2742	1,144,798.91	1,113,081.35	-31,717.56	
Lietuvos bankas	0.4093	1,717,400.12	1,661,503.27	-55,896.85	
Magyar Nemzeti Bank	1.3740	5,591,234.99	5,577,584.89	-13,650.10	
Narodowy Bank Polski	4.8581	19,754,136.66	19,720,862.57	-33,274.09	
Banca Națională a României	2.4449	9,944,860.44	9,924,772.42	-20,088.02	
Sveriges Riksbank	2.2612	9,112,389.47	9,179,064.74	66,675.27	
Bank of England	14.4320	58,580,453.65	58,584,938.26	4,484.61	
Hrvatska narodna banka	0.5945	0.00	2,413,300.01	2,413,300.01	
<i>Subtotal non-euro area NCBs*</i>	<i>30.4419</i>	<i>121,176,379.25</i>	<i>123,575,168.52</i>	<i>2,398,789.27</i>	
<b>Total*</b>	<b>100.00</b>	<b>7,650,458,668.60</b>	<b>7,653,244,410.99</b>	<b>2,785,742.39</b>	

\* Subtotals and totals may not correspond, due to the effect of rounding.

to the transfer of foreign reserves, amounted to EUR 1,904 thousand (see Note 24).

#### Other Claims within the Eurosystem

Intra-Eurosystem claims and liabilities represent the position of NBS towards other members of

the European System of Central Banks ("ESCB") arising from cross-border transactions. The most significant part of this item represents the NBS claim against TARGET2, which amounted to EUR 2,686,542 thousand as at 31 December 2013, (EUR 877,155 thousand as at 31 December 2012).





## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS

The position bears an interest rate for the main refinancing operations. The total amount of received interest amounted to EUR 30,205 thousand as at 31 December 2013 (see note 24).

Other significant amounts in Other claims within the Eurosystem are claims from monetary income amounting to EUR 50,382 thousand and participating interest in the ECB's net profit for 2013 amounting to EUR 13,550 thousand (see Notes 27 and 28).

### 9. OTHER ASSETS

EUR '000	31 Dec 2013	31 Dec 2012	Change
Tangible and intangible fixed assets	141,554	148,753	(7,199)
Other financial assets	10,241	10,521	(280)
Off-balance-sheet instruments revaluation differences	1,999	4,203	(2,204)
Accruals and pre-paid expenses	193,986	263,801	(69,815)
Accumulated losses from previous years	5,406,453	5,605,892	(199,439)
Sundry	329,228	561,889	(232,661)
	<b>6,083,461</b>	<b>6,595,059</b>	<b>(511,598)</b>

#### Tangible and Intangible Fixed Assets

This item comprises fixed assets of the NBS. The balance of tangible and intangible fixed assets ("TA" and "IA") as at 31 December 2013 was as follows:

As at 31 December 2013 the NBS recognized fixed assets held for sale of EUR 4,876 thousand (EUR 5,205 thousand as at 31 December 2012).

#### Other Financial Assets

EUR '000	31 Dec 2013	31 Dec 2012	Change
Share certificates of RVS, a.s.	3,585	3,585	0
Shares of BIS	6,600	6,880	(280)
Institute of banking education of the NBS n.o.	33	33	0
Shares of SWIFT	23	23	0
	<b>10,241</b>	<b>10,521</b>	<b>(280)</b>

In accordance with the Commercial Code (Act No. 513/1991 Coll. as amended), the NBS is the controlling entity with a majority share in the voting rights in RVS, a.s. Bratislava, with a 52% equity share. Despite the significant influence of the NBS in RVS, a.s., in accordance with Article 22 of the Act on Accounting, the Bank does not prepare consolidated financial statements.

The Bank recognizes a participating interest in the Bank for International Settlements in Basel, Switzerland (BIS). The Bank's share of BIS capital represents 0.51%. The participating interest in BIS is recognized in the amount of paid-up capital (25%). The unpaid proportion of the capital

