NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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Foreword

The year 2017 saw several positive developments. Global economic activity picked up significantly, supported by activity in both advanced and emerging market economies. A key driver of that growth was rising investment demand. In the euro area, GDP growth reached its highest level for ten years.

Although the Slovak economy did not expand markedly, it did maintain a stable growth rate of 3.4%. The largest contributor to GDP growth was domestic demand. An exceptionally favourable labour market situation was reflected in Slovak household consumption, which recorded its strongest growth of the post-crisis period. Consumer prices began to climb after three years of decline. The average annual inflation rate for 2017 stood at 1.4% and thus drew significantly closer to the average inflation rate in the euro area as whole (1.5%).

Euro area inflation was lower than the optimal rate for the economy and lower than the medium-term objective under the ECB's monetary policy. As a result, the ECB's Governing Council left the key ECB interest rates unchanged and decided to continue with its asset purchase programme (APP), part of the non-standard monetary policy toolkit. In response to the economic upturn, however, the Governing Council did make a notable adjustment to its forward guidance, with no information about a possible future cut in policy rates. At the same time, the Governing Council decided that the APP would continue at a reduced monthly pace. This may be seen as a significant juncture in the post-crisis development of the euro area's monetary policy.

In Slovakia, the benign macroeconomic situation and low interest rate environment were conducive to retail lending growth, which resulted in household indebtedness being higher here than in any other central or eastern European country. The upward path of macroeconomic indicators implied a reduction in the direct risks to financial stability. On the other hand, the rapid rise in private sector leverage increased the vulnerability of households to any future economic downturn. In order to mitigate these risks, NBS responded by raising the countercyclical capital buffer rate and by laying down prudential requirements for the provision of housing loans; it later stipulated minimum requirements for consumer loans, too.

One of the central bank's key tasks is to ensure the smooth functioning of payment and settlement systems. As regards TARGET2-SK, the Slovak component system of the ECB's TARGET2 settlement system, there was a break in trend in 2017 when both the number and value of transactions processed by the system were lower compared with 2016. A significant TARGET2-related event in 2017 was the migration of Slovakia's two central securities depositories and their members, as well as NBS, to TARGET2–Securities, a new technical platform ensuring smooth settlement of cross-border securities transactions. The Slovak Interbank Payment System (SIPS) also experienced change in 2017, as NBS put a new, architecturally streamlined version of this retail payment system into operation in November. Both the number and value of transactions that SIPS processed in 2017 were higher year on year.

Another of the central bank's tasks is to regulate, coordinate and oversee currency circulation in Slovakia. The difference between the value of euro cash that NBS put into circulation and withdrew from circulation (the cumulative net issuance) between 1 January 2009, when Slovakia adopted the euro, and the end of 2017 exceeded €12 billion.

In value terms, banknotes make up far more of the net issuance than do coins, but in terms of the number of currency units, the positions are reversed. In accordance with its tasks as a member of the Eurosystem, NBS commissioned the production of €50 banknotes of the new ES2 series and euro circulation coins of several denominations in 2017. It also issued four precious-metal collector coins, as well as a €2 commemorative coin featuring the 550th anniversary of the establishment of the first university in the territory which is now Slovakia.

Národná banka Slovenska reported a net profit of €127 million for 2017. As in the previous year, the largest component of the profit was interest income on bonds. Under a decision of the NBS Bank Board, the entire 2017 profit was set off against losses from previous years.

March 2018

Jozef Makúch
Governor

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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

Compared with the previous year, 2017 was more favourable for the global economy. After two years of slowdown, global GDP growth accelerated to around 3.7%[1] (from 3.2% in 2016). This pick-up was based on recoveries in investment, manufacturing and trade, on the continuation of favourable financial conditions, and on supportive economic policies. At the same time, a broad spectrum of economies were gathering momentum, leading to greater business cycle synchronisation. As regards the contributions to global growth acceleration from different groups of countries, advanced economies had the largest impact and their economic growth was higher than expected. Emerging market economies (EMEs) also contributed positively, with commodity exporters benefiting from rising commodity prices.

The majority of advanced economies reported an increase in growth. In the United States, the economy strengthened, as the improving labour market situation and solid growth in real income further stimulated private consumption. It was investment demand, however, that provided the largest boost to growth, as both infrastructure investment and equipment investment picked up strongly after falling in the previous year. Easy financial conditions remained in place in the United States, contingent on the terminating accommodative monetary policy. During the course of the year, the US Federal Reserve thrice raised the target range for the US federal funds rate; furthermore, in October, the US central bank embarked on a balance sheet normalisation programme under which it will gradually reduce its securities holdings by decreasing the reinvestment of the principal payments received from these securities. Going forward, the direction of the US economy will be shaped by these steps, together with the most extensive tax reform in 30 years, passed at the end of last year. The euro area also supported global economic growth. Although domestic demand eased, the economy benefited from a strengthening of exports and softening of import growth. The economy continued to be supported by the ongoing accommodative monetary policy stance. The United Kingdom, on the other hand, had a dampening effect on global growth, as the country's economic activity increased more moderately than at any time in the past five years. The slowdown was caused mostly by private consumption, with households reining in their spending in an environment of rising inflation and falling real income. Given the heightened uncertainty surrounding the country's future relations with the EU, it was surprising to see investment demand accelerating. Weakening of the pound supported exports, and with import growth easing, net trade had a positive impact on economic growth. In response to an accelerating headline inflation rate, the Bank of England raised its policy rate for the first time in 10 years.

Turning to emerging market companies the increase in their aggregate growth was driven by China. After six years of declining growth, the country's economy accelerated in 2017 and comfortably exceeded the growth target for the year. This performance, however, stemmed largely from cyclical factors whose impact will gradually fade. Economy activity was boosted by an expansionary fiscal stance in the form of additional spending and tax cuts aimed at supporting demand and employment growth. Furthermore, infrastructure investment (mainly in transportation) compensated for declining capacities in coal and steel production. Efforts to rebalance the country's economy were apparent in the political decision not to set a growth target beyond the 2020 horizon and to focus more on financial stability. Russia's economy returned to growth after two years of a recession brought on by falling oil prices and Western-imposed sanctions. As a result, it made a strongly positive contribution to global GDP growth. By contrast, the Indian economy weighed on global growth, with an expansion that was more modest than in previous years owing to the lagged effects of the November 2016 demonetisation and effects of the July 2017 goods and services tax reform.

Global consumer price inflation accelerated in 2017, with the headline rate responding most

1 *World Economic Outlook Update, January 2018.*

notably to energy commodity prices. In other words, energy prices, which were on an upward trend throughout the year after falling in 2016 in year-on-year terms, had the largest impact on global inflation. Food prices also supported the headline rate's increase. For advanced economies, the average annual inflation rose from 0.8% in 2016 to 1.7% in 2017, but core inflation remained flat. Across emerging market economies, on the other hand, headline inflation moderated from 4.3% to 4.1%.

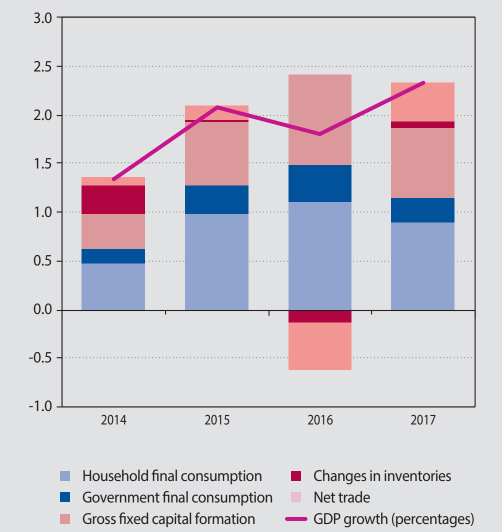
Global commodity prices increased in 2017. Looking at the rise in energy commodity prices, the average oil price increased by more than 20%, year on year, in response to global demand, falling inventories in the United States, and the OPEC+ agreement to limit oil production. Metal prices surged on strong growth in the Chinese construction and manufacturing industries, and they were also buoyed by the bright outlook for the global economy. Average food commodity prices fell in year on year terms, owing to elevated global inventories and the effects of good weather.

1.1.2 The euro area

The euro area's annual GDP growth accelerated to 2.3% in 2017, significantly higher than its rate in 2016 (1.8%). While all components had a positive impact on overall growth, private consumption and investment made the largest contributions. Private consumption was supported by a favourable labour market situation, while investment benefited from easy financing condition in the form of relaxed credit standards, and from an upturn in corporate profits. Exports were boosted by the broad global economic recovery. In contrast to 2016, net trade had a positive impact on growth. Export growth was higher in 2017 than in the previous year and import growth was lower. The economy's upswing was reflected in the labour market, with unemployment falling from 10.0% at the end of 2016 to 9.1% a year later.

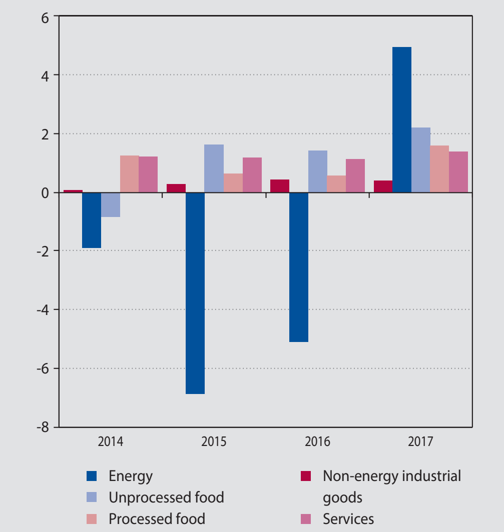
Average annual HICP inflation in the euro area rose to 1.5% in 2017, up by 1.3 percentage points on the previous year. The headline inflation rate in December 2017 was 0.3 percentage point higher year on year, at 1.4%. Among HICP components, energy commodity prices had the largest impact on the inflation rate during the year through their pass-through to energy price inflation, which initially eased and then increased slightly in the second half of the year. Food price inflation also accelerated towards the end of the year. Core inflation (measured by the HICP excluding energy and unprocessed food) accelerated gradually until October and then remained steady. Its average rate for 2017 was 1.1%, up from 0.8% in 2016.

Chart 1 Euro area GDP and its components (annual percentage changes; percentage point contributions)



Source: Eurostat.

Chart 2 Contributions of components to HICP inflation (percentage points)



Source: Eurostat.

The euro appreciated significantly against the US dollar over the course of 2017. The exchange rate's path reflected investor preferences, the monetary and economic policy settings of major world economies, geopolitical developments, and the euro area's growth and inflation outlooks. The euro's exchange rate against the dollar stood more than 14% stronger at the end of 2017 than at the beginning of the year.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia's GDP at constant prices increased in 2017 by 3.4% after increasing by 3.3% in 2015. This increase was driven by domestic demand and net exports. The component that recorded the largest drop in growth was government consumption.

The labour market was favourable in 2017, thus continuing its trend of previous years. Employment as defined in the ESA 2010 increased in 2017 by 2.2%, year on year, following its rise of 2.4% in 2016. Most of the new jobs were added in the industry and services sectors. The unemployment rate fell from 9.7% at the end of 2016 to an all-time low of 8.1% at the end of 2017. Average annual nominal wage growth in 2017 was robust (4.6%). Wages grew in all sectors apart from the information and communication technology sector.

In the balance of payments for 2017, the current account showed a deficit of €1.8 billion (€1.2 billion in 2016) owing mainly to a decline in the trade surplus.

The average annual HICP inflation rose to 1.4% in 2017, after recording a negative rate of -0.5% in 2016. All HICP components contributed to the headline rate's acceleration, with food prices having the largest impact.

1.2.1 Price developments

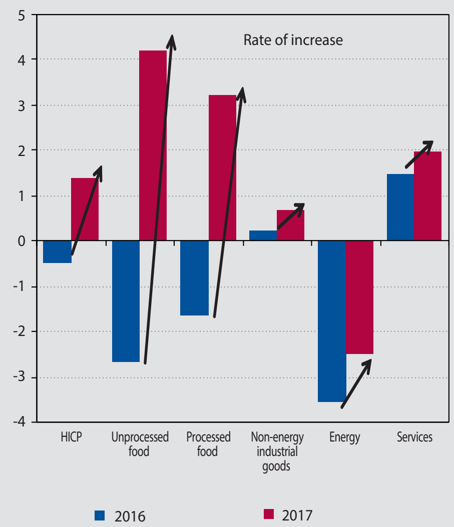
After three years in negative territory, the average annual HICP inflation rate rose to 1.4% in 2017. The acceleration was mostly attributable to external factors that passed through to food price inflation, notably in its acceleration in the second half of the year. Modest increases were also observed in services inflation and in non-energy industrial goods inflation. As for energy inflation, its negative year-on-year rate moderated in 2017.

Agricultural commodity prices were increasing throughout the year, with the largest rises recorded by prices of oils, fats and milk. This trend passed through to processed food price inflation with a slight lag. The year-on-year increase in that component peaked at the end of 2017. Food inflation also came under upward pressure due to the fading of the impact of the January 2016 reductions in VAT on selected foodstuffs. Food prices contributed almost 1.4 percentage point to the average inflation rate in 2017 and were therefore the most significant inflationary factor.

Compared with 2016, oil prices in euro increased strongly on average in 2017 and this trend translated into higher fuel prices. In contrast to 2016, when they were one of the key factors behind the low/negative inflation environment in both Slovakia and other euro area countries, oil prices had an upward impact on the headline inflation rate in 2017. As a result of low wholesale prices of gas and electricity in 2016, consumer gas and electricity prices were reduced in January 2017. With fuel prices rising and regulated energy prices falling, average annual energy inflation was less negative in 2017 than in 2016 (-2.5% versus -3.5%).

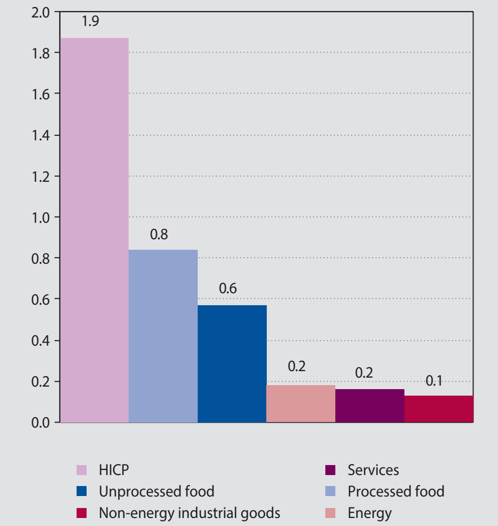
The annual rate of increase in import prices from euro area countries accelerated slightly. The pass-through of imported inflation to non-ener-

Chart 3 HICP components (annual percentage changes)



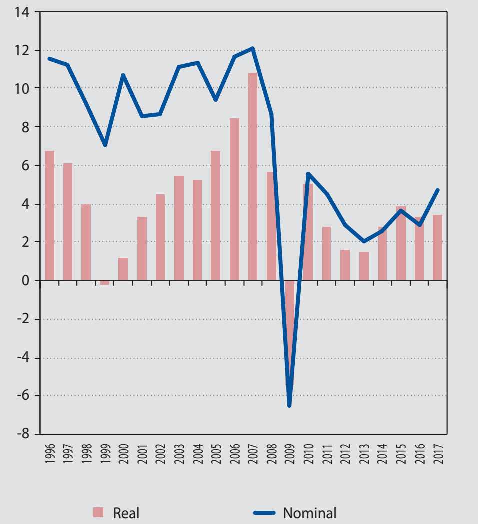
Sources: SO SR and NBS calculations.

Chart 4 Contributions of components to the acceleration of the HICP inflation rate between 2016 and 2017 (percentage points)



Sources: SO SR and NBS calculations.

Chart 5 Real and nominal GDP (annual percentage changes; constant prices)



Source: SO SR.

gy industrial goods inflation resulted in a moderate rise in the latter. As for services inflation, it came under upward pressure from the strong labour market and from household final consumption. In summary, demand-pull pressures and a robust domestic side of the economy gradually came to the forefront of inflation developments.

1.2.2 Gross domestic product

Slovakia's real GDP increased in 2017 by 3.4% year on year (after rising by 3.3% in 2016). The increase in GDP growth was driven by domestic demand, and in particular by household consumption. Net trade also made a positive contribution. Nominal GDP for the year amounted to €85 billion, which was 4.7% higher compared with 2016. This strong growth, however, was partly the result of price developments. The GDP deflator, under upward pressure from increases in consumer, producer, import and export prices, rose by 1.3% year on year (after being negative in each of the years from 2014 to 2016).

GDP – the expenditure side

Domestic demand increased by 2.8%, which was a marked improvement on its decline of 0.3% in 2016. The driver of this growth was domestic consumption supported by an improving labour market situation. Investment also increased year on year, by 3.2% (albeit largely due to a base effect, with investment having fallen by 8.3% in 2016). Fixed investment spending did not show

Table 1 GDP based on the expenditure approach (annual percentage changes; constant prices)

	2016	2017				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross domestic product	**3.3**	3.1	3.4	3.5	3.5	**3.4**
Final consumption of households and non-profit institutions serving households	**2.7**	3.3	3.4	3.9	3.7	**3.6**
Final consumption of general government	**1.6**	-0.5	-0.1	0.0	1.6	**0.2**
Gross fixed capital formation	**-8.3**	-0.3	-4.0	10.3	7.6	**3.2**
Exports of goods and services	**6.2**	8.1	-0.3	3.8	5.6	**4.3**
Imports of goods and services	**3.7**	7.6	-0.8	5.9	3.2	**3.9**

Source: SO SR.

a clear trend in 2017, increasing in two quarters and falling in two quarters. Infrastructure investment is usually strong towards the end of the year, when projects are being brought to completion, but in 2017 it softened. The general government sector, as the principal investor in infrastructure (among a group of sectors that includes also non-financial corporations, financial corporations, and households/non-profit institutions serving households), recorded lower infrastructure investment in 2017, at current prices, than in the previous year. This weaker pace of public investment may be attributed to the slow absorption of European Union funds under the current EU programming period. Net trade had a positive impact on GDP growth, with year-on-year export growth (4.3%) outpacing the increase in imports of goods and services (3.9% year on year).

Domestic demand was driven by household consumption, supported by an increase in household disposable income growth. That increase, stemming from further improvement in the labour market situation, contributed to growth in consumption expenditure on non-essential goods and services (for example, health, recreation, communications, and education).

Export growth in 2017 was responsive to rising demand from Slovakia's trading partners and accelerated to 4.3% for the year as a whole. While goods exports increased strongly, services exports recorded more moderate growth. Car exports increased in real terms by 5.1% year on year, and concerning territories, exports to EU markets went up.

Export performance as measured by the exports-to-GDP ratio increased in 2017 by 0.8 percentage point, to around 101%. Import intensity also increased, but more moderately (by 0.4 percentage point). As for the openness of the Slovak economy, measured by exports and imports of goods and services as a percentage of GDP, it rose by 3.4 percentage points, to 189.2%.

1.2.3 The labour market

The economy's solid growth was reflected in labour market developments, which maintained their favourable trend of recent years. Employment growth was accompanied by falling unemployment (reflecting also an increased number of long-term unemployed persons finding work), while the unemployment rate reached an all-time low. The average nominal wage increased as a result of growing labour demand that increased wage competition among employers.

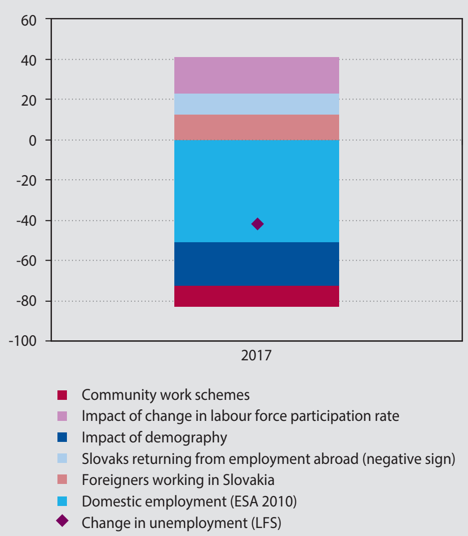
Employment

Employment as defined in the ESA 2010 increased in 2017 by 2.2% year on year (or 51,200 in headcount terms), after rising by 2.4% in the previous year. The sectors that accounted for most of that growth were industry, services and trade. The construction sector also saw job growth, for a second successive year. Public sector employment[2] increased by 0.9% (1.3% in 2016), with the education sector making the largest contribution to that growth. According to the Labour Force Survey, the number of Slovak citizens working abroad fell significantly in 2017, by 6.5% year on year (or 10,400). This was a reversal of the situation in 2016, when the number of Slovaks working abroad increased. The number of foreigners working in Slovakia is rising from year to year, and in 2017 it increased by 12,400. The inflow of foreign workers and the rising labour participation rate are serving to moderate labour market tightening. Nevertheless, the number of employers that report labour shortages is continuing to increase.

Unemployment

According to the Labour Force Survey (LFS), the number of unemployed fell in 2017, year

Chart 6 Contributions of key labour market variables to the change in unemployment (number of persons; seasonally adjusted)



Sources: SO SR and NBS calculations.

2 *Including also the health and education sectors.*

on year, by 15.8% (or 42,000), and so the unemployment rate fell by 1.6 percentage point, to 8.1%. The registered unemployed rate, based on the records of the Central Office of Labour, Social Affairs and Family, averaged 7.1% in 2017, which was 2.4 percentage points lower than in 2016. The fall in the unemployment rate was related to rising demand for labour, which was reflected in a marked reduction in long-term structural unemployment. The rate also reflected a drop in the economically active population, the first for five years. The fall in the working-age population stems from adverse demographic trends.

Wages and labour productivity

Average annual nominal wages growth increased significantly in 2017, to 4.6%, and the average nominal wage rose to €954. This robust wage growth stemmed from a labour market situation in which labour shortages remain an issue and are putting upward pressure on wages in several sectors. The sectors recording the strongest annual wage growth in 2017 – above the national average – were professional, scientific and technical activities (8.3%), transportation and storage (6.2%), arts, entertainment and recreation (6.0%), education (5.9%), manufacturing (5.4%), and public administration and defence (5.2%). Compared with nominal wages, real wages (adjusted for inflation, which in 2017 was positive for the first time in three years) recorded lower growth (3.3%). Growth in Labour productivity (GDP per employee) was higher in 2017 than in previous years, but continued to lag behind wage growth. On the one hand, such a dynamic could support price growth; on the other hand, it could weigh on the economy's competitiveness.

1.2.4 Financial results

According to the SO SR's preliminary data, the non-financial corporate sector made an aggregate profit of €10.2 billion in 2017, representing a year-on-year fall of 2.2% (after an increase of 1.1% in 2016). The principal negative contributions to that result were from profit declines in the following sectors: real estate brokerage (-19%); electricity, gas, and steam supply (-16%); and manufacture of motor vehicles (-11%). The largest positive contributions were from profit increases in wholesale and retail trade (26%) and manufacture of metals and metal products (10%).