#### Tangible and Intangible Fixed Assets

EUR '000	TA & advances and assets under construction	IA & advances and assets under construction	TOTAL
<b>Acquisition cost as at 1 January 2013</b>	<b>267,174</b>	<b>28,518</b>	<b>295,692</b>
Additions	2,196	1,698	3,894
Disposals	6,374	735	7,109
<b>Acquisition cost as at 31 December 2013</b>	<b>262,996</b>	<b>29,481</b>	<b>292,477</b>
<b>Accumulated depreciation as at 1 January 2013</b>	<b>128,732</b>	<b>23,412</b>	<b>152,144</b>
Additions	6,630	2,377	9,007
Disposals	5,344	8	5,352
<b>Accumulated depreciation and provisions as at 31 December 2013</b>	<b>130,018</b>	<b>25,781</b>	<b>155,799</b>
<b>Carrying amount of TA and IA as at 1 January 2013</b>	<b>138,442</b>	<b>5,106</b>	<b>143,548</b>
<b>Carrying amount of TA and IA as at 31 December 2013</b>	<b>132,978</b>	<b>3,700</b>	<b>136,678</b>



(75%) is payable on demand. Dividends are distributed in EUR from the total share of NBS in BIS recorded in XDR (see Note 27).

As at 31 December 2013, the Bank recognizes the investment in the Inštitút bankového vzdelávania NBS, n. o. Bratislava, which was established by NBS as at 28 October 2008. The Bank is the only shareholder of the company.

The Bank holds a 0.0063% capital share in SWIFT. The allocation took place in April 2012 based on share reallocation to individual members depending on their financial compensation, paid for using SWIFT services in 2011.

#### Off-balance sheet instruments revaluation differences

This item represents exchange losses from the revaluation of off-balance sheet instruments as at 31 December 2013 of EUR 1,999 thousand (EUR 4,203 thousand as at 31 December 2012).

#### Accruals and Prepaid Expenses

This item mainly represents accrued bond coupons of EUR 168,193 thousand (EUR 210,287 thousand as at 31 December 2012) and interest accrued on interest rate swaps of EUR 10,204 thousand (EUR 20,787 thousand as at 31 December 2012).

#### Sundry

EUR '000	31 Dec 2013	31 Dec 2012	Change
Deposits – collaterals to derivatives	297,401	521,500	(224,099)
Interest rate swaps	15,279	19,664	(4,385)
Interest rate futures	2,901	7,094	(4,193)
Investment and consumer loans granted to employees	9,428	10,503	(1,075)
Other	4,219	3,128	1,091
	<b>329,228</b>	<b>561,889</b>	<b>(232,661)</b>

The purpose of the deposits granted – collaterals to derivatives – is to secure counterparty credit risk in respect of a decrease in the value of the swap on the part of the NBS. The year-on-year decrease in the volume of deposits is due to decrease in the volume of interest rate swaps.

## 10. BANKNOTES IN CIRCULATION

EUR '000	31 Dec 2013	31 Dec 2012	Change
Euro banknotes in circulation issued by NBS	8,777,250	8,162,832	614,418
Euro banknotes not issued by NBS	(75,966)	155,444	(231,410)
<b>Total amount of euro banknotes according to the NBS's Banknote Allocation Key</b>	<b>8,701,284</b>	<b>8,318,276</b>	<b>383,008</b>

As at 31 December 2013, the Bank issued banknotes amounting to EUR 8,777,250 thousand, up by EUR 75,966 thousand (down by EUR 155,444 thousand as at 31 December 2012) compared to the volume allocated to the NBS by the Banknote Allocation Key (see Section B, Note h). This difference represents a liability of the NBS towards the Eurosystem (see Note 18). Following the entry of Croatia into the European Union, the Banknote Allocation Key for the NBS decreased from 0.9115% to 0.9100% as at 1 July 2013.

## 11. LIABILITIES TO EURO AREA CREDIT INSTITUTIONS RELATED TO MONETARY POLICY OPERATIONS DENOMINATED IN EURO

EUR '000	31 Dec 2013	31 Dec 2012	Change
Current accounts covering the minimum reserve system	1,096,170	634,343	461,827
Deposit facility	5,600	56,300	(50,700)
Term deposits	183,000		183,000
	<b>1,284,770</b>	<b>690,643</b>	<b>594,127</b>

Current accounts represent monetary reserves of credit institutions that are subject to the minimum reserve system ("MRS") in accordance with the Statute. The MRS enables the average fulfillment of monetary reserves of credit institutions over the maintenance period set, as published by the ECB. The MRS holdings are remunerated at the average rate of the Eurosystem's main refinancing operations valid over the given maintenance period. Excess reserves bear no interest.