1.2.5 Balance of payments

Current account

In Slovakia's balance of payments for 2017, the current account showed a deficit of €1.8 billion, caused mainly by a fall in the trade balance sur-

Table 2 Labour market indicators

	2016	2017				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Nominal wages (index)	**3.3**	3.5	4.8	5.2	5.2	**4.6**
Real wages (index)	**3.9**	2.6	3.8	3.6	3.3	**3.2**
Nominal compensation per employee – ESA 2010 (index)	**2.3**	3.1	4.0	5.0	3.9	**4.1**
Labour productivity – GDP per employee (index; current prices)	**0.5**	1.8	2.3	2.6	3.1	**2.5**
Labour productivity – GDP per employee (index; constant prices)	**0.9**	0.9	1.6	1.0	1.2	**1.2**
Employment – ESA 2010 (index)	**2.4**	2.1	2.1	2.3	2.2	**2.2**
Unemployment rate – LFS[1)] (percentages)	**9.7**	8.7	8.1	8.0	7.7	**8.1**
Nominal unit labour costs (ULCs)[2)]	**1.4**	2.2	2.4	4.0	2.7	**2.8**

Source: SO SR and NBS calculations.
1) Labour Force Survey.
2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 2010) at constant prices.

plus. The ratio of the current account deficit to GDP (at current prices) therefore increased by 0.6 percentage point year on year, to more than 2.1%.

The services balance surplus was higher in 2017 than in the previous year due mainly to positive trends in the economy. The items that recorded the largest increases in income were *business services* and *transportation*. Under *travel,* income growth stemmed mainly from an increase in the number of foreign tourists. The primary income balance was in surplus, supported by the settlement of funds from EU Structural Funds. The deficit on the secondary income balance remained almost unchanged year on year, as both income and expenditure increased.

Table 3 Current account and capital account balances (EUR billions)

	2016	2017
Goods	1.6	0.7
Exports	67.1	71.6
Imports	65.5	70.9
Services	0.5	0.8
Primary income balance	-1.9	-2.0
Secondary income balance	-1.4	-1.3
Current account	**-1.2**	**-1.8**
Current account-to-GDP ratio (percentage)	-1.5	-2.1
Capital account	**1.6**	**0.8**

Source: SO SR and NBS calculations.

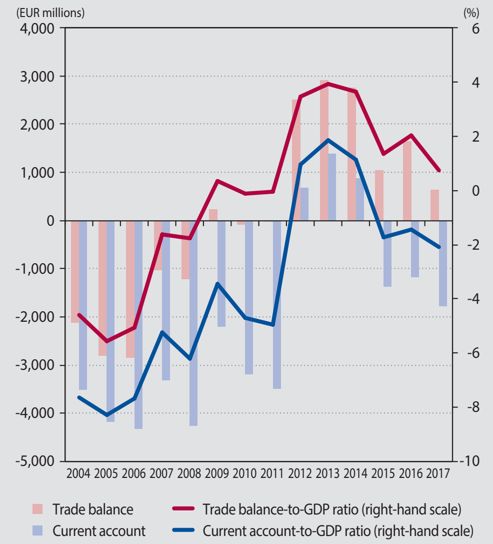
The capital account surplus fell significantly year on year, owing to the lower absorption of EU funds.

Financial account

The balance of payments financial account recorded a net inflow of €3.8 billion in 2017, which compared with 2016 represented an increase of €3.4 billion.

In the direct investment balance of the financial account, the net inflow was caused by the inflow of debt capital arising from the economic activity of firms. This increase was supported by inflows in the form of non-residents' investments in equity capital. The net inflow in the portfolio investment balance resulted from sales of Slovak debt securities to non-residents. The inflow in the other investment balance was supported mainly by an increase in the amount of funds deposited with NBS.

Chart 7 Current account balance and trade balance



Sources: SO SR and NBS calculations

External debt of Slovakia

The balance of payments transactions in 2017 resulted in Slovakia's external debt increasing by €20.3 billion year on year, to €94.1 billion. Since, however, the increase in the gross external debt was accompanied by an increase in foreign assets, the net external debt increased

Table 4 Financial account balance (EUR billions)

	2016	2017
Direct investment	0.5	-1.7
Portfolio investment and financial derivatives	4.2	-0.6
Other investment	-5.1	-2.0
Reserve assets	0.0	0.5
Financial account	**-0.4**	**-3.8**

Source: NBS.
Note: The figures for the financial account balances are shown in net terms (assets minus liabilities), with a positive value denoting a net outflow and a negative value denoting a net inflow.

only slightly. According to preliminary data, Slovakia's ratio of gross external debt to GDP (at current prices) for 2017 was 110.8%, which was 19.9 percentage points higher than the figure for 2016. The ratio of short-term external debt to gross external debt increased by 10.0 percentage points in 2017, to 48.8%. Debt per capita rose by €683 in 2017, to €15,613 as at the end of the year.

Nominal and real effective exchange rates[3]

The nominal effective exchange rate (NEER) depreciated in 2017 by an average of 0.2%, year on year, after appreciating by 1.5% in the previous year. Depreciation against the Czech koruna made the largest contribution (0.3 percentage point) to the NEER's decrease. The koruna began appreciating again after the Czech central bank, on 6 April 2017, ended the exchange rate floor that it had been using as an additional instrument for easing monetary policy. Depreciation against the Polish zloty and Russian rouble also had a negative impact on the NEER, 0.2 percentage point in each case. On the other hand, the NEER's overall drop was moderated by the contributions of appreciation against the Chinese renminbi and British pound, 0.3 percentage point in each case. The pound's weakening stemmed from the continuing high uncertainty surrounding the process of the United Kingdom's withdrawal from the European Union.

Looking at the real effective exchange rate (REER) based on the producer price index, it depreciated in 2017 by an average of 1.4% year on year, which compared with the previous year's depreciation was higher by 0.8 percentage point. In comparison with the NEER, the REER weakened more as a result of the negative inflation differential against Slovakia's most important trading partners. After taking into account trading partners' weights in the REER, the negative inflation differentials that influenced the REER's depreciation the most were those with China (contribution -0.3 percentage point), Hungary and Poland (both contributions -0.2 percentage point). With the REER's estimated equilibrium path continuing to appreciate – due largely to equilibrium labour productivity growth being higher in Slovakia than in its trading partners – the REER's depreciation in 2017 increased its undervaluation. The more undervalued REER continued to support the price competitiveness of domestic firms.

2 Eurosystem monetary policy

2.1 Monetary policy operations

An ample degree of monetary stimulus remains necessary

In 2017 the European Central Bank (ECB) maintained the expansionary monetary policy stance that it had been pursuing since 2014. Acting within the monetary policy operational framework, the ECB implemented monetary policy through the purchasing of selected assets as well as through policy rates (including the particularly significant negative deposit facility rate), with the aim of stimulating an increase in inflation to its medium-term target.

The ECB's Governing Council left the key ECB interest rates unchanged throughout 2017, with the main refinancing rate standing at 0.00%, the marginal lending facility rate at 0.25%, and the deposit facility rate at -0.40%. Given the environment of abundant liquidity, resulting mainly from Eurosystem asset purchase programmes and unconventional longer-term refinancing operations, short-term money market interest rates remained just above the deposit facility rate. Thus, in 2017, the interest rate on the deposit facility continued to determine the level of the shortest market rates.

The ECB continued to use non-standard measures in the form of asset purchase programmes (APP) as the principal means of implementing monetary policy. These measures complemented the standard open market operations, stand-

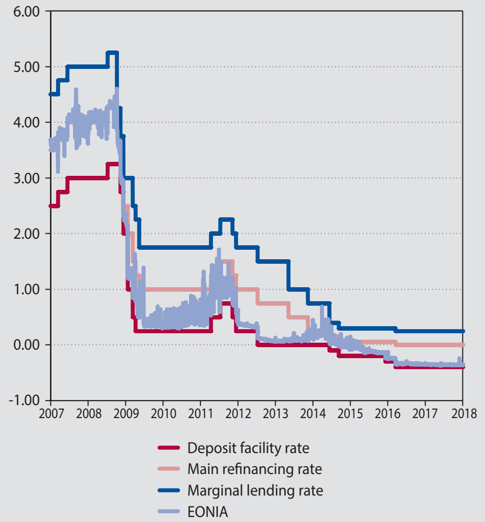
3 *The methodology used to calculate the effective exchange rate is published on the NBS website at https://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Methodology.pdf.*

ing facilities, and minimum reserve requirements. Open market operations comprise main refinancing operations (MROs), fine-tuning operations and structural operations, as well the non-standard longer-term refinancing operations (LTROs). The standing facilities consist of the deposit facility and the marginal lending facility (MLF). Back in 2014 the Governing Council responded to undesirably low inflation by adding an APP to its array of monetary policy instruments. The APP comprising the third covered bond purchase programme (CBBP3) and the asset-backed securities purchase programme (ABSPP) was expanded in 2015, to include the public sector purchase programme (PSPP), and then again in 2016, to include the corporate sector purchase programme (CSPP). These purchase programmes, together with the second series of targeted long-term refinancing operations (TLTRO II) have minimised the volume of MRO allotments. In other words, the implementation of monetary policy through non-standard instruments has almost entirely replaced implementation through standard instruments.

The Governing Council's forward guidance is also playing an important role in monetary policy implementation; it indicates the timing of further monetary policy steps, including expectations for the future path of key ECB rates and for the asset purchase programmes. If market participants are able to anticipate monetary policy, their uncertainty diminishes and therefore the effectiveness of monetary policy increases.

In accordance with the Governing Council's decision of December 2016, the APP net purchases made by the Eurosystem continued at a monthly pace of €80 billion in the first quarter of 2017. Following the Governing Council's decision of March 2017 net purchases were reduced to the new monthly pace of €60 billion from April to December. In 2017, with a view to ensuring the continued smooth implementation of the APP, the minimum remaining maturity of securities eligible for the PSPP was decreased from two years to one year, and purchases of securities with a yield to maturity

Chart 8 Key ECB interest rates (percentages)



Source: Bloomberg.

below the deposit facility rate were allowed to the extent necessary.

Monetary policy decisions of the ECB in 2017

The notable recovery of economic activity in 2017 provided the grounds for a substantive, albeit moderately expressed, adjustment to the Governing Council's forward guidance. In June 2017 the Governing Council decided to remove the reference to further rate cuts from its forward guidance.

Although the euro area's economic growth was stable in the third quarter, inflation was still below its medium-term target. In response, the Governing Council decided in October 2017 that the APP would continue at a reduced monthly pace of €30 billion (down from €60 billion) from January to September 2018, i.e. it extended the programme by a further nine months. The Governing Council also decided that the main refinancing operations and the three-month longer-term refinancing operations would continue to be conducted as fixed rate full allotment tender procedures at least until the end of the last reserve maintenance period of 2019.

ECB TO DEVELOP A NEW EURO UNSECURED OVERNIGHT INTEREST RATE

Money market rates are important and widely used in the financial system. As a result they become the basis for reference interest rates, i.e. benchmarks. In the European financial market, the benchmarks are EURIBOR (euro interbank offered rate) and EONIA (euro overnight index average), which are determined on the basis of data from the private financial sector. Since 2013 the Financial Stability Board (FSB) has been heading a worldwide reform of benchmark interest rates, including EURIBOR and EONIA. The main purpose of the reform is to establish interest rate benchmarks on the basis of uniform principles that, among other issues, correspond as far as possible to transaction data and not only to subjective judgement, which is the current basis for determining EURIBOR. However, the administrator of the European benchmarks, the European Money Markets institute (EMMI), has encountered significant difficulties in implementing the reform requirements, to an extent that is raising doubts about the future existence of EONIA.

In view of the particular importance of the overnight benchmark, not only for financial markets, but also for monetary policy implementation, the ECB's Governing Council announced in September 2017 that it would develop a euro unsecured overnight interest rate. The new rate will complement existing benchmark rates and serve as a backstop reference rate. The ECB plans to develop the rate by the end of 2019 and to base it entirely on transactions in euro that are reported in accordance with the ECB's money market statistical reporting.

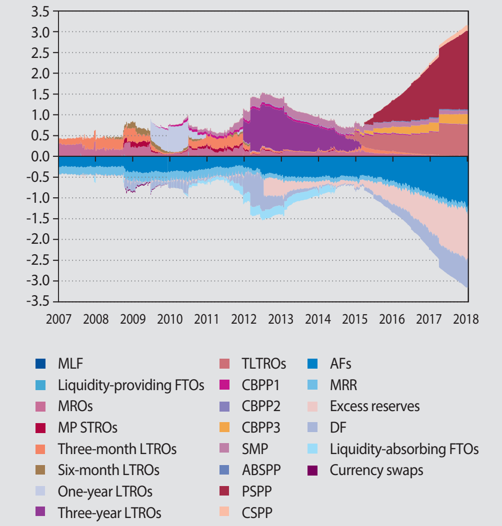
Apart from this, in accordance with the issued recommendations of the FSB benchmark reform, the ECB together with the Financial Services and Markets Authority (FSMA), the European Securities and Markets Authority (ESMA) and the European Commission announced the setting-up of a working group to identify and adopt risk-free interest rates (RFRs). This rate should serve as an alternative to existing benchmark rates for instruments with low market risks (such as interest rate risk or liquidity risk). Together with the ECB's new overnight rate, the risk-free rate should broaden the quality of the range of benchmark rates.

Liquidity provided to the banking sector through monetary policy operations and purchase programmes

The increase in the European banking sector's liquidity position in 2017 was almost entirely due to the APP. Outstanding liquidity reached an all-time high of €3.1 billion, of which APP purchases accounted for 76% and unconventional longer-term refinancing operations for 24%. The share of MROs in the outstanding liquidity provided to banks by the Eurosystem fell from 2% in 2016 to almost zero in 2017, amid an increase in other funding sources and a decline in the need for MRO funding. The last TLTRO-II operation was settled in March 2017 and saw a gross take-up of €233 billion. Although the amount borrowed by European banks through refinancing operations increased in absolute terms, its share of the outstanding liquidity declined owing to the substantial APP liquidity inflows. The sizeable liquidity surplus was reflected in the recourse to the deposit facility, which was almost 40% higher at the end of 2017 than at the end of the previous year. As a result of this situation there was muted demand for interbank market funding.

APP purchases on the Eurosystem's balance sheet at the end of 2017 amounted to almost €2.4 billion, of which PSPP purchases accounted for almost 80%. Národná banka Slovenska has been participating in the PSPP and the CBPP3. Its

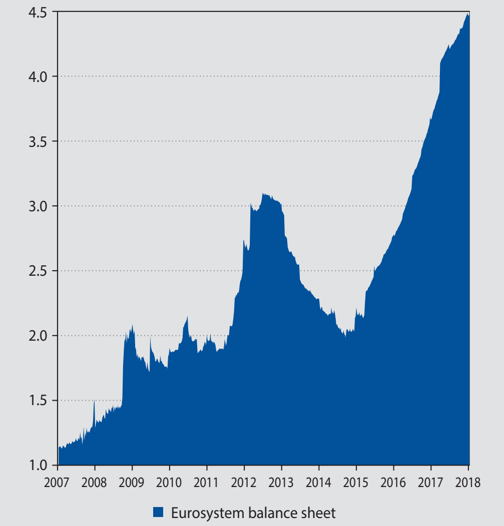
Chart 9 Liquidity position of the Eurosystem (EUR trillions)



Sources: ECB, Bloomberg and NBS calculations.
Note: MLF – marginal lending facility; FTOs – fine-tuning operations; MROs – main refinancing operations; MP STROs – special-term refinancing operations with a maturity of one maintenance period; LTROs – longer-term refinancing operation; TLTROs – targeted longer-term refinancing operation; CBPP – covered bond purchase programme; SMP – Securities Markets Programme; ABSPP – asset-backed securities purchase programme; PSPP – public sector purchase programme; CSPP – corporate sector purchase programme; AFs – autonomous factors; MRR – minimum reserve requirement; DF – deposit facility.

monetary policy portfolio holdings under these purchase programmes stood at around €20 billion at the end of 2017, representing a year-on-year increase of 30%.

Chart 10 Total assets of the Eurosystem (EUR trillions)



Sources: Bloomberg, NBS calculations.

Impact of monetary policy operations on the Eurosystem balance sheet

Total assets on the Eurosystem's balance sheet amounted to €4.5 trillion at the end of 2017, which was €0.8 trillion higher compared with the end of 2016. Since the onset of the financial crisis in 2007, when the Eurosystem's total assets stood at €1 trillion, the ECB has taken a variety of standard as well as non-standard monetary policy measures, which have had a direct impact on the size and composition of the Eurosystem balance sheet. These measures have been crucial to ensuring the smooth transmission of accommodative monetary policy.

3 Financial market developments

The global economic recovery gathered momentum during the course of 2017. A key factor behind this trend was an increase in investment demand amid improving business sentiment. A related effect was the acceleration in foreign trade growth. Euro area countries also contributed to the overall picture of robust economic activity growth. The favourable path of macroeconomic indicators is reducing the direct risks to financial stability. On the other hand, the improving economic performance is accompanied by trends whose cumulative effect is contributing to a build-up of imbalances that could be a threat to financial stability in the medium term. The most significant trend is the continuing increase in public and private sector debt at a time of relaxed lending conditions. The persisting low interest rate environment is expected to continue stoking risk appetite in the financial sector, thereby leading to an increase in financial system vulnerability. The risk of sudden asset repricing in financial markets is significant. A wave of repricing could be triggered by an unexpected course of monetary policy normalisation, a deviation of macroeconomic trends from their expected path, or an escalation of geopolitical tensions.

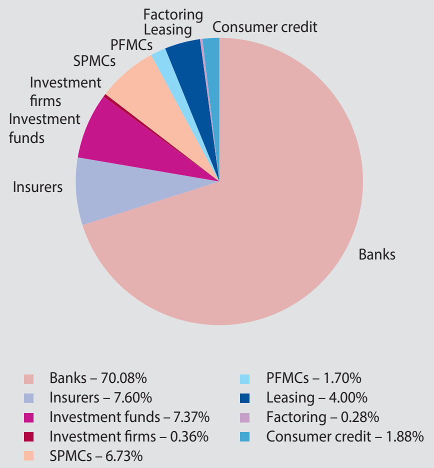
Slovakia was also experiencing an expansionary phase of the business cycle in 2017. The domestic economy maintained stable growth of 3.4%. GDP growth in the second half of the year was driven mainly by domestic demand and only to a small extent by foreign demand. The buoyancy of the Slovak labour market was reflected in domestic household consumption, which increased more than in any other year of the post-crisis period. The current outlook envisages that the economic upswing will continue and that gradual overheating of the economy could be expected. Such a scenario could pose a risk to financial stability, particularly since the exceptionally favourable labour market developments cannot be assumed to be sustainable over the long term. In some sectors of the economy, firms are already reporting shortages of skilled labour. This shortage is putting upward pressure on wage growth, which is reaching a post-crisis peak.

The banking sector's profit for 2017, net of one-off effects, was largely unchanged in year-on-year terms. Disregarding several one-off effects that had a positive impact on banks' profitability, mainly in 2016, the sector's aggregate net profit increased in 2017 by 8.1% year on year. The profit including those effects was substantially higher in 2016 than in 2017. The main drag on bank profits was the decline in net interest margins, while the largest positive contribution came from the low credit risk costs.

The banking sector strengthened its capital position in 2017, thanks largely to a marked increase in the retained earnings ratio. In 2017 banks retained 42% of their aggregate profit for 2016, while in each year from 2014 to 2016 the figure was less than 10%. The sector's total capital ratio increased in 2017, from 18.0% to 18.6%. As for the common equity Tier (CET) 1 capital ratio, it rose from 15.8% to 16.2%. At the same time, increasing capital adequacy was observed across EU banking sectors.

Household credit growth remains the most significant trend in the domestic financial sector.

Chart 11 Financial sector assets as at 31 December 2017, broken down by market segment



Source: NBS.
Note: PFMCs – pension fund management companies; SPMCs – supplementary pension management companies. The data for insurance undertakings are as at September 2017, the most recent available.

In absolute terms, year-on-year growth in the stock of retail loans maintained its upward trend in the first eight months of 2017, reaching an all-time high in August; it then remained flat or declined slightly in the final four months. In August the year-on-year increase stood at €3.55 billion, while in December it slightly declined to €3.45 billion. Annual credit growth reached a post-crisis high of 13.7% in March 2017 and then fell gradually over the rest of the year, down to a still-high 11.7% in December. Credit growth remained higher in Slovakia than in any other EU country. The favourable macroeconomic situation and low interest rates were conducive to retail loan growth, while demographic factors and gradual saturation of the market had the opposite impact. The strong growth in retail loans resulted in a further increase in household debt, to a level that was the highest in central and eastern European region. The rate of credit growth was the highest in both the region and the euro area. Thus, the most significant risk is a marked increase in the household sector's vulnerability to any economic deterioration.

As for loans to non-financial corporations (NFCs), their year-on-year growth rate was high during

2017, at 10% for the first three quarters and then a more moderate 7% for the last quarter. Furthermore, compared with other EU countries, Slovakia continued to have one of the highest rates of NFC credit growth. Demand for loans was supported by the improving situation in the corporate sectors, bright outlooks for economic growth, and the low interest rate environment. As a result, corporate credit growth was relatively broad-based across several key economic sectors and also loan categories. Most of the banks that are engaged in corporate financing reported an increase in this activity. Credit standards were eased to only a very limited extent in 2017, and then only in the form of a reduction in interest margins against a backdrop of competition from other banks and healthy economic outlooks.

NBS was responsive to developments in the domestic financial sector, most notably in regard to significant increases in private sector credit and indebtedness. In response to prolonged growth in household and corporate credit, it was decided in 2016 to raise the countercyclical capital buffer (CCyB) rate to 0.5% with effect from 1 August 2017. In view of persisting trends in the credit market and the amplification of several imbalances, the CCyB rate will be raised further, to 1.25%, with effect from 1 August 2018. NBS has also been focused on setting prudential lending requirements. An NBS decree laying down conditions for the provision of housing loans (Decree No 10/2016) entered into force on 1 January 2017. These conditions were followed by minimum requirements for consumer loans, laid down in an NBS decree that entered into force from 1 January 2018 (Decree No 10/2017).

The volume of investment in Slovak government bonds continued its downward trend in 2017. The share of these securities in the Slovak banking sector's total assets had been falling almost continuously since 2012 and ended 2017 at just under 10%, an all-time low that was similar to the pre-crisis level of 2008. The sector's holdings of foreign government bonds also declined. Among the foreign government bonds in the sector's total bond portfolio, Polish bonds had the largest share (3.6%), followed by Italian bonds (3.4%) and Czech bonds (2.3%). The share of Italian government bonds declined owing to sizeable disposals of these securities, while the shares of Polish and Czech bonds increased moderately.