The deposit facility represents overnight deposits at a pre-specified interest rate as announced



## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS

by the ECB. The purpose of such deposits is to provide contracting parties with the option to deposit short-term surplus liquidity. As at 31 December 2013, a zero interest rate was specified for this type of transaction.

Term deposits represent bank deposits at a rate of 0.23 – 0.25% p.a.

### 12. OTHER LIABILITIES TO EURO AREA CREDIT INSTITUTIONS DENOMINATED IN EURO

EUR '000	31 Dec 2013	31 Dec 2012	Change
Tri-party repo transactions	2,150,000	1,850,000	300,000
Liabilities from repo transactions	777,320	3,735,214	(2,957,894)
Liabilities from repo transactions with gold	30,660	43,644	(12,984)
Deposits received for repo transactions	1,242	2,301	(1,059)
Interbank clearing in Slovakia (SIPS)	896	3,682	(2,786)
<b>2,960,118</b>	<b>5,634,841</b>	<b>(2,674,723)</b>	

As at 31 December 2013, this item represents mainly liabilities from Tri-party repo transactions.

The interest rate applicable to repo transactions is 0.171-0.25% p.a. (0.061-0.320% p.a. as at 31 December 2012). The decrease in liabilities from repo transactions compared to the preceding period is due to maturity of repo transactions.

### 13. LIABILITIES TO OTHER EURO AREA RESIDENTS DENOMINATED IN EURO

EUR '000	31 Dec 2013	31 Dec 2012	Change
Public authority	2,722,653	2,606,615	116,038
Other liabilities	195,185	183,939	11,246
<b>2,917,838</b>	<b>2,790,554</b>	<b>127,284</b>	

#### Public authority

As at 31 December 2013, the NBS recognized within this caption term deposits from the Ministry of Finance of the Slovak Republic amounting to EUR 1,800,000 thousand (EUR 2,200,000 thousand as at 31 December 2012), and current accounts of the State treasury amounting to EUR 922,653 thousand (EUR 406,615 thousand as at 31 December 2012).

The interest rate applicable to term deposits is 0.140-0.365% p.a. (0.175-0.459% p.a. as at 31 December 2012).

### Other Liabilities

EUR '000	31 Dec 2013	31 Dec 2012	Change
Client current accounts	12,127	11,511	616
Client term deposits	28,137	26,787	1,350
Current accounts of auxiliary financial institutions	3,831	331	3,500
Term deposits of auxiliary financial institutions	151,090	145,310	5,780
<b>195,185</b>	<b>183,939</b>	<b>11,246</b>	

The Bank recognized within this item current accounts and deposits from clients and auxiliary financial institutions (the Deposit Protection Fund and the Investment Guarantee Fund).

### 14. LIABILITIES TO NON-EURO AREA RESIDENTS DENOMINATED IN EURO

EUR '000	31 Dec 2013	31 Dec 2012	Change
Liabilities from repo transactions with gold	473,407	673,587	(200,180)
Liabilities from repo transactions	180,795	1,006	179,789
Liabilities from term deposits	2,400,000	2,840,000	(440,000)
Liabilities to international financial institutions	4,794	4,512	282
Clients' current accounts		6	(6)
Deposits received for repo transactions	20	295	(275)
<b>3,059,016</b>	<b>3,519,406</b>	<b>(460,390)</b>	

Liabilities from inward term deposits represent central banks' deposits with maturity from one day to one month at an interest rate of 0.19% p.a. (0.11-0.27% p.a. as at 31 December 2012).

The interest rate applicable to repo transactions is 0.02-0.23% p.a. (0.07% p.a. as at 31 December 2012).

**15. LIABILITIES TO EURO AREA RESIDENTS**  
**DENOMINATED IN FOREIGN CURRENCY**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Liabilities from repo transactions with gold	87,890	90,288	(2,398)
Current accounts of the State Treasury in foreign currency	28,056	16	28,040
	<b>115,946</b>	<b>90,304</b>	<b>25,642</b>

**16. LIABILITIES TO NON-EURO AREA RESIDENTS**  
**DENOMINATED IN FOREIGN CURRENCY**

As at 31 December 2013, this caption included liabilities from long-term repo transactions with gold in the total amount of EUR 62,995 thousand (EUR 64,970 thousand as at 31 December 2012) that are due in 2015 and 2016.