In 2017 the debt servicing capacity of firms and households continued to be boosted by positive macroeconomic conditions. The non-performing loan (NPL) ratio for the banking sector's housing loan book fell from 2.3% in December 2016 to 1.9 % in December 2017, and the NPL ratio for consumer loans decreased less significantly, from 8.7% to 8.1%. The NPL ratio for loans to non-financial corporations improved markedly in 2017, from 6.5% to 5.2%. The improvement in credit quality as measured by the NPL ratio is, however, a typical feature of business cycle expansion. From the perspective of credit risk, it is necessary to follow debt indicators such as the debt-to-GDP ratio or debt burden, which provide key pointers to the vulnerability of the household and NFC sectors to any deterioration in the economic situation. All debt indicators were improving in 2017 given the economy's favourable trends and bright outlooks.

The insurance sector's net after-tax profit for the first nine months of 2017 stood at €135 million. This year-on-year increase was attributable to several factors[4], most notably one-off effects from mid-2016 (dividend payments from subsidiaries and the reversal of provisions for litigation). The gross profit unadjusted for one-off effects was higher by 3.6% year on year, while the adjusted profit rose by 30%. This result was supported by improvements in both the technical result and financial result. The net after-tax profit adjusted for one-off effects increased by a more modest 8.4%; when adjusted for one-off effects, however, it was lower by 12% (owing mainly to an increase in costs related to the special levy on the insurance sector). The insurance sector's Solvency Capital Requirement (SCR) coverage ratio remained largely unchanged in 2017, with a level of 208% at the end of the first quarter and 211% at the end of September. Compared with its level at the end of September 2016, however, the SCR coverage ratio was quite significantly lower. But despite that year-on-year decline, the insurance sector's solvency remained adequate. In life insurance, gross premiums written increased by 6% year on year, while benefits paid fell by 2%. These trends contributed to an increase in the aggregate technical result. The financial result

4 *The part of this section covering the insurance sector is based on data as at September 2017; the corresponding year-end data were not available by the cut-off date for this publication.*

for the life insurance segment also increased. The annualised return on investments in life insurance (excluding unit-linked insurance) continued to fall, and consequently the sector only just managed to cover the average guaranteed interest rate in life insurance contracts. Non-life insurance also saw an increase in gross premiums written (6% year on year). The combined ratio in non-life insurance improved in 2017, to stand at 88.6% as at September. The principal risks to the insurance sector continue to be the low interest rate environment and strong competition in motor insurance (resulting in this insurance class having a combined ratio that is close to the profit/loss threshold).

In the second pillar of the Slovak pension system, the net asset value (NAV) of old-age pension funds amounted to €7.6 billion at the end of 2017, representing a year-on-year increase of €657 million. This increase had several causes, the most important of which was the first of a series of hikes in the rate of mandatory contributions to the old-age pension scheme, from 4.0% to 4.25% of the assessment base. The amount of credited contributions was also boosted by increases in the number of savers in the scheme and in the nominal income of Slovak households. The returns on old-age pension funds accounted for just under one-quarter of the increase in their net asset value. Looking at the breakdown of the aggregate NAV by fund type, the share of index funds increased at the expense of bond funds, owing mainly to a shift in investment preferences among savers. Although changes in the core composition of old-age pension funds in 2017 were less significant, a number of long-lasting trends came to an end. The end of 2017 saw a minor outflow of bond instruments from bond pension funds, which brought to an end a multi-year trend of bond component growth in these types of pension fund. There was also a halt to the prolonged rising trend in equity exposure, as the share of equity holdings in the NAV of equity funds remained unchanged during the period under review, at just below 70%. The parameters of maturity and duration showed a stable or, in some individual funds, downward trend and appeared to reflect to some extent a gradual shift in expectations regarding the future path of interest rates. Looking at the breakdown of the bond fund portfolio by issuing sector, the share of corporate bonds increased to an all-time high and government bonds remained the largest component. The overall weighted average nominal return on old-age pension funds for 2017 was slightly lower compared with the previous year. Given the increase in inflation, the year-on-year difference in real terms was even more pronounced. The average annual nominal return on bond pension funds as at 31 December 2017 was 1.1%, and the return on the other three types of old-age pension fund ranged between 5.5% and 6.7%.

In the third pillar of the Slovak pension system, the supplementary pension scheme, the number of scheme participants recorded its highest increase in ten years and totalled 757,000 at the end of the year. The aggregate net asset value of supplementary pension funds increased by a robust 12.5%, to stand at €1.92 billion at the end of 2017. The net inflow to these funds during the period under review accounted for three-quarters of the increase in their NAV. Looking at the composition of their assets, supplementary pension funds with a balanced investment strategy saw a continuation of the trends of the previous period, most notably an increase in the equity component and fall in the bond component. As for growth-focused funds, the compositions of their portfolios did not change significantly. The weighted average residual maturity of bond securities began to fall during the year, thereby ending an unbroken upward trend. In the aggregate bond portfolio of supplementary pension funds, the share of corporate bonds increased (at the expense of government bonds). The average annual nominal return on all supplementary pension funds was 3.7% as at 31 December 2017. Growth funds earned an average return of 8.2%, balanced funds, 3.3%, and conservative funds and distribution funds together, 0.2%.

In Slovakia's investment fund sector, 2017 was marked by a surge in demand for investment fund products. The total net asset value of domestic and foreign investment funds marketed in Slovakia increased by €1.032 billion in 2017, which was close to an all-time high. The rally was concentrated in domestic investment funds, which accounted for around two-thirds of the total NAV growth. The acceleration of inflows to foreign investment funds was less significant. Household investments made up the largest share of new inflows to domestic investment funds, and insurers also made a sizeable contribution to the overall purchases of investment fund shares/units. Among other financial intermediaries, however, there were relatively high net redemptions of fund shares/units. In the breakdown of investment funds by type, mixed funds recorded the largest increase in both NAV and net inflows, followed, some way behind, by real estate funds. Bond funds, by contrast, experienced quite elevated net redemptions. Equity funds earned the highest average annual return, 7.3%, ahead of mixed funds (2.4%), real estate funds (2.4%), bond funds (0.5%) and money market funds (-1.5%).

NBS ACTIVITIES

B

1 Monetary policy implementation and investment portfolio management

1.1 Minimum reserve requirements

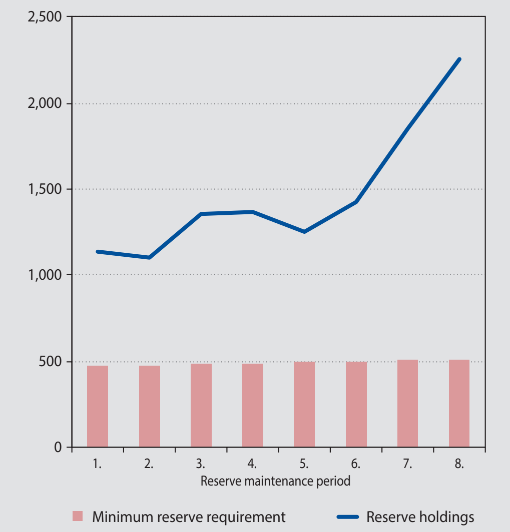
Under Eurosystem rules, all euro area credit institutions are required to hold a certain amount of funds as minimum reserves in their current accounts at their national central bank (NCB). Institutions currently have to hold a minimum of 1% of the sum of eligible balance sheet items that constitute the basis for calculating the reserve requirement ('the reserve base'). This requirement must be met on average over the maintenance period.

At the beginning of 2017 a total of 28 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 13 banks incorporated in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions. The number of branches of foreign credit institutions fell to 14 in June 2017, when ZUNO BANK AG, pobočka zahraničnej banky ceased operations in Slovakia. With effect from 1 August 2017 Prima banka Slovensko a.s. acquired Sberbank Slovensko a.s., which was dissolved without liquidation on 31 July 2017. As a result of these developments, the number of banks fell to 12 and the total number of credit institutions fell to 26. This situation remained unchanged for the rest of the year. In June, the branch of one foreign credit institution underwent a name change: AKCENTA, spořitelní a úvěrní družstvo, pobočka Slovensko became Československé úvěrní družstvo, pobočka Slovensko.

Excess reserves continued to be remunerated at a negative rate in 2017, as they had been since 11 June 2014. That rate was maintained at -0.40% throughout 2017. None of the three key ECB interest rates were adjusted during the year.

Before 2015 the ECB's Governing Council held its monetary policy meetings on a monthly basis, but since then it has held them at six-week intervals. This change resulted in the reserve maintenance period being extended to either 42 or 49 days, and therefore the number of periods per year fell to eight. The calendar for reserve maintenance periods is aligned with the schedule for the Governing Council's monetary policy meetings so that the start of the period falls on the potential effective date of any change in the monetary policy settings.

Chart 12 Reserve holdings and minumum reserve requirements in 2017 (EUR millions)



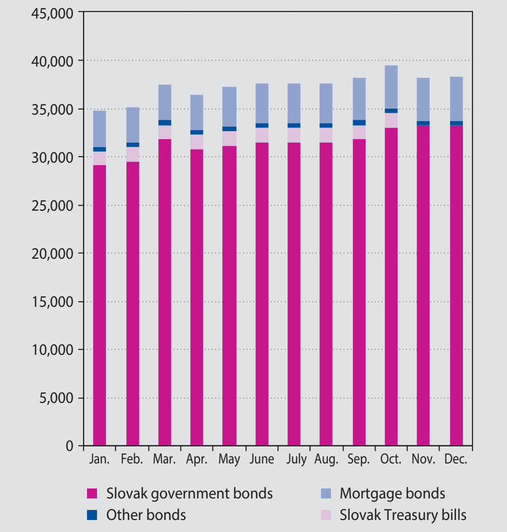
Source: NBS.

The average amount of reserves that banks were required to hold with Národná banka Slovenska in 2017 was €490.28 million, around 5.5% more than in 2016. In 2017 the amount of banks' actual reserve holdings at NBS was, on average, 199.1% higher than the reserve requirement, while in 2016 it had been 170.7% higher. The aggregate reserve holdings were highest in the eighth and seventh maintenance periods.

1.2 Eligible assets

The collateral eligibility criteria for Eurosystem credit operations underwent several changes in 2017. One of the most significant changes concerned the eligible assets known as non-marketable debt instruments backed by eligible credit claims (DECCs). In 2017 this class was extended

Chart 13 Composition of Slovak eligible assets in 2017 (EUR millions)



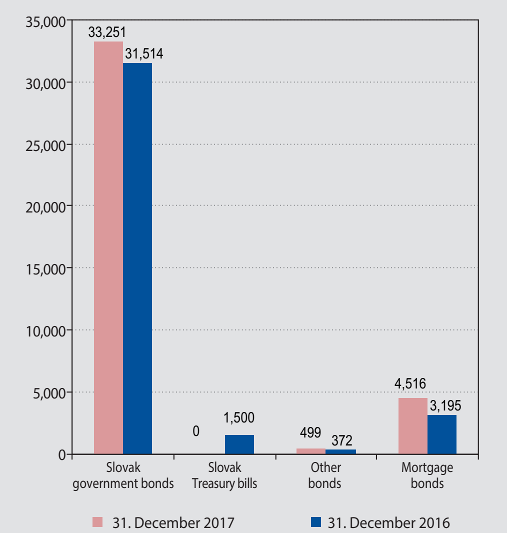
Source: NBS.

to include DECCs with negative cash flows for coupon payments. Marketable assets with negative cash flows were also included in the list of eligible assets. A second change was the introduction of minimum disclosure requirements for covered bond ratings issued by credit rating agencies accepted in the Eurosystem credit assessment framework (ECAF). A third change was the updating of haircuts for marketable assets. In the case of eligible asset-backed securities, graduated haircuts based on their Weighted Average Life were introduced in 2017.

The value of Slovak marketable eligible assets was, on average, 3% higher in 2017 than in 2016. The total nominal value of these assets at the end of 2017 was €38,267 million, which compared to its level at the end of the previous year was higher by €1,111 million. Slovak government bonds constituted almost 84.4% of these eligible assets, and mortgage bonds 11%. No Slovak Treasury bills were included in the list of eligible assets at the end of 2017, following the maturity of the last outstanding issue of such bills in November 2017.

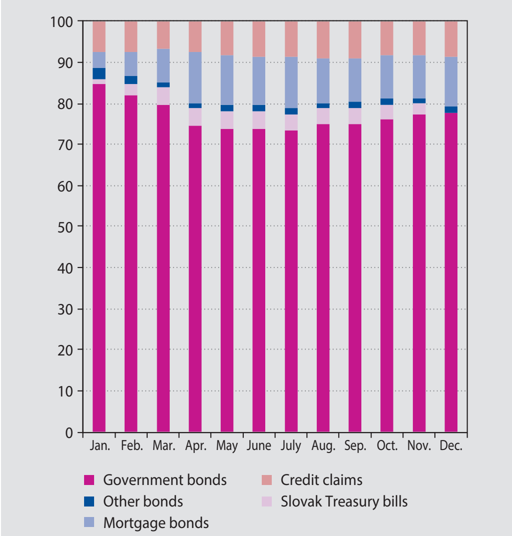
The value of collateral pledged by domestic banks in Eurosystem operations was the same at end-2017 as at end-2016 and the averages for these years also remained similar. The average share of government debt securities in the collateral pledged in 2017 was 80%, down from 91% in 2016. The decline in their share was the largest recorded by any component. The average share of mortgage bonds increased from 3% to 10%, and that of credit claims increased to around 8%, thus maintaining its upward trend. As a share of the total collateral pledged, collateral issued in the domestic market fell from 93%

Chart 14 Composition of Slovak eligible assets as at end-December 2017 and end-December 2016 on (EUR millions)



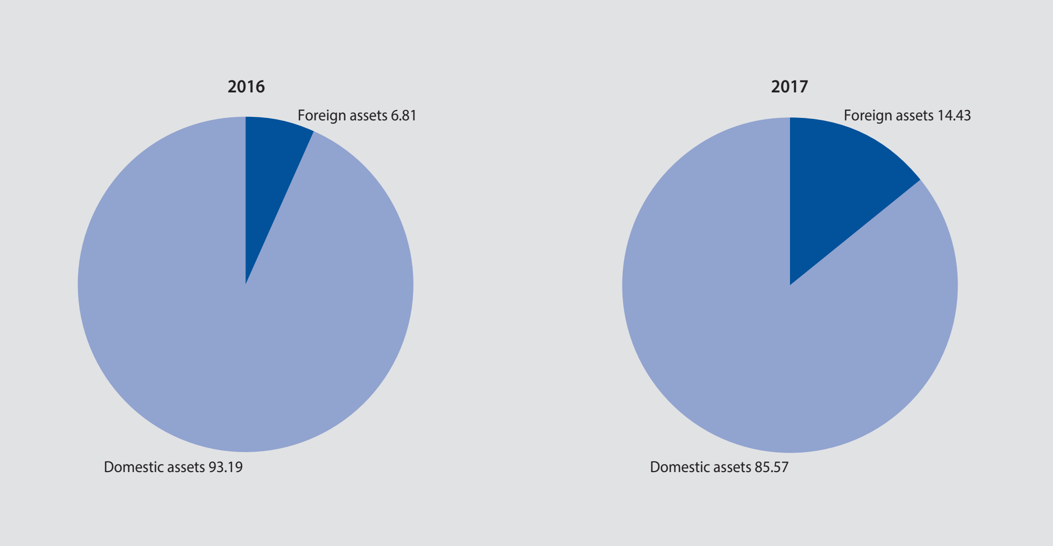
Source: NBS.

Chart 15 Use of eligible assets in 2016 (percentages)



Source: NBS.

Chart 16 Use of domestic and foreign eligible assets (percentages)



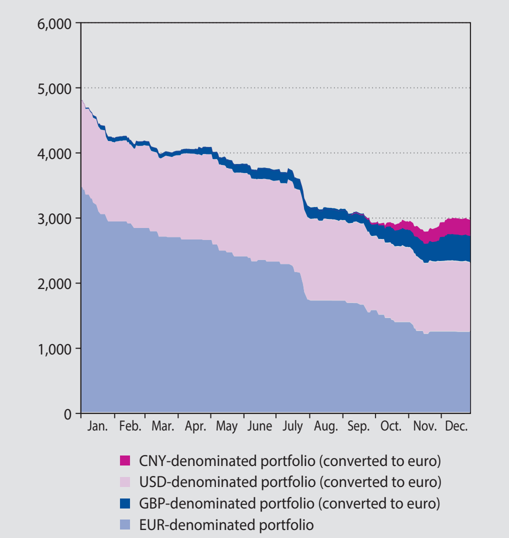
Source: NBS.

in 2016 to 86% in 2017. Slovak counterparties use a collateral pool to manage their collateral.

1.3 INVESTMENT PORTFOLIO MANAGEMENT

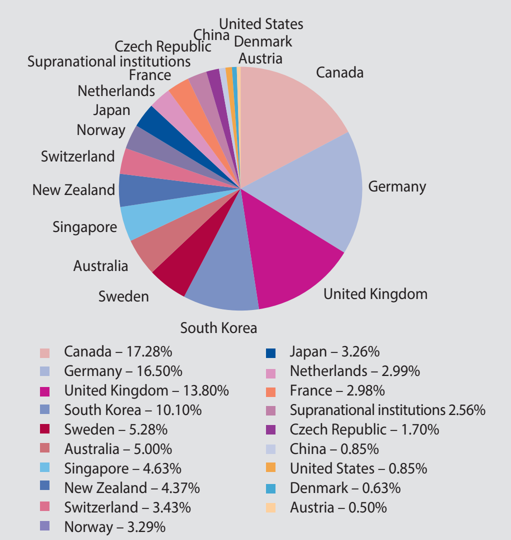
Národná banka Slovenska manages its investment portfolios with the aim of ensuring that the portfolios contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at 31 December 2017 was €3 billion (at corresponding exchange rates and with securities at nominal value). Chart 17 shows how the total value of these portfolios changed during the year, while Chart 18 shows their geographical breakdown. In managing its portfolios, NBS applies the

Chart 17 Nominal value of securities holdings in NBS investment portfolios in 2017 (EUR millions)



Source: NBS.

Chart 18 Total value of NBS investment portfolios as at 29 December 2017 broken down by country of issuer



Source: NBS.

principles laid down in the NBS investment strategy approved in 2008 and updated in 2014 and 2016. In the case of the euro-, US dollar- and GBP-denominated portfolios, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. After taking into account hedging costs and other costs and revenues on the liability side, the returns on the euro-, US dollar- and GBP-denominated portfolios in 2017 were 0.44%, 0.66%, and 1.24%, respectively. In late 2017 NBS established a strategic portfolio of Chinese government bonds unhedged against interest rate risk and exchange rate risk.

2 Financial stability and financial market supervision[5]

2.1 Financial stability

In 2017 Národná banka Slovenska (NBS) issued six macroprudential decisions concerning cyclical and structural systemic risk in the context of financial stability. Four of these decisions concerned the setting of the countercyclical capital buffer (CCyB) rate. They included NBS Decision No 8/2017, which was significant from a financial stability perspective in that it raised the CCyB rate to 1.25% with effect from 1 August 2018 (this was the second time that the rate had been raised). The reason for the hike was the continuing strong growth in credit to the domestic non-financial sector, which had reached an all-time high. That growth was spurred mainly by the upward impact of low interest rates on demand for loans among households and non-financial corporations (NFC). Signs of the financial cycle's expansionary phase began to appear in other areas, too. Property market pressures built up, private sector indebtedness increased and default rates fell for most types of loan.

Another two decisions concerned banks in Slovakia identified as 'other systemically important institutions' (O-SIIs). The list of O-SIIs is reassessed on an annual basis, and the 2017 assessment did not result in any changes to its composition. There were, however, changes to the settings of the O-SIIs' additional capital buffer requirements in the form of O-SII buffers and systemic risk buffers.

In response to rising credit demand, NBS has adopted two decrees that are significant in terms of macroprudential policy. Decree No 10/2016, which entered into force at the start of 2017, enabled the recalibration of certain parameters and established a legal framework for supervising compliance with prudential rules for the provision of housing loans. Decree 10/2017, which entered into force at the start of 2018, laid down conditions for the provision of consumer loans. Its purpose is to reduce risks to consumers (in particular the risk associated with rising household debt) and risks to firms providing consumer loans, as well as to stem the build-up of financial market imbalances. Through these decrees, the principles contained in a previous NBS Recommendation on risks related to market developments in retail lending became binding on all providers of the respective types of loan.

2.2 Financial market supervision

The banking sector

As at 31 December 2017 a total of 12 banks and 14 foreign bank branches were operating in Slovakia. Under the Single Supervision Mechanism (SSM), consisting of the ECB and the national competent authorities of participating Member States, all banks and foreign bank branches operating in Slovakia are categorised as either:

- significant, supervised directly by the European Central Bank in close cooperation with Národná banka Slovenska (they comprise: Tatra banka, a.s.; Všeobecná úverová banka, a.s.; Slovenská sporiteľňa, a.s.; Československá obchodná banka, a.s. and ČSOB stavebná sporiteľňa, a.s., both part of the KBC Group; UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky; Komerční

5 *For further details, see the Report on the Activities of the Financial Market Supervision Unit of Národná banka Slovenska in 2017, which is published (in Slovak only) on the NBS website at http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf*

banka, a. s., pobočka zahraničnej banky; and mBank S.A., pobočka zahraničnej banky);
- less significant, supervised directly by NBS (they comprise the other banks and foreign bank branches operating in Slovakia).

In proceedings concerning credit institutions that operate in Member States participating in the Single Supervisory Mechanism (SSM), the ECB has exclusive power to issue and withdraw authorisations and to assess notifications of the acquisition or transfer of qualifying holdings in credit institutions except in cases of resolution and the situations referred to Article 15 of Regulation (EU) No 1024/2013. The ECB and NBS cooperate closely in proceedings concerning credit institutions established in Slovakia. With respect to less significant banks, however, the ECB is not involved in the fitness and propriety assessments of persons nominated to be a member of a bank's management or supervisory board, or to be a senior employee or chief internal control/audit officer at a bank.

In 2017 the ECB exercised decision-making power in a total of 54 proceedings concerning credit institutions established in Slovakia. The majority of these proceedings were fit and proper assessments of persons nominated to be a member of a significant bank's management board or supervisory board.

In 2017 Národná banka Slovenska exercised decision-making power in 41 proceedings concerning credit institutions established in Slovakia. Mostly these were decisions to issue prior approval for the election of a member of a bank's management board or supervisory board, or for the appointment of a senior employee, authorised representative or chief internal control/audit officer at a bank. Among the most important taken by NBS in decision in 2017 were the issuance of prior approval for the acquisition of Sberbank Slovensko, a.s. by Prima banka Slovensko, a.s. which took place with effect from 1 August 2017.