**17. COUNTERPART OF SPECIAL DRAWING RIGHTS**  
**ALLOCATED BY THE IMF**

As at 31 December 2013, the Bank recorded a liability to the IMF from the allocation of EUR 380,758 thousand (EUR 396,896 thousand as at 31 December 2012). The liability from the allocation is denominated in XDR. The IMF allocated XDR 265 million as part of the general allocation and XDR 75 million as part of a special allocation to Slovakia.

**18. INTRA-EUROSYSTEM LIABILITIES**

This caption includes the net liability attributable to the euro banknote allocation within the Eurosystem of EUR 75,966 thousand (claim of EUR 155,444 thousand as at 31 December 2012, see Note 10), which bears the main refinancing rate. As at 31 December 2013, the interest expenses from the liability attributable to the euro banknote allocation within the Eurosystem represent EUR 4,655 thousand (see Note 24).

**19. OTHER LIABILITIES**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Off-balance-sheet instruments revaluation differences	743		743
Accruals and income collected in advance	119,457	158,404	(38,947)
Sundry	657,570	1,013,422	(355,852)
	<b>777,770</b>	<b>1,171,826</b>	<b>(394,056)</b>

**Accruals and Income Collected in Advance**

As at 31 December 2013, the major part of accruals represented interest expense from interest rate swaps in euro of EUR 113,119 thousand (EUR 154,043 thousand as at 31 December 2012).

**Sundry**

EUR '000	31 Dec 2013	31 Dec 2012	Change
Interest rate swaps	191,224	395,196	(203,972)
Deposits – collaterals to derivatives	201,820	358,120	(156,300)
Euro coins in circulation	132,478	125,987	6,491
SKK banknotes in circulation	79,235	82,732	(3,497)
SKK coins in circulation	46,985	47,138	(153)
Other	5,828	4,249	1,579
	<b>657,570</b>	<b>1,013,422</b>	<b>(355,852)</b>

The value of interest rate swaps as at 31 December 2013 represents the cumulative year-end revaluation loss which is gradually amortized to the profit/loss under net realized gains on interest rate swaps in accordance with the ECB guideline (see Note 25).

The purpose of deposits received – collateral for derivatives – is to secure the NBS credit risk in respect of a decrease in the value of the swap on the part of the counterparty. The year-on-year decrease in the volume of deposits is due to the decrease in the volume of interest rate swaps.

**20. PROVISIONS**

EUR '000	31 Dec 2013	31 Dec 2012	Change
General provision for financial risks	300,000	250,000	50,000
Provisions for payables to employees	3,715	3,370	345
Provisions for legal disputes	301	3,153	(2,852)
Provisions for unbilled supplies	638	613	25
	<b>304,654</b>	<b>257,136</b>	<b>47,518</b>

The Bank created a general provision for financial risks in order to protect against foreign exchange, interest rate, credit risks and risk from changes in gold prices. The amount of provision is reassessed on an annual basis, based on the



## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS

decision of the Bank Board. In accordance with the decision of the Bank Board, the provision will be used to cover future realized and unrealized losses from financial activities.

As at 31 December 2013, the Bank reassessed the amount of provisions with regard to the risk of loss from legal disputes and recognized these liabilities under off-balance sheet contingent liabilities (see Section B, Note I).

### 21. REVALUATION ACCOUNTS

EUR '000	31 Dec 2013	31 Dec 2012	Change
Revaluation accounts on:			
– gold	254,418	651,733	(397,315)
– securities	306,367	528,805	(222,438)
– derivatives	15,279	19,664	(4,385)
– foreign currency	11,539	10,101	1,438
	<b>587,603</b>	<b>1,210,303</b>	<b>(622,700)</b>

The decrease in the revaluation accounts of gold compared to last year is due to decreased gold prices. The decrease in the revaluation accounts of securities compared to last year is linked to the development in the financial markets.

### 22. CAPITAL AND RESERVES

This item includes the statutory fund representing the paid-up capital assumed from separation of the balance sheet of the former State Bank of Czechoslovakia, which has been in the amount of EUR 15,490 thousand since the establishment of the NBS, and the assumed registered capital of the Financial Market Authority ("Úrad pre finančný trh, ÚFT") of EUR 551 thousand. With effect from 1 January 2006, the ÚFT was dissolved and merged with the NBS in accordance with the applicable law.

Reserves consist of general reserves and capital reserves.