In 2017 a total of nine thematic on-site inspections were conducted in banks and foreign bank branches in Slovakia. As part of this activity, NBS assessed one application for a change in use or change of internal risk measurement models in order to calculate credit risk capital requirements. The on-site inspections focused mainly on the quality of the institution's risk management system, paying particular attention to credit risk, market risk, operational risk, interest rate risk in the banking book, the corporate governance system, the liquidity risk management system, and the level of protection against money laundering and terrorist financing.

Off-site supervision of banks and foreign bank branches includes not only regularly processing statements and reports, monitoring prudential business indicators, conducting analyses, and communicating with the supervised entities and their home supervisors, but also includes joint activities under the ECB's direct and indirect supervision and work in supervisory colleges for individual banks.

As regards banks in Slovakia that fall under the ECB's direct supervision, the ECB conducts the supervision through joint supervisory teams (JSTs) that include NBS supervisory staff. An annual assessment for each bank is produced by its respective JST in accordance with SSM processes. Under off-site supervision, assessments of ex ante and ex post notifications are reviewed in accordance with Commission Delegated Regulation (EU) No 529/2014. Validation reports on banks' internal models and internal audits are then reviewed, and banks are evaluated for compliance with requirements and recommendations arising from decisions on the use of internal models.

Payment services and electronic money issuance

As at 31 December 2017 there were ten payment institutions operating in the Slovak financial market, six of which were authorised to provide payment services without limitation and four of which were authorised to provide payment services in a limited scope.

One electronic money institution was operating in the Slovak financial market in 2017.

A total of 26 decisions concerning payment services were issued during 2017. These were mostly decisions to issue prior approval for the election or appointment of a member of statutory body or supervisory board, or an internal control officer.

As at the end of 2017 a total of 39 foreign payment institutions were registered with NBS on the basis of a notification of their intention to provide payments services, and 34 foreign electronic money institutions were registered on the basis a notification of their intention to issue, offer and exchange electronic money or to provide payment services in Slovakia without establishing a branch.

Three comprehensive on-site inspections of payment institutions were completed in 2017 after commencing in 2016. A further two were still ongoing at the end of the year, and their main purpose was to review and assess the payment services system, compliance with business conditions, the internal control/audit system, selected risks and the risk management system, the system for preventing money laundering and terrorist financing and the fulfilment of obligations in this area, and compliance with legislation of general application.

Foreign exchange activity

As at 31 December 2017 there were 1,158 entities in Slovakia holding a foreign exchange authorisation. In 2017 NBS issued 13 decisions in this area, 11 of which were decisions to issue a foreign exchange authorisation. Two sanction proceedings that resulted in the imposition of a fine were completed in 2017.

In 2017 a total of 11 on-site inspections were conducted in regard to the provision of foreign exchange services (i.e. the purchase of foreign cash currency in exchange for euro cash, and vice versa), primarily in order to check compliance with the Foreign Exchange Act. Another two on-site inspections concerned the reporting obligation under the Foreign Exchange Act.

Non-bank lenders

As at 31 December 2017 there were 35 non-bank lenders in the Slovak financial market, 33 of which were authorised to provide consumer loans without limitation, one was authorised to provide consumer loans in a limited scope, and one was another lender authorised to provide credits and loans other than consumer loans.

In 2017 NBS issued 50 decisions concerning non-bank lenders, including two authorisations to provide consumer loans and other consumer credit, four prior approvals for the return of an authorisation, one prior approval for the termination of a lender's business on grounds other than the withdrawal of the lender's authorisation, and 31 prior approvals for the election or appointment of a member of a lender's statutory body or supervisory board or a lender's internal control officer.

In 2017 NBS conducted three comprehensive on-site inspections of non-bank lenders. The inspections had the following main objectives: to review the lenders' compliance with the Consumer Credit Act in the provision of consumer loans and compliance with the terms under which the lender is authorised to carry on business; to verify information provided during the authorisation proceedings for the provision of consumer loans; and to assess the lenders' internal control/audit systems, selected risks and risk management system, and system for preventing money laundering and terrorist financing.

The insurance sector

As at 31 December 2017 the Slovak financial market included 15 insurance undertakings established in Slovakia and operating under the EU's Solvency II regime, 22 branches of insurance or reinsurance undertakings established in another EU Member State, and one insurance undertaking in the process of being wound down after being placed in receivership with effect from 15 June 2017. Regarding insurance activities performed by insurance and reinsurance undertakings established in another EU Member State, NBS issued 30 notifications in 2017, and regarding insurance activities performed by insurance and reinsurance undertakings established in Slovakia, it issued eight.

In 2017 the NBS Financial Market Supervision (FMS) Unit issued four decisions, mostly prior approvals for various matters under the Insurance Act. It also conducted two sanction proceedings related to the insurance sector.

In one particularly notable case of sanction proceedings, the FMS Unit decided on 14 June 2017 to place the insurance undertaking Rapid Life životná poisťovňa a.s. in receivership. This decision was taken on the grounds that the undertaking had seriously and repeatedly infringed the rights of its customers to due and timely payment of benefits under insurance contracts and that it had failed to act in good faith and take due care in regard to its obligation to meet customers' claims arising under insurance contracts. The purpose of the receivership was to ascertain the actual state of all aspects of the undertaking's activities and management, to protect its customers against the infringement of their rights and against the escalation of any damage already caused to them, and to ensure the settlement of the customers' claims against the undertaking. In respect of the rights and legally protected interests of Rapid Life's customers, the operations of Rapid Life in terms of their scope, duration, nature and repercussions constituted a social danger of such gravity that the FMS Unit deemed the placing of the undertaking in receivership to be warranted and necessary.

On 2 August 2017 the receiver in this case, JUDr. Irena Sopková, filed a criminal complaint against Rapid Life over suspected crimes committed by the undertaking during the course of its activities.

The receivership terminated when Rapid life was declared bankrupt on 29 January 2018.

Národná banka Slovenska has also filed a criminal complaint against Rapid life.

Since the introduction of the new regulatory regime (Solvency II) in the insurance sector in 2016, NBS's prudential supervision activities in the sector have focused on intensifying its contracts with insurance undertakings subject to supervision and on providing them with consultancy services and guidance. In 2017 NBS held multi-day working meetings with senior executives and staff members performing key functions at all 15 insurance undertakings operating in Slovakia under the Solvency II regime. Off-site supervision of the sector included checking insurance undertakings' compliance with organisational structure requirements under relevant legislation. In addition, meetings were held with representatives of both insurance undertakings and their external auditors in order to discuss the operation of insurance undertakings under the Solvency II regime and the principal risks in the insurance sector.

NBS conducted one comprehensive on-site inspection and two thematic on-site inspections in the insurance sector in 2017. One of the thematic inspections focused on an insurer's preparedness for using a partial internal model to calculate the Solvency Capital Requirement in accordance with the Solvency II Directive. The other examined an insurer's financial situation.

The pension fund sector

In 2017 the Slovak financial market included six pension fund management companies (PFCMs) managing a total of 19 pension funds (constituting the old-age pension scheme, the second pillar of the pension system), and four supplementary pension management companies (SPMCs) managing a total of 15 supplementary pension funds (the third pillar). Depository activities under the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act were performed by five banking institutions.

In 2017 the FMS Unit issued 11 decisions concerning the old-age pension scheme and 17 decisions concerning the supplementary pension scheme. It also initiated sanction proceedings against one SPMC.

Off-site supervision of the sector was largely concerned with checking the compliance of PFMCs, SPMCs and depositories with their information obligations towards NBS and with evaluating these data. The focus was on independent verification of whether the financial assets held in pension fund portfolios were correctly priced and on the consistency between financial assets acquired for particular pension fund portfolios and the provisions of the Old-Age Pension Scheme Act and Supplementary Pension Scheme Act.

As regards the old-age pension scheme (second pillar), a total of six thematic on-site inspections of PFMCs were conducted in 2017. These inspections focused on the PFMCs' procedural compliance in establishing and managing savers' pension accounts in which the number of pension funds' pension points are recorded and the PFMCs' compliance with their obligation to send savers' statements of their personal pension accounts. Also in 2017, one comprehensive on-site inspection was initiated at a PFMC, focusing on the company's activities and on whether it was managing pension funds in accordance with the

Old-Age Pension Scheme Act and other legislation of general application.

As for the supplementary pension scheme, the comprehensive on-site inspection of one SPMC that began in 2016 was completed in in 2017.

Financial intermediation and financial advisory services

As at 31 December 2017 there were 38,754 entities registered in the Register of Financial Agents and Advisers (REGFAP). In 2017 a total of 25 new entities from different sectors were entered in the REGFAP, with the FMS Unit granting authorisations to act as independent financial agent to 24 legal entities and an authorisation to act as a financial adviser to one legal entity. During the year, 55 independent financial agents were deregistered.

Also newly entered in the REGFAP in 2017 were 302 financial intermediaries from other Member States operating in the insurance and reinsurance sector and four intermediates from other Member States engaged in the provision of housing loans; these intermediaries were authorised to conduct business in Slovakia under the freedom to provide services without being established in the country. One other intermediary established in Slovakia and operating in the insurance and reinsurance sector was entered in the REGFAP in 2017.

In 2017 NBS accepted and processed 6,501 electronic applications made by financial agents and financial institutions to register subordinate agents in, deregister them from, or change their entry in the REGFAP.

In 2017 the FMS Unit initiated 48 proceedings concerning financial intermediation and financial advisory services, while 37 first-instance decisions issued by the FMS Unit in this area came into effect.

Off-site supervision of this sector in 2017 focused on checking the compliance of supervised entities with their requirement to report to NBS periodically via an internet application, on checking all financial agents for whether they submitted a quarterly report for the period from 1 January 2017 to 31 March 2017, and, in respect of the termination of contracts under which a subordinate financial agent is established, on checking whether the application to deregister the agent from the REGFAP was submitted within thirty days after the expiry of the contract. As part of its off-site supervision, NBS examined whether the complaints filed by natural persons and legal entities against financial market participants providing financial intermediation and financial advisory services were justified.

Comprehensive on-site inspections were initiated at four financial agents of legal entities in 2017, and two of these inspections were not completed by the end of the year.

The securities market

As at the end of 2017 there were 20 investment firms operating in the Slovak financial market. In four cases the NBS had not authorised the firm to conduct business in Slovakia on grounds that it had not demonstrated to NBS the technical, organisational and staffing preparedness required for the performance of the authorised activities.

The FMS Unit issued 26 decisions concerning investment firms in 2017, most of them prior approvals, such as for the election of management board members and changes to the registered offices of investment firms. A total of 134 notifications were issued about the intention of foreign investment firms to provide investment services in Slovakia.

The FMS Unit approved 32 securities prospectuses, one securities note, and ten securities prospectus supplements.

The FMS Unit received 94 notifications from other EU countries' supervisory authorities concerning the approval of securities prospectuses or prospectus supplements and sent 12 such notifications to another EU country's supervisory authority.

The FMS Unit issued four decisions concerning the approval of mandatory takeover bids made to issuers of shares traded on the Bratislava Stock Exchange (BSSE), a regulated market. It also issued four decisions concerning the granting of prior approval for the election of a member of the BSSE management board and two decisions concerning the approval of changes to the stock exchange's regulations.

In regard to the securities market, the FMS Unit conducted five sanction proceedings and issued two decisions to impose sanctions (fines), which did not enter into force in 2017.

Off-site supervision in the securities market was exercised over 16 domestic investment firms and eight investment firms operating in Slovakia through branches in accordance with the EU's second Markets in Financial Instruments Directive (MiFID II) (four of which were operating through tied agents). Off-site supervision was also exercised over banks and foreign bank branches authorised to provide investment services. The main priorities of this off-site supervision were to monitor supervised entities' compliance with financial rules and to assess their financial situation and risk profiles.

Off-site supervision also covered the BSSE and the central securities depositories Centrálny depozitár cenných papierov SR (CDCP) and Národný centrálny depozitár cenných papierov (NCDCP). Issuers of securities admitted to trading on the BSSE were also subject to off-site supervision in order to check their compliance with information obligations vis-à-vis Národná banka Slovenska via the NBS-maintained Central Register of Regulated Information (CERI). These issuers numbered 69 as at 31 December. Proceedings were initiated against two issuers for not submitting complete annual financial reports for 2016. These issuers were at the same time barred from trading on the BSSE regulated open market.

Two on-site inspections of investment firms were initiated in 2017. One was a comprehensive on-site inspection and another one was thematic on-site inspection focused on the provision of investment services, investment activities, and ancillary services to customers.

One thematic on-site inspections initiated in 2016 was completed in the second quarter of 2017. Conducted at a banking entity, the inspection focused on whether investment services, investment activities, and ancillary services were being provided to customers in accordance with the Securities Act, and on the performance of depository activities for the supplementary pension scheme and investment fund sector.

A further three on-site inspections were commenced at banking entities in 2017 and concerned mainly the provision of investment services, investments activities, and ancillary services to customers in accordance with the Securities Act. One of these inspections was completed in the fourth quarter of 2017.

The investment fund sector

A total of seven investment fund management companies (IFMCs) were operating in the Slovak financial market in 2017. Three of them were issued with five authorisations to establish an investment fund. In regard to this sector, the FMS Unit issued 80 decisions in 2017 concerning prior approvals and five decisions authorising an IFMC to establish an investment fund. The FMS Unit received 80 notifications from European standard funds concerning the intention to make a public offering of their securities in Slovakia and 36 notifications from foreign fund management companies concerning the marketing of their securities in Slovakia via private offerings, under the freedom to provide services.

In 2017 off-site supervision was exercised over the seven domestic IFMCs, which as at the end of the year were managing a total of 66 standard funds (including five funds established under the Collective Investment Act and managed by a foreign IFMC) and 21 alternative investment funds, and over five banking entities performing depository activities in accordance with the Collective Investment Act. Off-site supervision focused on checking IFMCs and depositories for their compliance with reporting obligations towards NBS, as well as on assessing the riskiness of executed transactions and the impact of these transactions on funds' global risk exposure and on the pricing of funds' assets.

Three thematic on-site inspections initiated in 2016 were completed in 2017, and a further three thematic on-site inspections were initiated in the fourth quarter of 2017. The inspections focused on checking the application of remuneration principles, compliance with ESMA Guidelines on sound remuneration policies under the Alternative Investment Fund Managers Directive (AIFMD), and on checking the implementation of the compliance function in regard to measures strategies and procedures for risk identification and internal audit.

2.3 FINANCIAL MARKET REGULATION

Národná banka Slovenska cooperates with the Slovak Ministry of Finance and Ministry of Labour, Social Affairs and Family in the drafting of primary and secondary laws concerning the financial market, issues generally binding rules on the implementation of legislation concerning the financial market, and drafts and publishes methodological guidelines, opinions and recommendations explaining the application of primary and secondary legislation relating to supervised entities and their activities.[6]

The banking sector

In 2017 NBS, in cooperation with the Slovak Ministry of Finance, drafted an amendment to the Banking Act in order to establish a new regulatory framework that would amend and revise the mortgage banking sector. One aim of the amendment was to address risks identified in recent years by NBS, by mortgage banks as issuers of mortgage bonds, by credit rating agencies in the process of assigning credit ratings to mortgage bond programmes, and by professional investors from the ranks of private investors and international financial institutions. Another aim was to respond to ongoing EU-level activities concerning setting of harmonised quality standards for covered bonds, to the need to support long-term funding in the Slovak banking sector, and to preparations for new qualitative liquidity requirements.

NBS also drafted an amendment to the Housing Loan Act in order to supplement provisions on the indebtedness indicator limiting the debt-to-income ratio, and it issued a Decree laying down detailed provision on the assessment of borrowers' ability to repay consumer loans.

Besides that decree, NBS issued a further five decrees in 2017 in relation to the banking sector.

One of them was a decree laying down national discretions for institutions under a separate regulation. These discretions allow Member States or national competent authorities to introduce rules different from those laid down in the underlying regulation, the Capital Requirements Regulation (CRR). In this decree, national discretions are specified on the basis of experience gained in the area of financial market regulation (taking into account current financial market conditions), but mainly on the basis of an ECB Guideline on the exercise of options and discretions in relation to less significant institutions.

Another two decrees were issued in response to the need for aligning terms laid down in similar legislation and to incorporate NBS specialist departments' requirements based on insights from practice: one was a decree on the elements of a notification required to identify other persons who, by virtue of their relationship to the notifier, have a special relationship with a bank or foreign bank branch; the other was a decree on the elements of a bank's application for prior approval to establish a foreign branch.

Another decree concerned reporting by banks and foreign bank branches. The decree was designed to ensure NBS's ongoing collection of data from these entities for supervisory purposes, using reporting templates that NBS may require from banks and foreign bank branches in addition to EU reporting requirements (FINREP/COREP); it also added some new templates. Also related to this area was a decree on reporting for supervisory purposes by consumer credit providers. The decree followed on from the adoption of an amendment to the Consumer Credit Act which expanded the reporting obligation towards NBS to include all consumer credit providers, irrespective of any restrictions on the scope of their lending.

Payment services and electronic money issuance

In 2017 NBS, in cooperation with the Slovak Ministry of Finance and the Slovak Banking Association (SBA), drafted an amendment to the Payment Services Act for the purpose of enacting the EU's second Payment Services Directive (PSD 2) into Slovak law; the amendment entered into force in the second half of 2017.

The main aims of PSD 2 are to increase transparency and facilitate innovation in payment services, to ensure an efficient and effective payments market, to introduce new elements that will make electronic payments easier to use (particu-

6 *For more information on documents about the specific segments of the financial market covered in this chapter see the NBS website at https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/legislativa/legislativa*

larly with regard to low-cost internet and mobile payments), to implement new security measures aimed at reducing payment security risks, and to strengthen consumers' rights and increase their awareness in order to increase their protection.
As regards the practical application of PSD 2, for example in the area of third party access, a number of joint meetings were held in 2017 between representatives of NBS and the Czech central bank, Česká národní banka (ČNB), for the purpose of exchanging information. In this context, NBS published information on its website about third party payment account access.[7]

Non-bank lenders

In 2017 NBS drafted a decree laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans. Entering into force on 1 January 2018, the decree supplied the missing link in the regulatory provisions aimed at supporting sound and sustainable lending to households. Unlike the NBS recommendation on risks related to market developments in retail lending, which had been in effect up to that point, the new decree applies not just to the banking sector, but to all consumer credit providers. The decree specifies the methodology for calculating a loan applicant's debt service-to-income ratio, requirements for the evidencing and verification of a borrower's income, and limits on the terms of consumer loans.

Insurance

In 2017 NBS issued three decrees concerning the insurance sector. These amended three existing decrees by introducing provisions related to the Act on criminal liability of legal entities. In all three cases, a criminal record check certificate was added to the documents that the respective legal entities are required to produce in order to demonstrate their eligibility to have a qualifying holding in an insurance or reinsurance undertaking (required as part of the procedure for demonstrating compliance with conditions for the granting of an authorisation to conduct insurance business or an authorisation to conduct reinsurance business), and in order to demonstrate their eligibility to apply for prior approval under Article 77(1)(a) to (c) of the Insurance Act.

Regarding the levy on certain insurance premiums imposed under Article 68 of the Insurance Act, NBS issued in 2017 a Methodological Guideline which provides explanatory details to insurance undertakings, insurance undertakings from other EU Member States, and branches of foreign insurance undertakings about the setting of the levy base, the procedure to be followed in the case of payment arrears or overpayment, and how to demonstrate to NBS and the Ministry of Finance that the levy has been paid.

In March 2017 NBS published three recommendations that transpose the following EIOPA guidelines: Preparatory Guidelines on product oversight and governance arrangements by insurance undertakings and insurance distributors; Guidelines on the loss-absorbing capacity of technical provisions and deferred taxes; and Guidelines on the application of outwards reinsurance arrangements to the non-life underwriting risk sub-module.

In October 2017 NBS published on its website a statement on product criteria for the drawing-up of key information documents (KIDs), the aim being to give insurance undertakings providing insurance-based investment products guidance in the production of the KIDs, which they are required to provide policyholders before entering into an insurance contract with them.

The pension fund sector

As regards the supplementary pension scheme (third pillar of the pension system), NBSs' regulatory activity in 2017 centred on the participation of FMS Unit representatives in a working group tasked with drafting an amendment to the Supplementary Pension Scheme Act. The group was established by the Slovak Ministry of Labour, Social Affairs and Family and the purpose of the amendment was to enact into Slovak law the EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP II). The amendment's main provisions relate to the organisation and governance of supplementary pension management companies (specifically the introduction of new key functions within the corporate governance structure), as well as to SPMCs' information obligation – with further details given about the information that SPMCs are required to provide scheme participants before the participant signs the contract, when the participant is contributing to the scheme, and before the participant reaches retirement age or during the period

7 *http://www.nbs.sk/sk/dohlad-nad-financnym-trhom-prakticke-informacie/upozornenia-a-oznamenia/informacia-narodnej-banky-slovenska-k-pristupu-tretich-stran-k-platobnemu-uctu*

when the participant is drawing benefits under the scheme.

As part of its legislative remit, NBS also drafted and issued a Decree on risks, risk management and measurement systems, and the calculation of global exposure and counterparty risk in supplementary pension funds.

Regarding the old-age pension scheme (second pillar), NBS cooperated in the drafting of secondary legislation issued by the Slovak Ministry of Labour, Social Affairs and Family. The activity concerned amendments to a decree on offer letters and to a decree on information about pensions governed by the Old-Age Pension Scheme Act.

Financial intermediation and financial advisory services

A substantial amendment to the Financial Intermediation and Financial Advisory Services Act was published in the Slovak Collection of Laws in 2017 and entered into force on 23 February 2018. The amendment enacted into Slovak law the EU Directive on insurance distribution (replacing the 2002 EU Directive on insurance mediation), implemented provisions based on insights from practice, and enacted some parts of the EU's Mortgage Credit Directive into Slovak law (concerning cross-border financial intermediation or financial advisory services in respect of the provision of housing loans). The overall objective of the amendment is to protect consumers entering into agreements under which financial services are provided.

The securities market

Regarding the securities market, 2017 began with NBS and the Slovak Ministry of Finance continuing their close cooperation on an amendment to the Securities Act that would enact MiFID II into Slovak law. The amendment entered into force on 1 November 2017, with the exception of certain provisions scheduled for entry into force at a later date in accordance with MiFID II, some on 3 January 2018 and others on 3 September 2019. This amendment marked the culmination of the national transposition process for MiFID II, and by the end of the year the new provisions were being applied and interpreted in practice.

NBS also cooperated with the Finance Ministry in drafting an amending act that would amend the Financial Market Supervision Act as well as certain other laws. The purpose of the amendment was to improve the legal framework so that supervised entities' annual contributions are set on a fairer basis, and to revise provisions concerning proceedings conducted before NBS and the bank's supervision of the financial market. A related aim was to establish a legal framework in Slovakia for the implementation of NBS's intervention powers granted by the EU's Regulation on key information documents for packaged retail and insurance-based investment (PRIIPs) and Regulation on Markets in Financial Instruments (MiFIR), with these powers due to come into effect in January 2018.