As at 31 December 2013, the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2012). The general reserves consist of contributions from profits of EUR 337,412 thousand generated from previous years. As at 1 January 2006, following the merger of the ÚFT with the NBS, the ÚFT's reserve fund of EUR 3,462 thousand was transferred to the NBS reserves. As at 31 December 2013, the NBS's capital reserves amounted to EUR 882 thousand (EUR 882 thousand as at 31 December 2012).

### Summary of Changes in Equity and Accumulated Losses

EUR '000	Statutory fund	Capital reserves	General reserves	General provision for financial risks	Revaluation accounts profit/(loss)	Accumulated (loss) from previous years	Profit/(loss) of current year
<b>1. Balance as at 31 December 2012</b>	<b>16,041</b>	<b>882</b>	<b>340,874</b>	<b>250,000</b>	<b>1,210,303</b>	<b>(5,605,892)</b>	<b>199,439</b>
2. Transfer of profit for 2012 to accumulated loss from previous years						199,439	(199,439)
3. Transfer to statutory fund							
4. Transfer to general reserves							
5. Change in general provisions for financial risks				50,000			
6. Change in revaluation accounts of securities					(222,438)		
7. Change in revaluation accounts of derivatives					(4,385)		
8. Change in revaluation accounts of gold					(397,315)		
9. Change in revaluation accounts of foreign currencies					1,438		
10. Profit for the current reporting period							489,846
11. Change for the reporting period				50,000	(622,700)	199,439	290,407
<b>12. Balance as at 31 December 2013</b>	<b>16,041</b>	<b>882</b>	<b>340,874</b>	<b>300,000</b>	<b>587,603</b>	<b>(5,406,453)</b>	<b>489,846</b>



## 23. OFF-BALANCE SHEET INSTRUMENTS

EUR '000	31 Dec 2013		31 Dec 2012		Change	
	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Currency swaps in EUR (forward leg)	74,235	30,506	105,526		(31,291)	30,506
Currency swaps in USD (forward leg)	30,455	18,853		52,297	30,455	(33,444)
Currency swaps in JPY (forward leg)		23,729		24,153	0	(424)
Currency swaps in GBP (forward leg)		30,347		24,874	0	5,473
	<b>104,690</b>	<b>103,435</b>	<b>105,526</b>	<b>101,324</b>	<b>(836)</b>	<b>2,111</b>
EUR '000	31 Dec 2013		31 Dec 2012		Change	
	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Interest rate futures in EUR		35,000	297,000		(297,000)	35,000
Interest rate futures in USD				53,054		(53,054)
		<b>35,000</b>	<b>297,000</b>	<b>53,054</b>	<b>(297,000)</b>	<b>(18,054)</b>

## 24. NET INTEREST INCOME

EUR '000	31 Dec 2013	31 Dec 2012	Change
<b>Investments in EUR</b>	<b>191,081</b>	<b>375,436</b>	<b>(184,355)</b>
<b>Investments in foreign currency</b>	<b>1,688</b>	<b>3,638</b>	<b>(1,950)</b>
<b>Monetary policy operations:</b>	<b>92,120</b>	<b>116,999</b>	<b>(24,879)</b>
net interest income from securities	89,527	104,632	(15,105)
net interest income from loans and deposits	4,650	15,715	(11,065)
net interest expense from MRS	(2,057)	(3,348)	1,291
<b>Interest income on foreign reserve assets</b>	<b>1,904</b>	<b>3,042</b>	<b>(1,138)</b>
<b>Remuneration of eurobanknotes</b>	<b>(4,655)</b>	<b>(4,968)</b>	<b>313</b>
<b>Remuneration of TARGET 2</b>	<b>30,205</b>	<b>(49,481)</b>	<b>79,686</b>
	<b>312,343</b>	<b>444,666</b>	<b>(132,323)</b>

The decrease in net interest income from investments in EUR is mainly linked to the decrease in the net interest income from securities. The lower interest income from securities is due to the decrease of the key ECB interest rate, which is reflected in the decrease of coupons of newly-issued and acquired securities.

The decrease in interest income on foreign reserve assets was due to the decrease of the interest rate on the main refinancing operations and the decrease in the volume of the asset (see Note 8).

The change in remuneration of TARGET2 is due to the change in the NBS net position from November 2012. Until November 2012, the Bank recognized a liability towards the Eurosystem, from November 2012 to 31 December 2013, the Bank recognized an asset.