In June 2017 NBS, in agreement with the Slovak Ministry of Finance, issued an amendment to the NBS Decree on fees for acts performed by Národná banka Slovenska, as a response to matters arising from the relevent EU and Slovak legislation.

In the second half of 2017 NBS, as part of its regulatory remit, drafted and issued two amendments to decrees on reporting. One amendment concerned reporting by investment firms, the other dealt with reporting by stock exchanges and central securities depositories. The two decrees were produced in response to legislative changes resulting from the enactment of MiFID II into Slovak law and to supervised entities' reporting obligation to competent supervisory authorities under MiFIR and the respective delegated regulations.

In the year under review, the FMS Unit published on the NBS website[8] information about the application of exemptions under MiFID II based on the scope of trading in commodity derivatives. The information was published so that the application of these exemptions would be facilitated by having the entities concerned complete the forms and send them to NBS by a stipulated deadline.

The investment fund sector

As part of its legislative activities in 2017, NBS was involved in the drafting of an amending act which, besides amending the Securities Act, included amendments to the Collective Investment Act; it entered into force on 1 November 2017. The amendments included proposals made by NBS in cooperation with the Slovak Association of AssetManagement Companies

8 *http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/dohlad/trh-cennych-papierov/mifid-ii-a-mifir/dalsie-dokumenty/uplatnenie-vynimky-z-dovodu-vedlajsej-cinnosti-aa*

(SASS). These were aimed at enhancing investment fund activity in response to feedback from participants in the local capital market. One proposal, for example, was to allow certain types of fund to merge; another was to impose an obligation to draw up key investor information for investors in qualified investor funds.

2.4 BANK RECOVERY AND RESOLUTION

In April 2017 the Resolution Council held its 6th meeting. In addition to addressing the issue of contributions to the Single Resolution Fund in 2017, the Council approved the draft financial statements of the national resolution fund for 2016 and dealt with the following: changes to the Council's statutes and rules of procedure; draft simplified resolution plans; and criteria for the application of simplified obligations in regard to the production of resolution plans. The Council's 7th meeting took place in November 2017. Besides discussing developments in resolution plans and related methodologies in 2017, the Council noted efforts at the international level to establish a resolution framework for the insurance sector.

Also in 2017, the FMS Unit was monitoring developments in regard to the resolution of financial corporations other than credit institutions and investment firms.

In summer 2017 EIOPA and the ESRB, acting independently of each other, published documents in which they publicly presented their opinions on the possible benefits and form of a harmonised recovery and resolution framework for insurance undertakings in the EU.[9] These were initial steps towards the establishment of an EU legal framework that, among other things, should have a direct impact on insurance undertakings in Slovakia. The framework should be aimed at protecting policyholders and ensuring financial stability, and it should apply to all (re)insurance undertakings subject to the Solvency II regime.

2.5 FINANCIAL CONSUMER PROTECTION

In the field of financial consumer protection, the FMS Unit addressed several significant issues during the course of its methodological activities in 2017. In response to the judgment of the EU Court of Justice in Case C-42/15 Home Credit Slovakia, a.s., brought against Klára Bíróová, the FMS Unit issued an opinion on the implications of the judgment for consumer lending, in particular for the mandatory elements of consumer credit agreements. Based on the results of monitoring of advertising campaigns and promotional activities, the FMS Unit issued an opinion on certain questions concerning the price promotion of credit products. Its objective in doing so was to raise awareness about the obligations of supervised entities and about procedures that the FMS Unit deems to constitute good and bad practice.

On the basis of findings made during the course of supervision conducted in 2016 and 2017, a total of 44 sanction proceedings were initiated with the aim of providing redress to financial consumers in regard to services provided by supervised entities. In these proceedings, the FMS Unit had the authority not only to impose fines but also to take other measures in support of financial consumer protection, including the prohibition of the unfair commercial practice or the use of unfair contract terms and the issuance of injunctions to eliminate or rectify shortcomings identified. In 2017 five of the 44 proceedings resulted in decisions imposing sanctions and 39 in the issuance of sanction orders.

As regards supervision in the area of financial consumer protection, its focus in 2017 was on consumer lending in the banking and non-banking sector and on the sale of long-term investment products (including unit-linked insurance), with particular attention paid to the provision of products through independent financial agents. A key priority of off-site supervision was to monitor the advertising of financial services in print media, and on television and radio, the internet, and social media. The supervisory activity also included continuous monitoring for unauthorised providers of financial services.

In 2017 the NBS Financial Consumer Protection Supervision Section conducted two broad surveys, 21 investigations of unauthorised business, and 50 off-site examinations following on from broad surveys and analyses. There were also six new on-site inspections, focused on banks'

9 *EIOPA: Opinion to Institutions of the European Union on the Harmonisation of Recovery and Resolution Frameworks for (Re) Insurers across the Member States, July 2017.*
ESRB: Recovery and resolution for the EU insurance sector: a macroprudential perspective, August 2017.

provision of consumer loans and housing loans and on non-bank lenders' provision of consumer loans and other credit products.

In 2017 NBS received 2,364 complaints from financial consumers and other customers, almost the same number as it received in 2016. Out of the complaints that were justified, 60% resulted in the supervised entity rectifying or removing the shortcoming identified without being required to do so by NBS. The most common subject of complaint was again consumer loans provided by non-bank lenders (353 complaints, 15% of the total). In these cases, consumers raised objections to deficiencies in consumer credit agreements that could result in no charges or fees on the loans. A large number of complaints concerned the non-payment of windscreen repair/replacement claims under motor insurance policies (260 complaints, 11% of the total). There were also many complaints related to motor third party liability insurance (237 complaints, 10% of the total). Life insurance was the subject of 6% of all complaints, from which it remained clear that many financial consumers are still confusing unit-linked insurance policies with insurance saving plans and do not see such policies as long-term products. The number of complaints concerning financial intermediation remained largely unchanged. The extent and quality of information provided by financial intermediaries has long been a source of dissatisfaction among consumers.

Customer complaints against supervised entities are used by NBS as a source of information for on-site inspections and off-site supervision, as well as when bringing proceedings against supervised entities.

As regards its activities in 2017 aimed at increasing consumer financial literacy, NBS ran 44 courses, including modules for primary schools, secondary schools, and seniors. The courses took place at the bank's headquarters and, as part of the European Money Week initiative, at schools in different regions of Slovakia. The total number of participants in these educational events was more than 1,500. Also in 2017, in cooperation with the non-profit organisation Junior Achievement Slovensko, NBS published two financial literacy workbooks for secondary school students. As for training initiatives aimed at professionals, NBS held several lectures and workshops in 2017 on the provision and promotion of credit and insurance products, which focused on breaches of obligations in the area of financial consumer protection.

3 Issuing activity and currency circulation

3.1 Cumulative net issuance of euro cash

The cumulative net issuance (CNI)[10] of euro banknotes and coins in Slovakia had a total value of **€12.2 billion** as at 31 December 2017, with euro banknotes accounting for €12.04 billion of that amount. In year-on-year terms, the CNI increased in 2017 by 10.9% (or €1.2 billion), which was higher than the corresponding rate of increase in the previous year.

Compared with the value of Slovak koruna in circulation just before Slovakia's adopted the euro on 1 January 2009 (SKK 155.15 billion, i.e. EUR 5.15 billion), the CNI more than doubled over the next nine years. 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 around €11.8 billion[11] as at 31 December 2018. The value of euro banknotes issued in Slovakia was higher than the 'allocated' value by €219.3 million.

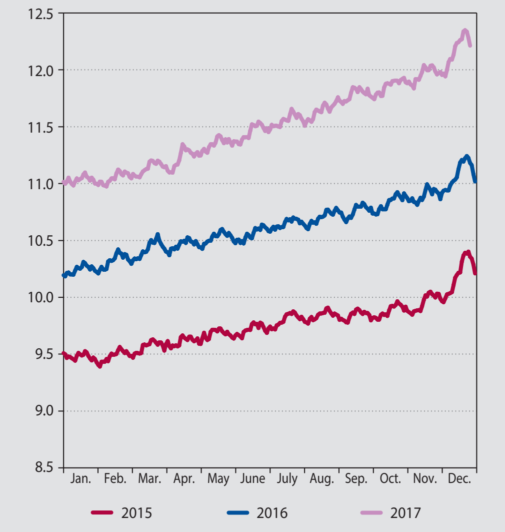
The CNI's daily trend in 2017 remained the same as in previous years, with the year-on-year difference ranging approximately between €0.6 billion and €1.2 billion (Chart 19). The daily CNI is usually highest in the pre-Christmas period, and in 2017 it peaked on 22 December (at €12.35 billion)

Euro banknotes accounted for almost the entire value of the CNI (98.6%) as at 31 December 2017,

10 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 2017 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 2017.

*11 The value of euro banknotes in circulation throughout the euro area as at 31 December 2017 was **€ 1 170.7 billion**, and the share of that amount issued by NBS according to the banknote allocation key was **1.0095% (€11.8 billion)**.*

Chart 19 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

but only for 19.8% of the CNI in terms of volume (representing 175.2 million banknotes). Euro coins, including euro collector coins, made up the remaining 80.2% (711.2 million coins). Looking at the denominational breakdown of the total number of banknotes included in the CNI, the €100 banknote had the largest share (27.1%)[12] for a second successive year. The €50 banknote's share was the largest from the introduction of the euro until 2015, but fell in the next two years, down to 22% in 2017.

The coins issued in the highest volumes are the two lowest denominations (1 and 2 cent). By the end of 2017 they made up almost (61%) of all the coins in the CNI, and their share is increasing year by year (in 2016 it stood at 59.8%). In value terms, however, the combined share of these two denominations was only 3.7%.

Table 5 Composition of the cumulative net issuance of euro banknotes and coins

Denomination	Cumulative net issuance				Percentage share	
	CNI as at 31 December 2017		Difference vis-à-vis 31 December 2016		CNI as at 31 December 2017	
	number	value (€)	number	value (€)	number	value (€)
€500	8,349,686	4,174,843,000.00	9,097	4,548,500.00	0.94	34.18
€200	424,002	84,800,400.00	-3,503	-700,600.00	0.05	0.70
€100	47,487,268	4,748,726,800.00	9,831,881	983,188,100.00	5.36	38.88
€50[1)]	38,544,698	1,927,234,900.00	2,314,858	115,742,900.00	4.35	15.78
€20[1)]	34,259,020	685,180,400.00	2,334,810	46,696,200.00	3.86	5.61
€10[1)]	37,261,032	372,610,320.00	3,443,762	34,437,620.00	4.20	3.05
€5[1)]	8,865,008	44,325,040.00	28,658	143,290.00	1.00	0.36
Total banknotes	**175,190,714**	**12,037,720,860.00**	**17,959,563**	**1,184,056,010.00**	**19.76**	**98.56**
€2	54,518,509	109,037,018.00	4,574,473	9,148,946.00	6.15	0.89
€1	21,072,445	21,072,445.00	47,573	47,573.00	2.38	0.17
50 cent	28,215,125	14,107,562.50	1,236,487	618,243.50	3.18	0.12
20 cent	32,827,446	6,565,489.20	-503,100	-100,620.00	3.70	0.05
10 cent	60,557,785	6,055,778.50	3,919,807	391,980.70	6.83	0.05
5 cent	81,710,675	4,085,533.75	6,803,315	340,165.75	9.22	0.04
2 cent	178,611,192	3,572,223.84	13,441,280	268,825.60	20.15	0.03
1 cent	253,318,066	2,533,180.66	27,386,053	273,860.53	28.58	0.02
Total coins	**710,831,243**	**167,029,231.45**	**56,905,888**	**10,988,975.08**	**80.19**	**1.37**
Collector coins	412,693	8,575,510.00	30,362	752,120.00	0.05	0.07
Total banknotes and coins	**886,434,650**	**12,213,325,601.45**	**74,895,813**	**1,195,797,105.08**	**100.00**	**100.00**

Source: NBS.
1) Data for both series of euro banknotes combined (ES1+ES2).

12 The CNI's banknote component is affected by the migration of banknotes across the euro area. The share of €100 banknotes in the cash in circulation in Slovakia, calculated on the basis of the CNI, is only a guide and the real share may differ as a result of migration.

As an average per capita,[13] the number of euro banknotes in circulation in Slovakia in 2017 stood at 30 and their value at €2,089. As for coins (including collector coins), the corresponding figures were 125 and €31. The average per capita value of the CNI was €2,120. In per capita terms, the most numerous banknote denomination in the CNI was the €100 banknote, at around 7.7, while the most numerous coins were the 1 cent coin (44) and the 2 cent coin (31).

The new €50 banknote, the fourth banknote in the second (ES2) series of euro banknotes, began circulating on 4 April 2017. By the end of the year, the new €50 banknotes in the CNI numbered 15.7 million and their share of all the €50 banknotes stood at 40.8%. As for other ES2 denominations, the ES2 €5 and €10 banknotes accounted for virtually all the €5 and €10 banknotes in circulation at the end of 2017 (the share of first series banknotes was negligible), while ES2 €20 banknotes made up 72.6% of the total number of €20 banknotes in the CNI.

3.2 SLOVAK KORUNA BANKNOTES AND COINS

By 31 December 2017, unredeemed Slovak koruna banknotes totalled 18.82 million (including 10.06 million 20 koruna banknotes). Their combined face value was around SKK 2.19 billion (€72.7 million). The face value of unredeemed Slovak koruna banknotes was only around 1.43% of the total value of banknotes issued (by 31 December 2007).

In per capita terms, koruna banknotes unredeemed by the end of 2017 numbered around three and had a face value of SKK 402. Of the most numerous koruna banknotes, the €20 denomination, there were almost two per capita. A total of 58,300 koruna banknotes were redeemed in 2017, and their combined face value was SKK 34.20 million (€1.13 million).

3.3 PRODUCTION OF EURO BANKNOTES AND COINS

In accordance with the ECB's guideline on the production of euro banknotes, NBS commissioned the production of 54.08 million ES2 €50 banknotes in 2017. Production of the banknotes was contracted out to the Berlin-based printing works Bundesdruckerei GmbH, and it was scheduled for completion in January 2018.

Table 6 Circulation euro coins whose production was commissioned by NBS in 2017

Denomination	Number of coins produced (million)
€2	2.10
5 cent	6.12
2 cent	13.65
1 cent	20.52
Total	**42.39**

Source: NBS.

Also in 2017, NBS commissioned the production of euro coins intended for circulation (Table 6).

On 4 January 2017 Slovakia issued a €2 commemorative coin featuring the 550th anniversary of the opening of Universitas Istropolitana (the first university in the territory that is now Slovakia), with an issuing volume of one million coins. Another €2 commemorative coin, featuring the 25th anniversary of the establishment of the Slovak Republic, was scheduled for 3 January 2018, and the production of this issue, with a total volume of one million coins, was also carried out in 2017.

All the euro coins commissioned by NBS are produced by the state-owned mint Mincovňa Kremnica (the Kremnica Mint´). The coins minted in 2017 included 18,000 euro coins of each denomination that were used in five annual collector sets of Slovak euro coins.

In accordance with its issuance schedule for commemorative and collector euro coins, NBS also issued four collector coins in 2017, three of which were struck in silver and one in gold (Table 7).

Besides being supplied with coins issued in 2017, NBS was frontloaded with volumes of three collector coins due to be issued in 2018.[14] NBS arranges for the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

13 The population of Slovakia was 5,441,899 as at 30 September 2017 (according to the Slovak Statistical Office). The calculations used the average number and average value of euro banknotes and euro coins in the CNI in 2017.

14 The following collector coins were frontloaded to NBS:
€25 silver coin – 25th anniversary of the establishment of the Slovak Republic (issuing date: 3 January 2018 – the same as the issuing date for the €2 commemorative coin with the same theme);
€10 silver coin – 1150th anniversary of the recognition of the Slavonic liturgical language (issuing date: 28 February 2018);
€10 silver coin – 300th anniversary of the birth of Adam František Kollár (issuing date: 13 March 2018).

Table 7 Collector coins issued by Národná banka Slovenska in 2017

Denomination	Feature	Issuing volume (number of coins)		NBS Notification of coin issuance
		Total	of which proof	
€10[1)]	UNESCO World Heritage – Caves of Slovak Karst	8,800	5,700	No 347/2016 Coll.
€20[1)]	Levoča Heritage Site and the 500th anniversary of the completion of the high altarpiece in St James's Church	9,600	6,200	No 64/2017 Coll.
€10[1)]	150th anniversary of the birth of Božena Slančíková-Timrava	8,500	5,400	No 156/2017 Coll.
€100[2)]	UNESCO World Heritage – Caves of Slovak Karst	4,250	4,250	No 228/2017 Coll.

Source: NBS.
1) Silver collector coin.
2) Gold collector coin.

3.4 PROCESSING OF EURO BANKNOTES AND COINS

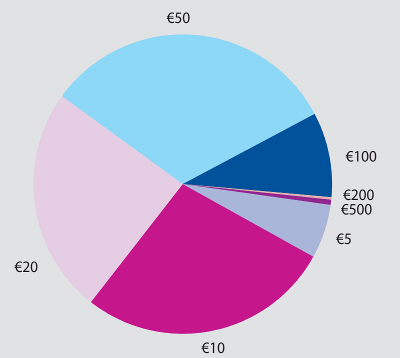
In 2017 Národná banka Slovenska put more than 361.6 million euro banknotes into circulation, and a total of 343.7 million euro banknotes were returned to NBS from circulation.

During the year NBS processed 341.1 million euro banknotes. The total number of euro banknotes returned to NBS was approximately two 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 six months on average.[15] The authenticity and fitness for circulation of returned banknotes are thus checked by NBS, with the aim of maintaining the integrity of the currency and public confidence in euro banknotes. The high level of public satisfaction with the quality of euro banknotes was confirmed by an online survey conducted in euro area countries in 2017. The results showed that 88.4% of respondents expressed satisfaction with the quality of euro banknotes.

The €50 banknote was the most frequently processed denomination in 2017 (Chart 20), being among the most common euro banknotes in circulation and also the most frequently issued via cash dispensers.

In the processing of euro banknotes during 2017, 23.3 million banknotes were identified as being unfit for circulation and subsequently destroyed. The number of unfit banknotes destroyed by NBS was lower than in 2016 by more than half (51.5%).[16] The lower volume of banknotes sorted as unfit was reflected in the average unfit rate for euro banknotes, which fell by almost one-half year on year, to 6.8% (from 13.8% in 2016). Compared with other euro area countries, Slovakia has one of the lowest unfit rates for euro banknotes.

Chart 20 Denominational breakdown of euro banknotes processed by NBS in 2017



Source: NBS.

In 2017 a total of 330.3 million euro coins were put into circulation by NBS, and 273.4 million euro coins were returned to NBS from circulation. Since coins have a longer lifespan than banknotes, only around 365,400 of the 271 million processed in 2017 were sorted as unfit. The

15 Some cash is kept out of circulation and is therefore not returned to NBS for processing.

16 The year-on-year change in the volume of euro banknotes sorted as unfit was related to the entry into circulation of second series euro banknotes in different scenarios and the application of an additional varnish layer to the €5 and €10 banknotes. Whereas NBS and the other Eurosystem central banks destroy all the ES1 €20 banknotes returned to them, NBS and another ten Eurosystem central banks process the ES1 €50 banknotes returned to them and put the fit ones back into circulation for at least 12 months.

Table 8 Number of counterfeit banknotes and coins recovered in Slovakia

Q1-Q4	EUR	SKK	Other	Total
2015	4,749	11	94	**4,854**
2016	13,465	11	87	**13,563**
2017	4,045	3	781	**4,829**

Source: NBS.

number of euro coins that NBS processed did not vary significantly between denominations.

The processing and recirculation of euro banknotes and coins is performed not only by NBS, but also by commercial 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.

3.5 COUNTERFEIT BANKNOTES AND COINS RECOVERED IN SLOVAKIA

A total of 4,829 counterfeit banknotes and coins were recovered in Slovakia in 2017, approximately two-thirds fewer than were recovered in 2016 (Table 8).

The reason for the disparity between the number of counterfeits recovered in 2016 and 2017 is the fact that a single police operation conducted in April 2016 resulted in the seizure of 8,964 counterfeit €2 coins before they entered circulation.

Of the total number of counterfeits recovered, banknotes accounted for 3,748 and coins for 1,081. Only 14.1% of the counterfeits were seized by police before entering circulation; the rest (85.9%) were withdrawn from circulation by banks, foreign bank branches, non-bank entities and security services.

Banks operating in Slovakia recovered almost half (48.4%) of all the counterfeits. Cash-in-transit companies recovered 16.2% of the total, police 15%, NBS 12%, and non-bank entities 8.4%.

The region in which most of the counterfeits were recovered was Bratislava Region (43.6%) , while the fewest were recovered in Trenčín Region (2.2%).

A moderate improvement in the quality of counterfeits was observed in 2017, especially in counterfeits of euro banknotes and coins. 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

A total of 4,045 counterfeit euro banknotes and coins were recovered in Slovakia in 2017 and they had an overall face value of €311,026.50 (Table 9).

The number of euro banknote counterfeits recovered in Slovakia has remained at around the same level (between 200 and 250 per month) over a long period. The figures have reflected the impact of particular cases (one or two a year) in which police seized sizeable quantities of counterfeit euro banknotes before the banknotes entered circulation. The number of euro coins recovered in Slovakia has been falling moderately in recent years, and in 2017 it stood at around 100 per month.

Table 9 Number of euro counterfeits recovered in Slovakia

	Denomination										
	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	Total
2015	411	189	1,225	31	83	553	1,771	362	99	25	4,749
2016	320	121	9,820	24	54	526	1,748	472	145	235	13,465
2017	201	109	771	37	44	340	1,853	290	66	334	4,045

Source: NBS.

Euro banknotes accounted for 2,964 of all the counterfeit banknotes and coins recovered in Slovakia in 2017, and that number represented a year-on-year decrease of 8%. Although euro counterfeits are mostly of high quality, they can be detected without technical equipment as long as sufficient attention is paid to euro cash when receiving it.

Looking at the denominational breakdown of euro counterfeits recovered in Slovakia in 2017, counterfeit €50 and €20 euro banknotes accounted for, respectively, 62.5% and 11.5% of the total. In the euro area as a whole, that order was reversed, with €20 and €50 euro counterfeits making up, respectively, 55.3% and 30.2% of the total.

Of the €5, €10 and €20 counterfeit euro banknotes recovered in Slovakia in 2017, counterfeit second series (ES2) banknotes accounted for between 80% and 85% of the total for each denomination. In July 2017 a counterfeit ES2 €50 banknote was recovered in Slovakia for the first time since the new €50 banknote had begun circulating (4 April 2017). By the end of 2017 a total of 41 counterfeit ES2 €50 banknotes had been recovered in Slovakia.

The summer months saw a spike in the incidence of counterfeit €500 banknotes, the majority of which were high-quality counterfeits. In the autumn, however, police broke up the organised group that was putting these counterfeits into circulation and gradually managed to arrest its members. Subsequently, these counterfeits turned up only very occasionally.

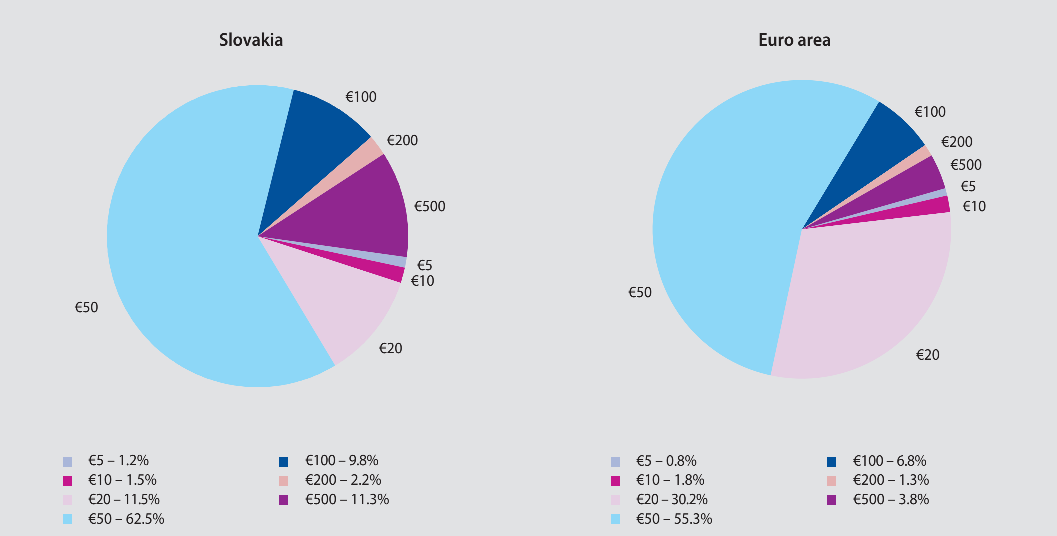
Of the total number of counterfeit euro banknotes and coins recovered in the euro area in 2017, 0.37% were recovered in Slovakia. Over the long term, Slovakia's share of all counterfeits recovered in the euro area is below 1%, which places it together with Finland, Malta and the Baltic States among the countries with lowest incidence of euro counterfeits.

A total of 1,081 euro coin counterfeits were recovered in Slovakia in 2017, all of which had been in circulation. The technical quality of euro coin counterfeits is generally very high. Counterfeit €2 coins made up 71.3% of the total. Recent years have seen counterfeit 50 cent coins recovered in greater numbers than counterfeit €1 coins. In the euro area as whole, the denomination breakdown of counterfeit euro coins recovered in 2017 was very similar to that in Slovakia.

Slovak koruna counterfeits

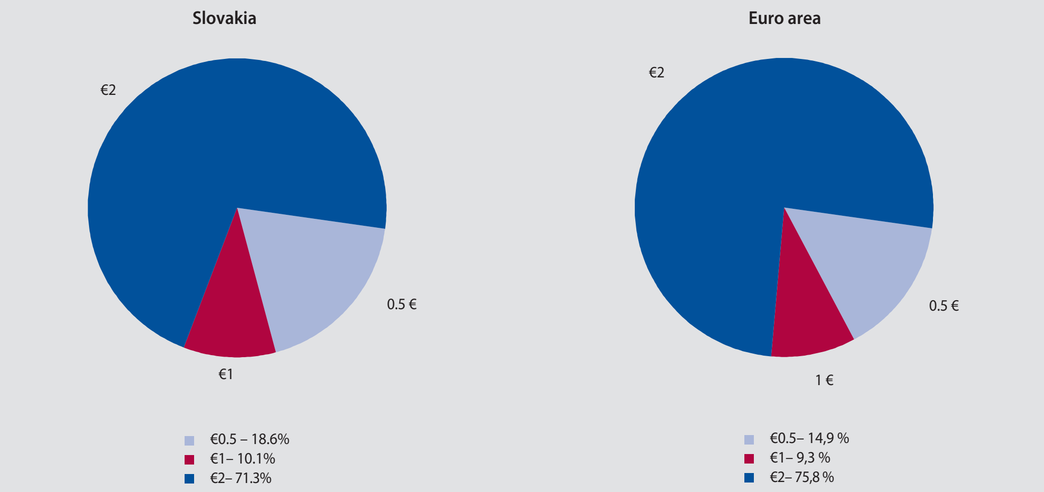
Following the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply. Three Slovak koruna counterfeits were recovered in 2017. Although the period in which Slovak koruna banknotes may be exchanged for euro at NBS is indefinite, further incidence of koruna counterfeits is expected to be only very occasional.

Chart 21 Denominational breakdown of counterfeit euro banknotes recovered in Slovakia and the euro area in 2017 (percentages)



Source: NBS.

Chart 22 Denominational breakdown of counterfeit euro coins recovered in Slovakia and the euro area in 2017 (percentages)



Source: NBS.

Counterfeits of other foreign currency

Compared with 2016, the total number of foreign currency counterfeits recovered in Slovakia was significantly higher in 2017. Early in the year, 610 counterfeit Japanese yen were received by two Slovak banks (the counterfeits were of old series banknotes from 1958, which have long ceased to be legal tender and are exchangeable only at the Japanese central bank).

The other foreign currency counterfeits included 77 US dollar counterfeits. As in previous years, counterfeit $100 dollar banknotes were the most common of the US dollar counterfeits recovered in Slovakia, accounted for 95% of the total.

Counterfeits of other currencies were also recovered, including counterfeits of the Czech koruna (73) British pound (18), Hungarian forint (1), Bulgarian lev (1), and Polish zloty (1).

3.6 ECB STUDY OF THE USE CASH BY HOUSEHOLDS IN THE EURO AREA

In 2015–16 the European Central Bank (ECB) commissioned a survey on the use of cash by households (carried out by the Brussels-based agency Kantar Public).

On the basis of this fieldwork, a study was carried out using a sample of euro area residents aged 18 years and over.[17] The results of the study were published on the ECB website in November 2017.[18] The survey itself focused on different aspects of the use of cash and other payment methods. Table 10 presents selected results for Slovakia and compares them with the corresponding average for the euro area as a whole.

Table 10 Selected data on the use of cash in payments for goods and services

	Data for Slovakia	Data for the euro area
Share of cash transactions in total number of transactions	78%	78.8%
Share of cash in total value of transactions	66%	53.8%
Average value of cash transactions	€10.5	€12.38
Average number of cash transactions per person per day	1.3	1.2

Source: NBS.

17 Separate studies on the use of cash were conducted in Germany and the Netherlands and their data were not included in this study.
18 https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op201.en.pdf

4 Payment services and payment systems

4.1 PAYMENT SERVICES

The law governing most aspects of payment services and payment systems in Slovakia is Act No 492/2009 on payment services ('the Payment Services Act'), which transposes into Slovak law the EU's two Payment Services Directives: Directive 2007/64/EC (PSD) and Directive (EU) 2015/2366 (PSD2). The amendment to the Payment Services Act which transposes PSD2 was completed in 2017 and entered into force on 13 January 2018. At the EU level, a number of implementing acts and guidelines required by PSD2 were drafted in 2017 and will enter into force in 2018.

Slovak law in the area of payment services also includes the following directly applicable EU Regulations:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001;
- 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;
- Regulation (EU) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006; and
- Regulation (EU) No 2015/751 on interchange fees for card-based transactions.

Further components of the legal framework include Decree No 8/2009 of Národná banka Slovenska laying down the structure of domestic and international bank account numbers and details about the issuance of an identifier code converter, and Decree No 6/2013 of Národná banka Slovenska on direct debit payee identifies and the register of direct debit payee identifiers.

In 2017 Národná banka Slovenska approved a proposal of the Slovak Banking Association (SBA) that banks 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), in view of the Court's financial results and the sufficiency of existing funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to Payment Services.

4.2 PAYMENT SYSTEMS IN SLOVAKIA

4.2.1 TARGET2 and TARGET2-SK

Since 2009 Národná banka Slovenska has been operating the TARGET2 component system known as TARGET2-SK (T2-SK). T2-SK functioned smoothly in 2017, free of any serious incidents that might have disrupted the system's operation or processing of payments, or otherwise adversely affected its participants.

Národná banka Slovenska is also involved in coordinating the development, modification, testing, and implementation of software releases for the Single Shared Platform (SSP) that forms the technical infrastructure of TARGET2. New software releases, approved by the Eurosystem in response to the requirements of the system's users, bring enhanced functionalities and modifications to the SSP and also rectify any deficiencies identified in the previous version. One of the most significant developments in Slovakia's TARGET2 environment took place in 2017, when the central security depository Centrálny depozitár cenných papierov SR (CDCP) and its members migrated to TARGET2-Securities (T2S). T2S is a technical platform ensuring smooth settlement of cross-border securities transactions via participants' securities accounts held at one or more central securities depositories and their dedicated cash accounts (DCAs) held at one or more national central banks. DCAs are used solely for the settlement in central bank money of the cash leg of the securities transactions.

The migration of central securities depositories (CSDs) to T2S took place in five waves. The Slovak

CDCP and its members were part of the fourth migration wave that was successfully completed in February 2017, with NBS itself becoming connected to the system at this time. In October 2017 another Slovak CSD, Národný centrálny depozitár cenných papierov (NCDCP), also migrated successfully to T2S, receiving in the process from NBS the same cooperation that CDCP had received.

On 22 September the ECB's Governing Council adopted a new version of the TARGET2 Guideline, introducing amendments related to new TARGET2 functionalities. On the basis of these amendments, NBS adopted and published the following decisions:

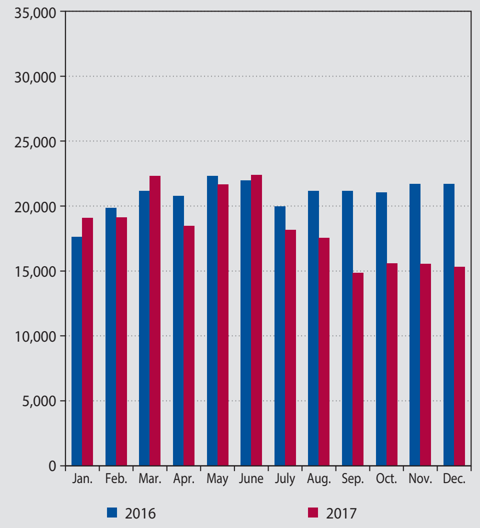
- Decision No 13/2017 of 24 October 2017 amending Decision No 7/2015 on conditions for opening and administering PM accounts in TARGET2-SK;
- Decision No 14/2017 of 24 October 2017 amending Decision 8/2015 on conditions for opening and administering dedicated cash accounts in TARGET2-SK;
- Decision No 12/2017 of 24 October 2017 amending Decision 4/2010 on settlement procedures for TARGET2-SK ancillary systems, as amended.

4.2.2 Payments processed by TARGET2-SK

T2-SK had 34 participants at the end of 2017, including 30 direct participants and the following four ancillary systems: the Slovak Interbank Payment System, the company First Data Slovakia, s.r.o., and two CSDs — CDCP and NCDCP). The composition of the T2-SK participants saw a number of changes in 2017. ZUNO BANK AG ended its participation in T2-SK in 2017, as did Sberbank Slovensko following its acquisition by Prima banka Slovensko, while the Czech central bank, Česká národní banka, became a new direct participant in the system.

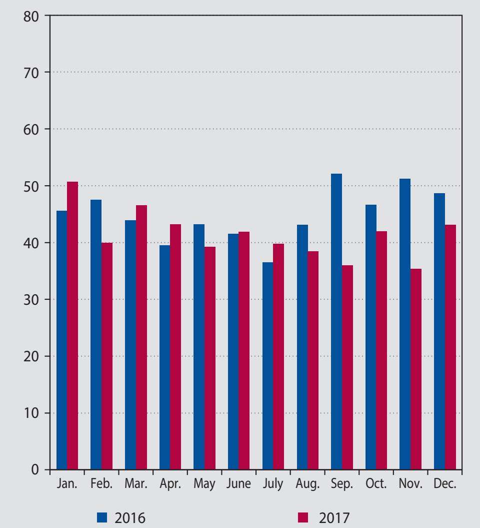
In 2017 T2-SK processed more than 220,000 transactions with a total value of around €500 billion. Compared with 2016, T2-SK traffic fell in number by more than 12% (by over 30,000 transactions) and fell in value by 8% (more than €43 billion). T2-SK had 255 operating days in 2017, and its average daily traffic by number and value was 863 transactions and almost €2 billion.

Chart 23 Number of transactions processed by T2-SK in 2016 and 2017



Source: NBS.

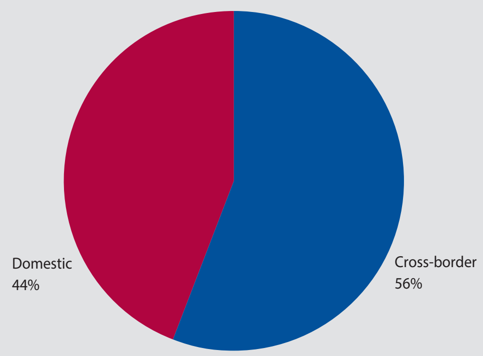
Chart 24 Value of transactions processed by T2-SK in 2016 and 2017 (EUR billions)



Source: NBS.

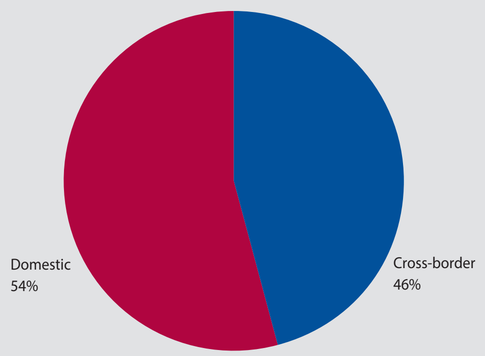
Looking at the payment traffic in 2017 broken down into customer and interbank transactions, customer payments had the higher share by number (71:29), while interbank payments predominated in terms of value (8:92).

Chart 25 Number of payments sent by T2-SK participants in 2017 broken down by destination



Source: NBS.

Chart 26 Value of payments sent by T2-SK participants in 2017 broken down by destination



Source: NBS.

A total of 24 EU national central banks were connected to TARGET2 by the end of 2017. Of the total number of payments sent by T2-SK participants in 2017, 44% were domestic and 56% were cross-border. Domestic payments accounted for 54% of the total value of payments, and cross-border payments for 46%.

4.2.3 The Slovak Interbank Payment System (SIPS)

The Slovak Interbank Payment System (SIPS) is a retail payment system used for the processing and clearing of payments in euro. These comprise mostly SEPA credit transfers and SEPA direct debits, both domestic and cross-border. Cross-border SEPA credit transfers and SEPA direct debits are processed by STEP2, a pan-European automated clearing house in which NBS is a direct participant.

SIPS processes and clears payments through multiple clearing cycles on each business day. After participants' payments are cleared in SIPS, which is a T2-SK ancillary system, the resulting cash positions undergo final settlement in T2-SK. SIPS functioned smoothly in 2015, free of any incident that might have disrupted the processing and clearing of payments or operation of the system.

On 1 November 2017 Národná banka Slovenska launched a new version of SIPS that simplified the system's technical architecture. It did this by replacing the servers operated by individual SIPS participants with a single communication server operated by NBS. NBS also issued a decision on this changeover: Decision No 9/2017 of 26 September 2017 amending Decision 7/2012 on settlement procedures for TARGET2-SK ancillary systems, as amended.

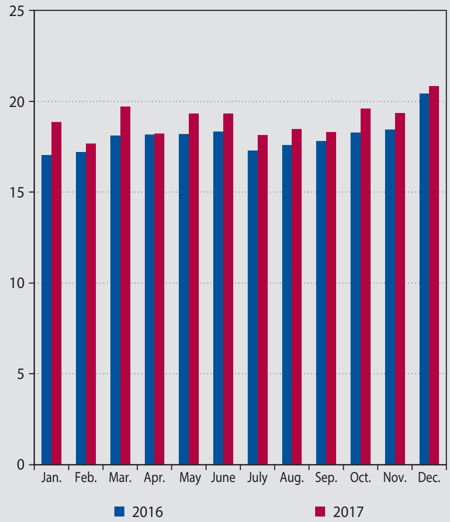
NBS maintains a register of creditor identifiers (CIs) for SEPA direct debits (SDDs). Each SDD payee, whether a natural or legal person, has a unique CI. The number of active SDD payees registered with NBS was almost 470 at the end of 2017.

4.2.4 Payments processed by SIPS

SIPS statistics

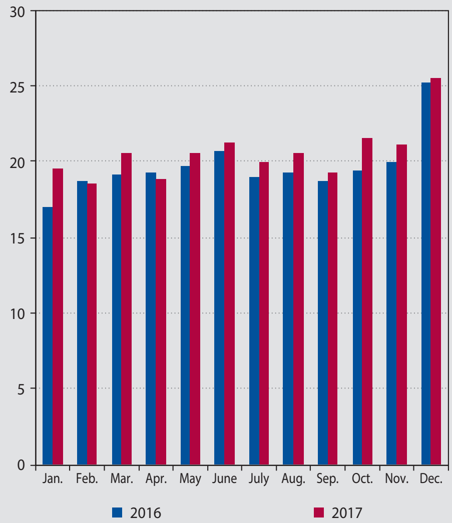
In the list of SIPS participants there were two changes in 2017. ZUNO BANK AG, a foreign bank branch, ended its participation in the system, as

Chart 27 Number of transactions processed by SIPS in 2016 and 2017 (millions)



Source: NBS.

Chart 28 Value of transactions processed by SIPS in 2016 and 2017 (EUR billions)



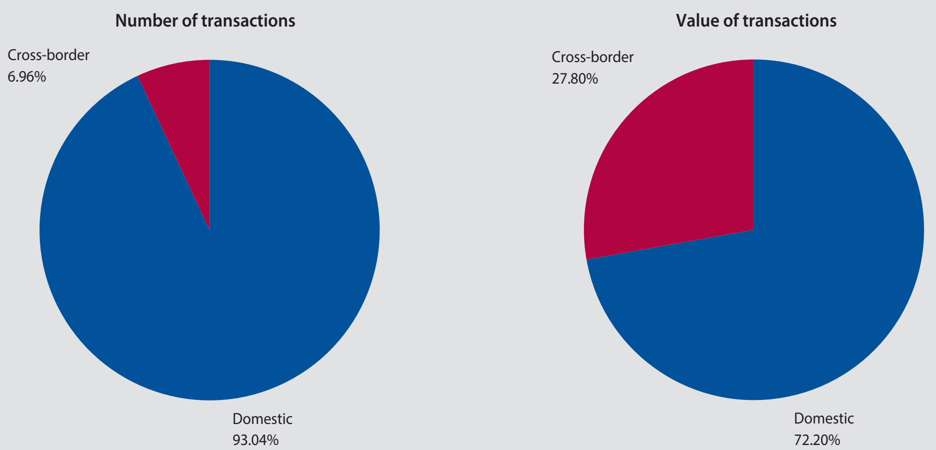
Source: NBS.

did Sberbank Slovensko following its acquisition by Prima banka Slovensko. At the end of 2017 SIPS had 24 direct participants.

SIPS processed 227.932 million transactions in 2017 with a total value of €247.339 billion. As in the previous year, both the number and value of transactions increased by around 5%.

Domestic transactions accounted for almost 93.04% of the total number of SIPS-processed transactions in 2017 and almost 28% of their

Chart 29 Number and value of SIPS-processed transactions in 2017 broken down by domestic and cross-border payments



Source: NBS.

value, while cross-border transactions, cleared through the pan-European STEP2 system, accounted for almost 7% of the number. Domestic transactions thus amounted more than 72% of the total value of transactions.

4.2.5 Payment cards[19]

Valid payment cards issued by banks in Slovakia numbered 5,183,232 at the end of 2017, which was more than 6% fewer year on year. The decline stemmed from developments in other products of certain banks. Almost half a billion (481,298,151) transactions were conducted with these cards in 2017 and their total value was more than 24 billion. Both the number and value of the transactions increased year on year, by almost 15% and 10%, respectively.

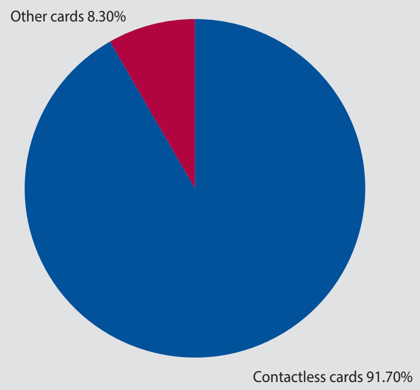
Contactless payment cards

Contactless payments made with bank-issued cards have increased sharply in Slovakia in recent years. The number of contactless bank payment cards in circulation continued to increase in 2017. By the year-end, 92% of bank payment cards had contactless functionality. The share of contactless payments in the total number of bank card payments maintained its rising trend in 2017 and exceeded 50% for the first time. Their share of the total value of bank card payments increased from just under 10% in 2016 to 19.42% in 2017. A total of 245,178,157 contactless bank card payments were made in 2017 with a total value of €4.69 billion, which in year-on-year terms represented an increase in number of almost 56% and an increase in value of more than 120%.

ATMs and POS terminals

There were 2,726 automated teller machines (ATMs) in Slovakia at the end of 2017, thirty-nine fewer than at the end of 2016. The number of ATM transactions increased by 1.5% year on year, and their total value rose by 5.5%. The number of POS terminals in operation in Slovakia at the year-end stood at 49,161. POS transactions in 2017 increased year on year in both number and value: by 16.56% to 293.65 million, and by more than 12% to €7.02 billion.

Chart 30 Contactless payment cards as a share of total bank payment cards in 2017



Source: NBS.

4.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE PAYMENT SYSTEMS FIELD

Assessment of securities settlement systems (SSSs) and links between SSSs

The Eurosystem currently assesses the eligibility of SSSs and links for use in Eurosystem credit operations on the basis of the "Framework for the assessment of securities settlement systems and links to determine their eligibility for use in Eurosystem credit operations" ('User Assessment Framework' or 'UAF'). The assessments are made against the CPSS-IOSCO Principles for Financial Market Infrastructures and against the User Addendum requirements defined in the UAF. The Eurosystem assesses SSSs and links between SSSs operated by central securities depositories (CSDs) in order to settle its credit operations based on adequate collateral. A positive result from the assessment allows the respective SSS or link to be considered eligible for use in Eurosystem credit operations.

In September 2017 the ECB's Governing Council approved the SSS operated by Slovakia's Národný centrálny depozitár cenných papierov (NCDCP) as eligible for use in Eurosystem credit opera-

19 *The data were provided by banks and foreign bank branches.*

tions. At the same time, the Governing Council approved the eligibility of NCDCP for access to T2S. The other Slovak CSD, Centrálny depozitár cenných papierov SR, had migrated to T2S in February 2017.