## 25. NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS

EUR '000	31 Dec 2013	31 Dec 2012	Change
<b>Gains realized from financial operations</b>	<b>220,717</b>	<b>168,124</b>	<b>52,593</b>
Net gains from interest rate swaps	198,215	120,246	77,969
Net foreign exchange gains	1,217	333	884
Net gains from sale of securities	21,138	47,510	(26,372)
Net foreign exchange gain from other operations	147	35	112
<b>Write-downs on financial assets and positions</b>	<b>(6,802)</b>	<b>(200,949)</b>	<b>194,147</b>
Losses from derivatives valuation	(1,229)	(197,534)	196,305
Losses from securities valuation	(2,469)	(2,899)	430
Losses from foreign currency valuation	(3,104)	(516)	(2,588)
<b>Creation and use of general provision for foreign exchange rate, interest rate, credit and gold price risks</b>	<b>(50,000)</b>	<b>(250,000)</b>	<b>200,000</b>
General provision for financial risks	(50,000)	(250,000)	200,000
	<b>163,915</b>	<b>(282,825)</b>	<b>446,740</b>





## 26. NET RESULT FROM FEES AND COMMISSIONS

EUR '000	31 Dec 2013	31 Dec 2012	Change
<b>Fees and commissions from investment portfolio:</b>	<b>(396)</b>	<b>13</b>	<b>(409)</b>
Net profit from operations with securities	106	621	(515)
Net profit from operations with clients	247	248	(1)
Net loss from operations with Banks	(701)	(781)	80
Net loss from interest futures	(36)	(63)	27
Other	(12)	(12)	0
<b>Fees and commissions from monetary policy operations:</b>	<b>(129)</b>	<b>(144)</b>	<b>15</b>
Net loss from operations with Banks	(188)	(189)	1
Net profit from operations with securities	59	45	14
<b>Net profit from exchange of euro coins</b>	<b>58</b>	<b>62</b>	<b>(4)</b>
	<b>(467)</b>	<b>(69)</b>	<b>(398)</b>

## 27. INCOME FROM EQUITY SHARES AND PARTICIPATING INTERESTS

EUR '000	31 Dec 2013	31 Dec 2012	Change
Income on the ECB profit of the current year	13,550	5,694	7,856
Participating interest in the ECB's net profit from previous year	4,196	755	3,441
Share on the ECB's net equity	438		438
Dividends from shares and participating interest	1,040	1,057	(17)
	<b>19,224</b>	<b>7,506</b>	<b>11,718</b>

In connection to the entry of Croatia into the European Union as at 1 July 2013, the NBS recorded a share in the ECB's net equity.

## 28. NET RESULT OF POOLING OF MONETARY INCOME

Monetary income in accordance with Article 32.1 of the Statute and Decision ECB/2010/23 on the allocation of monetary income of the national central banks of Member States whose currency

is the euro as amended, represents the net annual income derived from their assets, held against banknotes in circulation and deposit liabilities to credit institutions.

Monetary income is the income accruing in the performance of the monetary policy function of the ESCB.

Monetary income is distributed to the NBS in proportion to its paid-up shares in the capital of the ECB at the end of each financial year (0.9892%).

Monetary income pooled by the NBS for 2013 into the common pool of monetary income of the Eurosystem was EUR 114,758 thousand. The monetary income equivalent to the 0.9892% share of the NBS amounted to EUR 165,140 thousand. The difference of EUR 50,382 thousand (EUR 84,748 thousand as at 31 December 2012) represents the net result arising from the pooling of monetary income.

## 29. OTHER INCOME AND OTHER EXPENSES

As at 31 December 2013, most of the Bank's other income represented income from fees and contributions from financial market entities of EUR 4,027 thousand (EUR 3,875 thousand as at 31 December 2012), earned fees from participation in settlement systems of EUR 2,701 thousand (EUR 2,674 thousand as at 31 December 2012), and income from sales of commemorative coins and banknotes of EUR 1,749 thousand (EUR 2,408 thousand as at 31 December 2012).

As at 31 December 2013, the Bank's other expenses mainly represented costs of the minting of coins in circulation and collector coins of EUR 2,766 thousand (EUR 3,748 thousand as at 31 December 2012).

## 30. STAFF COSTS

EUR '000	31 Dec 2013	31 Dec 2012	Change
Wages and salaries	(22,346)	(21,879)	(467)
Social security costs	(8,153)	(7,497)	(656)
Other employee costs	(3,271)	(3,211)	(60)
	<b>(33,770)</b>	<b>(32,587)</b>	<b>(1,183)</b>

As at 31 December 2013, the average FTE number of employees was 1,005 (1,020 as at 31 Decem-



ber 2012), of whom 93 were managers (93 as at 31 December 2012).

Wages and employee benefits of the Bank Board's members for 2013 amounted to EUR 635 thousand (EUR 1,066 thousand in 2012). As at 31 December 2013 and 2012, the Bank recorded no outstanding loans to the members of the Bank Board.

The Bank has created a supplemental pension plan for its employees in cooperation with supplementary pension management companies. Contributions to the supplemental pension plans are recognized under "Other employee costs".

### 31. ADMINISTRATIVE EXPENSES

As at 31 December 2013, this item mainly included costs of technical support and IS maintenance, repairs and maintenance, energy consumption and telecommunications costs totaling EUR 9,353 thousand (EUR 9,660 thousand as at 31 December 2012).

Costs of audit of the financial statements by the auditor amounted to EUR 71 thousand as at 31 December 2013 (EUR 71 thousand as at 31 December 2012). As at 31 December 2013, the Bank did not record any costs of assurance and audit services and tax consulting as per Article 18 (6) of the Act on Accounting.

### 32. DEPRECIATION OF TANGIBLE AND INTANGIBLE FIXED ASSETS

EUR '000	31 Dec 2013	31 Dec 2012	Change
Depreciation of tangible fixed assets	(6,630)	(6,866)	236
Depreciation of intangible fixed assets	(2,377)	(2,633)	256
	<b>(9,007)</b>	<b>(9,499)</b>	<b>492</b>

### 33. BANKNOTE PRODUCTION SERVICES

As at 31 December 2013, the cost of printing euro banknotes amounted to EUR 3,585 thousand (EUR 143 thousand as at 31 December 2012).

### 34. PROFIT/ (LOSS) FOR THE YEAR

The result of the Bank's operations as at 31 December 2013 was a profit of EUR 489,846 thousand (profit EUR 199,439 thousand as at 31 December 2012). The most significant part of this item represents net interest income and realized gains from financial transactions (see Note 24 and 25).


## D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, the ECB Governing Council decided at its meeting on 19 February 2014, to distribute the ECB's net profit for 2013 to individual central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 599 thousand from the distribution of profit is accounted for in the 2014 reporting period.

In connection with the entry of Latvia into the Eurosystem, the Eurosystem keys of the national central banks have been adjusted accordingly in line with Decision ECB/2013/53. As at 1 January 2014, the amount of the NBS Eurosystem key was adjusted to 1.1039% (0.9892% until 31 December 2013). The Banknote Allocation Key was adjusted to 1.0155% (0.9100% until 31 December 2013).

No significant events occurred subsequent to 31 December 2013 that would require any adjustments to the 2013 financial statements.

Bratislava, 11 March 2014

  
doc. Ing. Jozef Makúch, PhD.  
Governor

  
Ing. Miroslav Uhrin  
Executive Director  
Division for  
Financial Management,  
Information Technology  
and Facility Services

  
Ing. Katarína Taragelová  
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**Appendix to the auditor's report  
on the consistency of annual report with audited financial statements  
in accordance with Act No. 540/2007 Z.z. § 23 par. 5**

To the Bank Board of Národná banka Slovenska:

- I. We have audited the financial statements of Národná banka Slovenska ("the Bank") as at 31 December 2013 presented in the annual report on pages 67 – 87. We issued the following audit report dated 11 March 2014 on the financial statements:

**"Independent Auditors' Report"**

To the Bank Board of Národná banka Slovenska:

We have audited the accompanying financial statements of Národná banka Slovenska ('the Bank'), which comprise the balance sheet as at 31 December 2013, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

**Responsibility of the Bank Board of Národná banka Slovenska for the Financial Statements**

Bank Board of Národná banka Slovenska is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended ('the ECB Guideline') and with Act No. 431/2002 Coll. on Accounting, as amended ('the Act on Accounting') and for such internal control as the Bank Board of Národná banka Slovenska determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

11 March 2014

Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.  
SKAU Licence No. 257

Ing. Dalimil Draganovský  
SKAU Licence No. 893"

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Spoločnosť zo skupiny Ernst & Young Global Limited  
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname auditorov vedenom Slovenskou komorou auditorov pod č. 257.