The Governing Council also decided in September 2017 to phase out the current method of assessing SSSs and links between SSSs in view of the entry into force of provisions of Regulation (EU) 909/2014. The Regulation lays down common requirements for the settlement of financial instruments transactions in the European Union. From 2018 the assessment of SSSs and links for eligibility in Eurosystem operations will be carried out in accordance with the new methodology.

TARGET2-Securities and other Eurosystem projects

The TARGET2-Securities (T2S) system operated reliably in 2017. By the end of 2016 a total of 12 CSDs were operating on T2S, and that figure increased in 2017 as other CSDs migrated to T2S under the T2S Framework Agreement signed with the Eurosystem. In February 2017 the following CSDs joined T2S: Clearstream Banking (Germany), OeKB (Austria), LuxCSD (Luxembourg), KELER (Hungary), KDD (Slovenia), and CDCP (Slovakia). September saw a further two migrations: Iberclear (Spain) and Nasdaq CSD (a common CSD for Estonia, Latvia and Lithuania). With Slovakia's NCDCP joining the system in October, the number of CSDs connected to T2S at the end of 2017 stood at 21.

For the years ahead, the Eurosystem has adopted a strategy of developing market infrastructures, with particular focus on instant payments, on the consolidation of TARGET2 and T2S services, and on a Eurosystem Collateral Management System (ECMS). This strategy, called "Vision 2020", aims to harmonise and deepen the integration of the European market, to make cost savings by means of technical consolidation, and to introduce new services for European financial markets.

As part of this strategy, the Governing Council has approved the development of three projects.

a) The first project relates to the SEPA Instant Credit Transfer scheme, which was launched in November 2017 and enables cash transfers in real-time, 24/7/365. To support the development of instant payments, the Eurosystem is now working on a pan-European instant payment settlement service in central bank money: the TARGET instant payment settlement (TIPS) service. TIPS, which is being developed by Eurosystem central banks in cooperation with the European banking industry, is due to be launched in November 2018.
b) The second project, T2-T2S consolidation, is primarily intended to save costs through the technical consolidation of the two systems. The consolidated system is expected to begin operation in November 2021.
c) The third project, the ECMS, will establish a harmonised system for collateral operations across the Eurosystem. Its launch is planned for November 2022.

Národná banka Slovenska, as a member of the Eurosystem, is involved in all of these projects.

5 Statistics

Národná banka Slovenska (NBS) develops, collects, compiles and disseminates a wide range of statistics which support the monetary policy of the euro area, the stability of the financial system in Slovakia, other tasks of the European System of Central Banks (ESCB), and various tasks of the European Systemic Risk Board (ESRB), Bank for International Settlements (BIS) and other international institutions. Based on data reported by financial and non-financial agents, the statistics serve internal users at NBS and are also used by financial market participants, public sector entities, the media, and the general public.

5.1 STATISTICAL DEVELOPMENTS

in order to improve the clarity and accessibility of statistical data, the Statistics section of the NBS website (https://www.nbs.sk/sk/statisticke-udaje) was substantially modified in 2017 both in its design and in the structure of the information provided.

Monetary and financial statistics reflected changes in the non-financial corporation (NFC) sector that related to the banking sector as well as to investment funds with different investment policies. Furthermore, the updating of the register of non-bank lenders resulted in changes to the sample of consumer credit companies and factoring companies which serve as reporting agents for statistics on other financial intermediaries.

Methodological surveys aimed mainly at classifying different types of bank loan for statistical purposes were conducted in 2017. In addition, new methodological requirements under updated ECB legal acts were implemented (concerning the breakdown of investment funds into standard funds and alternative funds, and the reporting of items under 'capital and reserves' in banks' balance sheet statistics). There were also methodological changes related to an amendment of the Slovak Banking Act. Granular data on securities holdings continued to be used, thereby supporting the qualitative improvement of aggregated data in financial sector balance sheet statistics. In its quarterly Statistical Bulletin published on the NBS website, NBS releases data in the form of microanalyses. In 2017 the Statistical Bulletin was published in both Slovak and English for the first time in several years. The 2017 editions were the first to include information on pure new loans provided by banks.[20]

Operational requirements arising from participation in ECB/ESCB working groups were implemented in 2017. The most significant changes in the scope of monetary and financial statistics during 2017 stemmed from developments in ECB requirements, which were affected mainly by preparations for greater use of granular data on securities and for the new version of the EDCB Register of Institutions and Affiliates Database (RIAD 4.0), as well as by the requirements of the AnaCredit project and the discussion surrounding the proposal for a single European framework for the reporting of bank sector data.

Work continued in 2017 on enhancing data quality in the ECB's securities databases, to which Národná banka Slovenska contributes data on a regular basis. In late 2017 the ECB introduced a new interactive data quality management tool in the Centralised Securities Database (CSDB), through which central banks will be able to ensure more flexible transmission of securities data and to check the quality of that data. As part of its efforts to enhance the quality of collected statistical data, the ECB has introduced cross-checks of the granular data on securities available in the Securities Holdings Statistics Database (SHSDB). These data relate to the aggregated data collected in key statistical areas (balance sheet statistics and balance of payments statistics).

In the quarterly financial accounts statistics, balance of payments (b.o.p.) and international investment position (i.i.p.) data were partially revised and harmonised. At the same time, work continued on compiling back series for the period 2004–2012.

In the context of bilateral technical cooperation in the field of statistics, representatives of NBS and the National Bank of Ukraine held a meeting in the Ukrainian capital Kiev in April 2017.

In June 2017 Národná banka Slovenska and the Statistical Office of the Slovak Republic signed an Addendum to their *Framework agreement on cooperation in the provision of statistical data and statistical information.*

In September 2017 Bratislava was the venue for a meeting of the BACH Working Group, which, under the auspices of the European Committee of Central Balance Sheet Data Offices (ECCBSO), is responsible for maintaining and developing the Bank for the Accounts of Companies Harmonized (BACH) database, a tool for analysing and comparing the financial structure and performance of firms across European countries.

In November 2017 an agreement on the supply of data on firms established in Slovakia was signed between NBS and a new data provider. The purpose of the agreement is to improve the quality of b.o.p. statistics and to build up a multi-

20 Pure new loans are calculated as the difference between the total amount of new loans and the total amount of renegotiated loans.

purpose database of non-financial corporations (NFCs) so as to enhance the statistical coverage of this significant sector. With the ECB also paying closer attention to the NFC sector, Národná banka Slovenska has joined the second wave of a pilot project that works with granular firm-level data and operates under the BACH Working Group. By the end of 2017 only six European countries had joined the project.

In the area of capital market statistics, 2017 saw the entry into operation of a project for collecting data and automating data transmission to the European Securities and Market Authority (ESMA) in accordance with Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers. Another notable step last year was the testing of the collection, validation, and automated transmission of data to other ESCB members and to ESMA in accordance with Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (MiFID II).

In the area of pension fund statistics, the proposed ECB Regulation on statistical reporting requirements for pension funds was finalised in 2017. The Regulation will include requirements specified by the ESCB, the European Systemic Risk Board and the European Commission. All the stipulated procedures for the surveying of requirements and reporting costs were completed and so was the evaluation of these procedures. In line with its policy of increasing transparency in the drafting of legal acts, the ECB held a public consultation on the proposed Regulation. It was the ECB's first ever such consultation, and the comments received were taken into account in the final draft of the Regulation. The Regulation lays down rules and conditions for the collection of datasets which, compared with current datasets, will be expanded and collected within shorter timeframes.

As regards insurance statistics, attention was focused on meeting the requirements of the ECB and the European Insurance and Occupational Pensions Authority (EIOPA) and above all on increasing the quality of reported data. The ECB expanded requirements for the submission of statistical data by the inclusion of a new geographic counterparty – the European Stability Mechanism. As a result, it was necessary to revise the historical data series going back to the first quarter of 2016. Looking at data available from the first annual reporting under Solvency II, the quality of data submitted to the ECB was improved in 2017 by the inclusion of a geographical breakdown of selected asset and liability items (technical provisions, investment).

Activities related to the b.o.p. statistics included not only the ordinary tasks of meeting the requirements of international institutions, but also the acquisition of additional data sources in order to improve the quality of the data provided. Many working meetings were held with experts from other ministries in order to address methodological issues with regard to the recording of revenue from the European Commission, increasing the coverage of current transfers with the rest of the world, and the increasing significance of Slovak residents' online payments for goods and services. For these reasons, under NBS Decree Nos 11/2017[21] and 12/2017[22], a new statement on cross-border payment card transactions including a country breakdown was introduced in 2017.

As part of an ECB project, b.o.p. statistics are being gradually harmonised with financial accounts statistics, and this process continued in 2017 with significant progress in data alignment. At the level of ECB working groups, new expanded requirements for b.o.p. and i.i.p. data were analysed in 2017. The result of the analysis was a preliminary draft ECB regulation to introduce, with effect from March 2021, expanded requirements for the currency structure of selected i.i.p. items and a more detailed geographic and sectoral breakdown.

Reporting for entities subject to a reporting obligation under the Foreign Exchange Act was expanded to include new requirements in the form of three annual reports. The statistical reporting obligation for non-bank entities is governed by Article 8 of Act No 202/1995 Coll. – the Foreign Exchange Act (and amending Act No 372/1990 Coll. on non-indictable offences, as amended), as amended by Act No 602/2003 Coll. Reporting templates and details about the structure, scope and content of reported data, about reporting methods, procedures and deadlines, and about where to report data are laid down in NBS Decree No 264/2015 Coll. of 5 October 2015 on reporting in accordance with the Foreign Exchange Act.

21 Decree No 11/2017 of Národná banka Slovenska of 28 November 2017 amending Decree No 17/2014 of Národná banka Slovenska on reporting for statistical purposes by banks, branches of foreign banks, investment firms and branches of foreign investment firms, as amended.

22 Decree No 12/2017 of Národná banka Slovenska of 28 November 2017 amending Decree No 22/2014 of Národná banka Slovenska on reporting for statistical purposes by payment institutions, branches of foreign payment institutions, electronic money institutions and branches of foreign electronic money institutions, as amended by Decree No 24/2015.

5.2 INFORMATION SYSTEMS

For the collection, processing and storage of data received from reporting agents for statistical and supervisory purposes, Národná banka Slovenska uses the information system Statistics Collection Portal (IS SCP). New reporting requirements were implemented in the IS SCP in 2017 in order to meet the supervisory needs of the ECB, EIOPA, and the European Banking Authority (EBA). In connection with new requirements laid down by ESMA, a new transaction reporting module was added to the IS SCP in 2017 in accordance with Article 26 of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments (MiFIR). Also, the functionality of the IS SCP was expanded in order to speed up the inputting process, optimise the database, and make the system compatible with additional internet browsers.

By the end of 2017 around 3,880 reporting agents were registered in the IS SCP, including 29 from the banking sector, 34 engaged in other financial intermediation, 54 from the insurance sector, 128 from the capital market (investment firms, collective investment undertakings, asset management companies, the stock exchange, and central securities depositories), 46 from the pension fund sector and around 3,590 entities reporting to NBS under the NBS Decree on reporting in accordance with the Foreign Exchange Act.

In 2017 a total of 184 reporting templates were designed for data collection requirements under national law, 198 as required by the EBA, 104 as required by EIOPA, and two in accordance with the EU's Alternative Investment Fund Managers Directive.

In 2017, as part of the ongoing process of making historical data accessible in the IS SCP, selected reporting statements for 2015 were transformed and migrated from the former information system STATUS to the IS SCP.

With the aim of improving data quality and data processing, IS SCP modules continued be developed in 2017 using business intelligence tools, with particular focus on the analysis of securities statistics, interest rate statistics, balance of payments statistics, and certain balance sheet statistics. In addition, a new data model concept for data classification was introduced.

6 Economic research

The principal issues addressed by NBS economic research published in 2017 concerned monetary policy and financial stability. This research was complemented by other studies in key thematic areas: economic modelling; fiscal policy; the labour market; and the real economy.

In line with the current needs of Národná banka Slovenska and with the medium-term research agenda approved by the NBS Bank Board, research activities focused not only on practical issues in the financial, economic and monetary spheres, but also on theoretical modelling and technically demanding solutions. NBS researchers published significantly more papers in 2017 than in 2016, and they further developed cooperation with experts from other institutions, both domestic and foreign.

The bulk of NBS research outputs comprised peer-reviewed working papers, analyses and commentaries, all of which are freely available on the NBS website.[23] A total of 12 working papers and one occasional paper were published in 2017. NBS researchers were also involved in the production of several working papers of foreign institutions, including the European Central Bank (ECB), the Centre for Economic Policy Research, the National Bureau of Economic Research, and the University of London.

NBS research efforts in the area of monetary policy were devoted to a number of current issues surrounding the ECB's monetary policy, but also included a look back at the Slovak central bank's past experience of pursuing an independent monetary policy. A study of the impact of quantitative easing on banks' lending activity

23 The full texts are available at http://www.nbs.sk/sk/publikacie/publikacie-vyskumu and http://www.nbs.sk/sk/menova-politika/analyticke-komentare confirmed that increases in bank funding have boosted lending and in particular lending to households. Another subject of NBS research in 2017 was the impact of public statements by the ECB's Governing Council members made in the periods between the Governing Council's monetary policy meetings. The findings showed that such intermeeting communications affect interest rates and stock markets and that markets focus more on statements by certain key members of the Governing Council. An in-depth analysis of data on NBS's exchange rate interventions in the period before Slovakia adopted the euro showed that these interventions had a significant impact on the exchange rate movements of the Slovak koruna currency. The pattern and intensity of these effects varied depending on whether the objective of the intervention was to strengthen or weaken the koruna. Furthermore, the interventions made in the period before Slovakia joined the European Union (in 2004) had a greater impact than those made afterwards.

In the field of financial stability, one study found that the macroeconomic costs of the new 'Basel rules' will be relatively moderate. Another study confirmed that analysing the structure and stability of both direct and client clearing in the interest rate derivatives market was important in order to gain a better understanding of the interest rate derivatives market and potential contagion mechanisms in the financial sectors.

Studies covering the interaction of monetary and fiscal policy brought some interesting findings on government spending and the functioning of the bond market. One study showed that in an environment where interest rates are at the zero lower bound, government spending in Slovakia, similarly as in the euro area as a whole, has had a greater impact on aggregate demand than in a standard monetary policy environment. A model analysis of bond price movements demonstrated a correlation between increasing uncertainty about future government spending levels and rising bond prices. It also found, however, that if monetary policy allows higher inflation in response to government spending growth, the real value of bonds falls. Another study addressing fiscal policy issues provided an in-depth analysis of the impact of VAT changes on the government budget and consumer welfare and identified ways in which the recent changes in VAT on food items in Slovakia could have been more efficient.

A study based on microdata from the Eurosystem's Household Finance and Consumption Survey (HFCS) revealed a statistically and economically significant positive correlation between financial literacy and participation in the 'third pillar' of the Slovak pension system (i.e. the voluntary defined-contribution supplementary pension scheme). Thus it pointed out the importance of financial education to the sustainability of the pension system in Slovakia. A more theoretical paper in the field of economic modelling produced important findings on the use of normality tests for dependent data.

Labour market analyses published by NBS in 2017 focused on the impact of wage adjustment on employment and on firms' responses to minimum wage increases. In one study, the results confirmed the presence of wage rigidities and that these are more pronounced where demand is falling and where collective agreements are in effect. The results also showed that wage rigidities have a negative impact on the number of people that firms employ. In another study, however, it was shown that firms were more likely to respond to rises in the minimum wage by curbing recruitment than by making redundancies. Their main responses to such increases are to reduce non-wage costs and to increase prices and productivity.

A 2017 NBS analysis of Slovakia's economic output and productivity relative to more advanced EU economies showed that output convergence remained flat year-on-year and productivity catch-up fell. The only favourable convergence trends in the post-crisis period have been seen in alternative indicators of economic performance that take into account the living standards of the population. The upward trajectory of labour market indicators contrasted with continuing deficiencies in efficiency and productivity of labour utilisation and with deteriorating competitiveness.

A total of seven NBS research studies were published in peer-reviewed academic journals in 2017, most notably in the international titles *Econometrics and Statistics* and *Comparative Economic Studies.* Studies of regional interest were published in the Slovak journal *Ekonomický časopis* and the Czech *Politická ekonomie.*

As regards their involvement in international research projects in 2017, NBS researchers continued to participate in three Eurosystem/ESCB research networks.

The Household Finance and Consumption Network (HFCN) conducts the Eurosystem's Household Finance and Consumption Survey (HFCS). In 2017 Slovak households were surveyed for the third wave of the HFCS, and NBS researchers checked and prepared the data obtained. They also conducted research based on data from the second wave of the survey.

In the Wage Dynamics Network (WDN) — a network examining wage dynamics and their responsiveness to external shocks — the activities of NBS members in 2017 focused on the completion of research tasks based on data from a recent Europe-wide firm-level survey. The key WDN findings were presented at an international conference in Frankfurt on 11 December 2017.

The Competitiveness Research Network (CompNet), originally founded by the ESCB, is a hub for research and policy analysis on competitiveness and productivity and enables cooperation with non-ESCB partners. In 2017 CompNet became an independent network supported by the ECB, the European Bank for Reconstruction and Development, the European Commission, the European Investment Bank, the Halle Institute for Economic Research and the Tibergen Institute. NBS activities in CompNet focused mainly on preparing data for the network's firm-level-based database. Cooperation with the academic sphere created conditions for preparing two educational events and one research conference. NBS researchers also attended the CompNet annual conference in Brussels (29-30 June 2017) and a CompNet training course in Amsterdam in July and provided Slovakia's data for the network's database.

In the course of 2017 the ESCB launched three research clusters, the purpose of which is to coordinate research efforts of EU national central banks in three high-priority research fields.[24]

In 2017 NBS researchers also engaged in international research cooperation outside of the ESCB research networks and clusters. They presented their research finding at several domestic and foreign conferences hosted by academic and supranational institutions.

The bank's research cooperation with the external environment continued to be enriched in 2017 by its doctoral study and research support programme and by its visiting researcher programme. NBS supported one external researcher and one doctoral student. The student research is contributing to a better understanding of the benefits and drawbacks of the single European currency.

For professionals in Slovakia, NBS hosted or cohosted more than 50 seminars in 2017. At 14 of these events, experts from abroad were invited to present the results of their projects. Also in 2017, NBS researchers specialising in economic modelling prepared and taught a one-term course for undergraduates and professionals on dynamic stochastic general equilibrium (DSGE) models.

7 European affairs and international cooperation

7.1 European affairs

European Union (EU)

The EU events that were most important for Národná banka Slovenska in 2017 were the April and September informal meetings of the ECOFIN Council. The April meeting in Valletta (Malta) was attended by the NBS Governor, Jozef Makúch, and the Executive Director of the NBS Financial Market Supervision Unit, Vladimír Dvořáček. The discussions addressed, among other things, issues related to non-performing loans.

The September meeting in Tallinn (Estonia) was attended by Governor Makúch and by NBS Bank Board member Karol Mrva (Executive Director of

24 1) Monetary economics, and transmission of conventional and unconventional monetary policy measures; 2) International macroeconomics, fiscal policy, labour markets, competitiveness, and EMU governance; 3) Financial stability, macroprudential regulation and microprudential supervision.

the Risk Management, Settlement and Payment Services Division). Discussion focused on deepening Economic and Monetary Union and, in regard to the Capital Markets Union, on the impact of technological innovation and financial regulation.

7.2 COOPERATION WITH INTERNATIONAL INSTITUTIONS

International Monetary Fund (IMF) / World Bank Group (WBG)

In 2017 NBS was again represented at the Spring and Annual Meetings of the IMF and WBG. Held in Washington DC, these were the year's most significant events of the Bretton Woods institutions. The Spring Meetings in April included the presentation of the IMF's most recent multilateral surveillance documents – the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). Among the issues under discussion were the strengthening of the international monetary system and the economic impact of technological progress and offshoring.

At the Annual Meetings in October, the IMF's Board of Governors, including NBS representatives, discussed the autumn editions of the WEO and GFSR, as well as, among other things, the IMF's Annual Report and its financial statements. Delegates addressed the current situation in regard to the 15th General Review of Quotas. A notable milestone for the IMF in 2017 was the signing of bilateral agreements under the 2016 Borrowing Agreement. Slovakia signed the Agreement in September 2017 as one of 40 countries participating in it. The total commitments pledged under the Agreement amount to around SDR 312 billion.

At the end January, IMF staff members visited Národná banka Slovenska as part of the bilateral discussions that the IMF holds with Slovakia under Article IV of the IMF's Articles of Agreement. Their discussions at NBS focused on macroeconomic issues and the outlook for Slovakia, on the country's balance of payments situation, and the state of the Slovak financial sector. In their final staff report, the IMF staff team described the Slovak banking sector as stable and adequately capitalised. They also pointed out the measures taken by NBS to reduce risks in the financial system. At the end of October, the IMF staff team conducted an informal follow-up visit at NBS, during which they updated the January 2017 data.

As at 31 December 2017 Slovakia's reserve position with the IMF remained unchanged at SDR 153.3 million (15.3% of quota).

Organisation for Economic Co-operation and Development (OECD)

An OECD 'policy mission' to Slovakia took place at the beginning of February 2017. The OECD staff team was received by NBS Governor Jozef Makúch, NBS Deputy Governor Ján Tóth and other NBS representatives. During their meeting, the NBS side presented the latest macroeconomic indicators for Slovakia and information about the financial market situation. This information was used in the preparation of the *2017 OECD Economic Survey of the Slovak Republic*, which the OECD Secretary-General, Angel Gurria, presented in person in Bratislava in July. The periodical Economic Survey analyses the current economic situation, and the 2017 edition focused on two policy sectors: tertiary education and health care. NBS representatives regularly participate in meetings of OECD committees and working groups, as well as in meetings of the Coordination Committee established at the Slovak Ministry of Foreign and European Affairs for the purpose of overseeing Slovakia's activities in the OECD and in meetings of the National Contact Point established at the Slovak Economy Ministry for the OECD Guidelines on Multinational Enterprises.

European Bank for Reconstruction and Development (EBRD)

The 26th Annual Meeting of the EBRD's Board of Governors was held in May 2017, with the participation of the NBS Governor, Jozef Makúch, and the Director of the NBS Governor's Office, Vladimír Martvoň. The gathering took place under the following central theme: *Targeting Green and Inclusive Growth: Meeting Regional and Global Challenges*.

Bank for International Settlements (BIS)

The BIS held its 87th Annual General Meeting in June 2017, with the main point of the agenda being to approve the BIS's Annual Report and financial results for the period 2016–2017. NBS was represented at the event by Governor Jozef Makúch and by Bank Board member Karol Mrva (Executive Director of the Risk Management, Settlement and Payment Services Division). Among the matters discussed by the attending central bank governors and officials were cyclical fluctuations, interest rates, the global financial system, and current regulatory issues.