- II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of Národná banka Slovenska is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2013. We have not audited information that has not been derived from audited financial statements or Bank accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Bank as at 31 December 2013 and is in accordance with the Act No 566/1992 Coll. on the Národná banka Slovenska, as amended and special regulations valid for the Eurosystem.

29 April 2014  
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.  
SKAU Licence No. 257

Ing. Dalimil Draganovský  
SKAU Licence No. 893

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## LIST OF CHARTS

Chart 1	Contributions to annual GDP growth	9	Chart 17	Portfolio of euro-denominated assets at 31 December 2013 – broken down by country of issuer	27
Chart 2	Components of HICP inflation	10	Chart 18	Cumulative net issuance of euro cash on a daily basis	36
Chart 3	Post-crisis performance of key economic indicators	11	Chart 19	Euro banknotes processed in 2013 broken down by denomination	39
Chart 4	HICP inflation and its components	11	Chart 20	Counterfeit euro banknotes recovered in 2013 in Slovakia and in the euro area as a whole	41
Chart 5	Real GDP	12	Chart 21	Counterfeit euro coins recovered in 2013 in Slovakia and in the euro area as a whole	41
Chart 6	Current account and trade balance developments between 1993 and 2013	15	Chart 22	Number of transactions processed in TARGET2-SK in 2012 and 2013	42
Chart 7	Eurosystem operations in 2013	18	Chart 23	Value of transactions processed in TARGET2-SK in 2012 and 2013	43
Chart 8	Key ECB interest rates and the EONIA in 2013	18	Chart 24	Outgoing TARGET2-SK payments in 2013 broken down by number	43
Chart 9	USD/EUR exchange rate in 2013	19	Chart 25	Number of transactions executed via SIPS in 2012 and 2013	44
Chart 10	Financial sector assets broken down by market segments as at 31 December 2013	20	Chart 26	Value of transactions executed via SIPS in 2012 and 2013	44
Chart 11	Minimum reserve requirements and reserve holdings in 2013	25	Chart 27	Reporting agents in the financial market broken down by share in total financial market assets as at 31 December 2013	48
Chart 12	Composition of Slovak eligible assets in 2013	25	Chart 28	Reporting agents in the financial market broken down by category	48
Chart 13	Composition of Slovak eligible assets in December 2012 and December 2013	26			
Chart 14	Use of eligible assets by counterparties in 2013	26			
Chart 15	Use of domestic and foreign eligible assets	26			
Chart 16	Value of NBS investment portfolio in 2013	27			

## LIST OF TABLES

Table 1	GDP and its components	12	Table 7	Collector coins issued by Národná banka Slovenska in 2013	39
Table 2	GDP measured by expenditure	13	Table 8	Number of counterfeit banknotes and coins recovered in Slovakia	40
Table 3	Labour market indicators	14	Table 9	Number of euro counterfeits recovered in Slovakia	40
Table 4	Balance of payments current account	16			
Table 5	Capital and financial account of the balance of payments	16			
Table 6	Composition of the cumulative net issuance of euro banknotes and coins	37			





## ABBREVIATIONS

AIF	alternative investment fund
BCPB, a.s.	Bratislava stock exchange "Burza cenných papierov v Bratislave, a. s."
BIS	Bank for International Settlement
CDCP	Central securities depository "Centrálny depozitár cenných papierov SR, a. s."
EBA	European Banking Authority
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EIOPA	European Insurance and Occupational Pensions Authority
EONIA	Euro OverNight Index Average
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro/€
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
ISIN	International Securities Identification Number
IMF	International Monetary Fund
MF SR	Ministry of Finance of the Slovak Republic
NAV	net asset value
NBS	Národná banka Slovenska
NCB	national central bank
OECD	Organisation for Economic Co-operation and Development
ORSA	Own Risk and Solvency Assessment
p.a.	per annum
PFMC	pension fund management company
p.p.	percentage point
SEPA	Single Euro Payments Area
SKK	Slovak koruna
SPMC	supplementary pension management company
SR	Slovak Republic
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
STATUS DFT	application software for financial market supervision
SO SR	Statistical Office of the Slovak Republic
TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer in Euro
UCITS	undertakings for collective investment in transferable securities
USD	United States dollar