The 16th BIS Annual Conference was held in June under the title "Low for long or turning point?", with its focus on low interest rates in a global context. The event was attended by NBS Deputy Governor Ján Tóth.

The NBS Governor represents NBS at the BIS's bimonthly All Governors' Meeting for central bank governors. The meetings in 2017 addressed a number of current issues, including the macroeconomic repercussions of global value chains, central bank accountability, 'Big Data', and research priorities in central banking.

7.3 INTERNATIONAL ACTIVITIES IN THE FIELD OF SUPERVISION

European Systemic Risk Board (ESRB)

The ESRB General Board held four meetings in 2017. The General Board's members include the NBS Governor and the Executive Director of the NBS Financial Market Supervision Unit. Besides their regular focus on developments in systemic risk factors and intensity, the meetings covered various other areas, such as stress tests conducted by EIOPA and the EBA (with the adverse scenarios being provided to both institutions). The General Board also considered the financial stability and procyclicality implications of the implementation of International Financial Reporting Standard 9 (IFRS 9) as well as assessment of trends and risks arising from the commercial real estate market. Macroprudential structural buffers also came under discussion.

At its December meeting, the General Board adopted a Recommendation on liquidity and leverage risks in investment funds in response to the issue of liquidity risk in investment funds. This risk relates primarily to the maturity mismatch between assets and liabilities and to the use leverage.

The ESRB issued several publications in 2017, including the second *EU Shadow Banking Monitor,* an annual report that assesses structural changes and risks stemming from the shadow banking sector, as well as a report describing the macroprudential framework in EU Member States and the use of different macroprudential policy instruments.

European Banking Authority (EBA)

As a member of the EBA, Národná banka Slovenska helps ensure the performance of tasks resulting from decisions of the EBA Board of Supervisors. The NBS Financial Market Supervision (FMS) Unit participates in the work of EBA committees and working groups. In 2017 it submitted comments on documents concerning the regulation and functioning of the financial market in regard to banking, consumer protection, and anti-money laundering. (The AML texts were Guidelines on anti-money laundering and countering the financing of terrorism, published by the Joint Committee of the three European Supervisory Authorities, and the Joint Committee's Opinion on the risks of money laundering and terrorist financing.)

In 2017 NBS's ongoing cooperation with the EBA focused on the drafting of implementing technical standards (ITSs) and regulatory technical standards (RTSs) required under the EU's Capital Requirements Regulation and Directive (CRR/CRD IV) and related legal acts. The implementing and regulatory technical standards are aimed at meeting new requirements for an enhanced system of supervision over banks and investment firms, as well as at implementing certain specific CRR/CRD IV articles.

NBS cooperated with the EBA at all levels of competence, from working groups to the highest approval bodies.

European Insurance and Occupational Pensions Authority (EIOPA)

In 2017 NBS continued to perform tasks related to its participation in EIOPA's highest decision-making bodies: the Board of Supervisors and the Management Board. It was involved in EIOPA discussions, commented on draft texts, submitted proposals and opinions, and sought to establish a synergy between smaller member countries in the areas that are most important to them. NBS is represented on these EIOPA bodies by the Executive Director of the NBS Regulation and Financial Consumer Protection Division.

EIOPA underwent significant changes during 2017. These included a change in its organisational structure as well as a shift in its overall focus, away from regulation and towards supervision and the harmonisation of supervision across EU countries. During 2017 EIOPA continued work on the drafting of supervision handbooks and devoted more attention to the consistency and conduct of supervision across countries, so as to support, as far as possible, supervisory convergence.

In February 2017, EIOPA staff members conducted an on-site visit to NBS in order to examine NBS's organisation of insurance sector supervision and the Supervisory Review Process. A priority of the visit was to obtain information about the Slovak insurance market and the principal risks it faces. The visit also included discussion of NBS's approach to on-site inspections and off-site supervision, to risks, and to the setting of supervisory priorities and the evaluation of the effectiveness of supervisory practices using particular examples. The result of the visit was a final report that incorporated EIOPA recommendations. As part of its assessment of NBS, EIOPA advised the bank to concentrate on evaluating the business model followed by insurers and on reviewing whether insurers' solvency ratios were adequate for the Slovak market.

As regards the pension sector, staff members of the FMS Unit oversaw the stress testing of supplementary pension management companies (SPMCs) in Slovakia in 2017 as part of EIOPA's second EU-wide stress test exercise of Institutions for Occupational Retirement Provision (IORPS). The results for the resilience of SPMCs to market shocks and in particular to the risks of the low interest rate environment and increasing longevity were positive; they were subsequently presented to the market.

European Securities and Markets Authority (ESMA)

In 2017 ESMA continued to implement its *2016–2020 Strategic Orientation* document, the main purpose of which is to support supervisory convergence within the EU. It also focused on issues and activities related to the entry into application from 3 January 2018 of the EU's second Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation (MiFIR).

In the previous year, 2016, ESMA's activities in relation to the MiFID II/MiFIR package centred on the drafting of delegated and implementing legal acts; in 2017, however, its focus gradually shifted to issues surrounding the practical application and interpretation of the package, and in particular to the drafting of guidelines and Q&A documents. At the same time, it addressed information system issues related to the package.

In 2017, in addition to performing its core activities, ESMA began to pay close attention to new issues arising from the United Kingdom's referendum decision to leave the EU. In this regard, it focused on analysing the implications of 'Brexit' and preparations for the future setting of relations with the UK in regard to securities market supervision.

In 2017 a working group comprising representatives of ESMA and national supervisory authorities visited NBS as part of ESMA's Peer Review on the *Guidelines on certain aspects of the compliance function under MiFID*. In their meeting with NBS representatives, the working group focused not only on the subject matter of the Guidelines, but also on NBS's general approach to granting authorisations to investment firms and to supervising and sanctioning them. The NBS staff members presented the theoretical bases on which NBS conducts capital market supervision, with particular focus on investment firms and several case studies in this area. The working group gave a positive evaluation to the meeting as well as to NBS's overall approach to investment firm supervision, including its authorisation, supervision and sanction procedures. The working group identified three good practices that NBS employed in investment firm supervision, and these were incorporated into ESMA's list of general good practices for the whole EU. The final report on the Peer Review was published on the ESMA website on 29 November 2017.

7.4 TECHNICAL COOPERATION

NBS's long-running technical cooperation programmes with the central banks of Belarus and Ukraine continued in 2017. NBS organised two seminars for representatives of the National Bank of the Republic of Belarus (NBRB), one on financial consumer protection and another on the use of information technology in the area of human resources. The NBRB, for its part, hosted a seminar in Minsk on accounting. NBS also organised two seminars for representatives of the National

Bank of Ukraine (NBU), one on budgeting and another on information technologies used by NBS. Furthermore, staff members of the NBS Statistics Department took part in a seminar hosted by the NBU in Kiev. In 2017 NBS also provided the Central Bank of Montenegro with foreign technical assistance in the form of financial management training.

8 Communication

An important task of Národná banka Slovenska (NBS) is to provide information about developments in the Slovak and European economies and about the activities of financial market participants. The bank's communication with professionals and the general public in Slovakia is also conducted within the framework of the Eurosystem. This activity involves addressing target groups such as economists, institutions of research and education, specialists, and the media, and providing regular, trustworthy, transparent and timely information on foreign exchange operations and reserves, payment systems, monetary policy decisions, European supervision, the banking sector, the issuance of euro banknotes and coins, and current economic trends.

The most prominent subjects of NBS communications to the media in 2017 were the amendment to the Consumer Lending Act and related NBS decrees, the increasing levels of indebtedness, Prima banka's acquisition of Sberbank, consumer protection, and the introduction of the new €50 banknote into circulation. There was also strong media interest at the NBS press conference announcing that the life insurance company Rapid Life had been placed into receivership.

The bank may be contacted by e-mail at the addresses provided on its website. In 2017 it received 3,608 e-mails, including requests for information, suggestions, and complaints (about the conduct of banks and insurers). A total of 2,911 e-mails were received at the addresses dedicated to communication with the public: info@nbs.sk and webmaster@nbs.sk. Another 95 were requests for information under the Freedom of Information Act (No 211/2000 Coll.), received at infozakon@nbs.sk. The rest, 602, were received at the address for media enquiries, press@nbs.sk. The bank also fielded enquiries by telephone and from people who came to its headquarters in person.

Publications

Through its official publications in Slovak and English, the bank provides information and analysis from its main fields of activity. In 2017 these publications included the Annual Report, Financial Stability Report (biannual), Analysis of the Slovak Financial Sector (once a year), Monthly Bulletin, Report on the International Economy (quarterly), Report on the Slovak Economy (quarterly), Medium-Term Forecast (quarterly), and Statistical Bulletin (quarterly).[25] The bank also published 13 research papers[26], 12 Analytical Commentaries, and 144 Flash Commentaries. In support of the multilingual communication principles of the Eurosystem/European System of Central Banks (ESCB), NBS participates in the drafting of Slovak language versions of ECB official publications, which in 2017 included the ECB Annual Report, the ECB Annual Report on supervisory activities, and four editions of the ECB Economic Bulletin.[27] All of these publications are available on the NBS website in PDF and ePUB formats, and also include QR codes to further improve their accessibility.

The bank's information materials are one of its key communication tools, and in 2017 they included several types of printed promotional materials relating to collector coins and the new €50 banknote. The periodical banking journal Biatec[28] has been a major part of the bank's publishing activities since 1993. It comes out six times a year both in a print version and electronically on the NBS website. Most articles are in Slovak, but some may be in English or Czech.

Website

The NBS website continued to be developed in 2017 in order to make it more navigable and to improve its functionality. The Statistics section was restructured, and English versions of the Financial Consumer Protection pages were added.

25 http://www.nbs.sk/en/publications-issued-by-the-nbs
26 http://www.nbs.sk/sk/publikacie/publikacie-vyskumu
27 http://www.nbs.sk/sk/publikacie/publikacie-ecb
28 http://www.nbs.sk/sk/publikacie/biatec-odborny-bankovy-casopis

Further modifications were also made to the Financial Market Supervision section and to the website of the NBS Museum of Coins and Medals in Kremnica, so as to improve their responsiveness. In connection with preparations for the bank's 25th anniversary, changes were made to the webpages showing the timeline of the bank's history. The main pages of the NBS website are SSL certified, thereby enhancing the reliability and security of the service. The website's traffic in 2017 was similar to that in the previous year, with the total visits numbering around 2,770,000.

Information campaigns, talks, exhibitions and competitions

Information campaign for the new series of euro banknotes (ES2)

The €50 banknote of the new Europa series of euro banknotes (ES2) started circulating on 4 April 2017. NBS supported the ECB's information campaign surrounding the new series, including the Partnership Programme and dedicated website for the ES2 series. NBS also conducted its own campaign, which involved sending out 34,000 information materials to 225 entities (including retailers, commercial banks, cash handlers, and professional associations), issuing press releases, and putting out public service announcements on television and radio. Thanks to such targeted communication activities, the €50 banknote's circulation in Slovakia began smoothly.

Generation €uro Students' Award

The Generation €uro Students' Award[29] is an annual competition aimed at raising awareness among secondary school students about how monetary policy in the euro area works. The sixth edition of the competition, completed in 2017, was held in most euro area countries, with NBS overseeing the event in Slovakia. A total of 129 teams from Slovakia entered the 2016/17 competition. Of them, 41 passed the first round (an online quiz) and 25 took part in the second round by submitting an assignment on monetary policy. Looking at country participation in the competition relative to population size, Slovakia regularly ranks in the top three, and this time it was joined by Luxembourg and Portugal. The Slovak final was held on 24 March 2017. The winning team, from the V. P. Tóth Gymnasium in Martin, joined the winners of the other national competitions at the ECB's headquarters in Frankfurt am Main for the presentation of the final awards.

Euro Run initiative

The ECB launched the Euro Run initiative in 2017 as part of its activities related to the new €50 banknote. Aimed at children aged between nine and twelwe in euro area countries, the Euro Run interactive online game is part of the Eurosystem's Euro School educational project and aims to test knowledge of euro banknotes and coins. The NBS supported the game with several tools aimed at providing information to primary schools.

Each year NBS organises talks and workshops for school and university students, both from Slovakia and abroad. The talks focus mainly on the central bank's role in the Eurosystem, while the purpose of the workshops is to improve financial literacy. In addition, NBS has a long tradition of hosting research seminars in which Slovak and foreign researchers present the results of their work.

Exhibitions

Visitors to the bank may also enjoy its permanent exhibition entitled "Od slovenskej koruny k euru" (From the Slovak koruna to the euro), which is aimed mainly at primary and secondary school students. The exhibition was seen by around 1,500 students in 2017.

Archives

The NBS Archives are specialised public archives containing many archival fonds of documents from the bank and its predecessor institutions, which date back to the first half of the 19th century. The NBS Archives are managed by the Archives Section, which is responsible for collecting, processing and publishing their documents and making them available for viewing and searching. In 2017 the Archives Section received 98 requests for information about the archival documents and arranged 63 research visits to the NBS Archives. Most of the enquiries concerned historical information about various properties and information required for genealogical research.

In 2017 the technical plans of Slovak architect Friedrich Weinwurm for the Bratislava branch of the former bank Hypotečná banka česká (Czech

29 www.generaciaeuro.sk

Mortgage Bank) were lent to the Slovak National Gallery to be exhibited. The Archive Section also prepared the second edition of the collective monograph *Platidlá na Slovensku / Money in Slovakia*, which describes the historical development of money in what is now Slovakia and, in the second edition, includes an account of how the single European currency has progressed since 2011.

As for its cooperation last year with archives in Slovakia and abroad, the Archives Section focused on the issue of how to process and store electronic documents and on the obligations that archival and heritage institutions will have to meet under the EU's new General Data Protection Regulation, which enters into force in May 2018.

NBS registry and archival activities in 2017 centred mainly on the adaptation of IT systems to the requirements of registry and archive management and to the needs of NBS staff members, as well as on training people in the use of these systems.

Documentation Centre

The NBS Documentation Centre further improved the quality of its library and information retrieval services in 2017, mainly through the upgrading of its Advanced Rapid Library (ARL) information system and through the strengthening of its reference and advisory services for NBS staff members. Using the upgraded ARL, NBS staff members enjoyed faster electronic access to publications on economics, legal issues, and other specialist topics. Accesses to these resources directly from staff workstations totalled 8,182 in 2017. During the year the centre fielded 1,230 enquiries concerning the use of its electronic resources and databases, made by telephone, by e-mail and in person. Altogether, NBS staff members made 1,324 in-person visits to the centre, read 653 texts in its reading room, and borrowed a further 1,510 texts. In addition to information about its library, the centre last year published information about available databases and electronic magazines and journals and about published works by NBS staff members between 1993 and 2017, as well as thematic summaries of queries for information on current economic areas. It also provided information services to professionals and to domestic and foreign university students (mainly students of economics or law), mostly in the form of queries for information on matters of banking and economics (155 in total).

Museum of Coins and Medals in Kremnica

The **Museum of Coins and Medals in Kremnica,**[30] administered by Národná banka Slovenska, maintains collections containing almost one hundred thousand items in total. One of its two permanent exhibitions, entitled ***"Two faces of money– and medal-making in the history of Slovakia"***, documents the history of money and medal-making in what is now Slovakia, from pre-coinage means of payment to today's banknotes and coins. The other permanent exhibition is the ***"Town Castle"*** in Kremnica–a complex of historical buildings in which the museum exhibits a range of antique items. Among the museum's assets is a unique collection of stoneware pieces made at a former factory in Kremnica, which are on display at the museum's "Townhouse" in a long-term exhibition entitled ***"The charm of stoneware gardens – The Kremnica stoneware factory of 1815 to 1956".***

The museum's **XIV International Symposium of Medals** was held over four weeks between 2 and 29 October 2017, with the participating medallists each tasked with producing designs for one struck medal and five cast medals. The participants were Amanullah Haiderzad (United States), Majid Jammoul (Poland), Mihaela Kamenova (Bulgaria), Jānis Strupulis (Latvia) and Peter Durbák (Slovakia). The theme chosen for the double-sided struck medal was the approaching 25th anniversary of Národná banka Slovenska (1993-2018). The medals produced from the participants' designs were displayed at the "Two faces of money" exhibition from 28 October 2017 to 31 January 2018, along with med-

30 www.muzeumkremnica.sk

als produced during the symposium's history going back to 1988.

In 2017 the museum issued a publication entitled *Poklad keltských mincí z Hrhova (The Celtic coin treasure of Hrhov)* by Július Fröhlich, which describes and catalogues a find of Celtic coins at Hrhov and includes a typological and metrological analysis. The work also explores the economic and social history of the region and the possible reasons for the hiding of the treasure.

At the 14th running of the collectors fair *"Bratislava Collector Days"* (2-3 June 2017), the museum commemorated the 300th anniversary of the birth of Austrian Empress Maria Theresa and put on an impressive display of coin and medal series.

The museum also contributed pieces of Baroque art to an international exhibition project entitled "Treasures of the Baroque – Between Bratislava and Cracow". Held at the National Museum in Cracow, the exhibition presented almost 150 items from more than twenty institutions. It was the first time that Baroque art from what is now Slovakia had been displayed in an exhibition abroad. The exhibition was open to the public from 10 February to 23 April 2017.

From 10 to 30 August 2017 the museum put on an exhibition at the premises of the National Bank of Serbia in Belgrade. Entitled *"From the Biatec to the Euro – The history of money and medal-making in Slovakia"*, the exhibition presented the historical development of currencies and monetary systems used in the territory now called Slovakia. Visitors were able to learn about pre-coinage means of payment in the territory, about the oldest Celtic and Roman coins found there, and about the currencies of Great Moravia, the Hungarian Kingdom, the Habsburg Empire, Czechoslovakia/the wartime Slovak state, and present-day Slovakia (where the euro was adopted in 2009, replacing the koruna). The exhibition also included a brief overview of the history of medal-making in this region. The opening of the exhibition on 10 August was attended by the governors of the Serbian and Slovak central banks, Jorgovanka Tabaković and Jozef Makúch, other representatives of both institutions, and representatives of Slovakia's Ministry of Foreign and European Affairs, Serbian cultural institutions, and the ethnic Slovak community of the Vojvodina region of Serbia.

Every year the museum holds a number of temporary exhibitions at its Gallery in Kremnica. In 2017 there were five such exhibitions:

- ***Kresba v procese*** *(Drawing in process)* – organised in cooperation with the Academy of Fine Arts in Bratislava, the exhibition presented 'student drawing' in three separate displays and included some works from the museum's collections which were more than one hundred years old (23 February to 28 April2017);
- ***Salvador Dalí: Ja som surrealizmus!*** *(Salvador Dalí: I am surrealism!)* – undertaken together with the company Art Expo International, this was an outstanding exhibition of a private collection of works by Salvador Dalí, the greatest representative of the international surrealist movement (12 May to 13 August 2017);
- ***Kremnické gagy 2017 – Karikaturisti*** *(Kremnica Gags – Caricaturists)* – held as part of the

regular European Festival of Humour and Satire called *Kremnica Gags,* the exhibition features the works by Slovak and foreign caricaturists that were nominated for the festival's Golden Gander Award (25 August to 30 September 2017);

- ***Ora et Ars Viator – Skalka Putujúca –*** a travelling exhibition presenting a selection of artworks produced at the "International Symposium of Fine and Literary Art: Ora et Ars – Skalka 2017" (12 October to 24 November 2017;
- ***Textilná tvorba 2017*** *(Textile creations 2017)* – the 7th edition of the Slovak-wide competitive exhibition for non-professional textile works, organised in cooperation with the Pohronie Cultural Centre in Žiar nad Hronom (8 December 2017 to 31 January 2018).

The following smaller exhibitions were held in 2017 as part of the Two Faces of Money exhibition:

- ***23. Medzinárodné sympózium umeleckého šperku Kremnica 2015*** *(23rd International Symposium of Jewellery Art)* – an exhibition of jewellery artworks created at the symposium (28th July to 1 September 2017);
- ***XIV. Medzinárodné sympózium medailí Kremnica 2015*** *(XIV International Symposium of Medals)* – an exhibition of struck and cast medals designed at the symposium (28 October to 31 January 2018.

The museum regularly participates in the annual *Night of the Museums* international event, which in 2017 took place on 20 May. In summer, the museum held a series of family events: *The Charm of Ceramics*; *Picnic at the Castle*; *Museum Stories*; and *Summer Night of the Muses – Spectres at the Castle*. To mark the "Month of Respect for the Elderly", the museum put on a special programme for seniors entitled *Autumn at the Museum*. In November, St Catherine's Church at the Town Castle was the venue for a poetry event called *Pars Poetry 2017*. In December, a number of Christmas events were held at the Town Castle, including the *Advent Concert, Christmas Mini-Markets,* and dramatized guided tours under the title *On a Christmas Star*. In 2017 more than 46,000 people from Slovakia and abroad visited the museum's various exhibitions and events.

9 Legislation

In 2017 Národná banka Slovenska (NBS) continued to exercise its competences in the drafting of legislation (including the transposition of relevant EU laws) in accordance with Article 30 of Act No 566/1992 on Národná banka Slovenska, as amended ('the NBS Act'). Under Article 30(1) of the NBS Act, the bank submits draft laws on currency circulation to the Slovak Government. Under Article 30(2), draft laws concerning foreign exchange relations, payment systems, payment services, or the financial market (including the banking sector and NBS activities) are jointly submitted by the bank and the Slovak Finance Ministry to the Slovak Government. Also as part of its legislative remit, the bank drafts and issues secondary legislation in the form of NBS decrees and regulations. The bank's authority to issue secondary legislation of general application is based on Article 56(1) 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 2017 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 530/1990 Coll. on bonds, as amended, was amended in 2017 by Act No 279/2017 Coll. Act No 310/1992 Coll. on home savings, as amended, was amended in 2017 by Act No 279/2017 Coll.

Act No 118/1996 Coll. on deposit protection (and amending certain laws), as amended, was amended in 2017 by Act No 55/2017 Coll.

Act No 483/2001 Coll. on banks (and amending certain laws), as amended, was amended in 2017 by Act No 2/2017 Coll., Act No 264/2017 Coll. and Act No 279/2017 Coll.

Act No 566/2001 Coll. on securities and investment services (and amending certain laws) (the

Securities Act), as amended, was amended in 2017 by Act No 237/2017 Coll.

Act No 429/2002 Coll. on stock exchanges, as amended, was amended in 2017 by Act No 237/2017 Coll.

Act No 747/2004 Coll. on financial market supervision (and amending certain laws), as amended, was amended in 2017 by Act No 237/2017 Coll. and Act No 279/2017 Coll.

Act No 186/2009 Coll. on financial intermediation and financial advisory services (and amending certain laws), as amended, was amended in 2017 by Act No 282/2017 Coll.

Act No 492/2009 Coll. on payment services (and amending certain laws), as amended, was amended in 2017 by Act No 281/2017 Coll.

Act No 129/2010 Coll. on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended, was amended in 2017 by Act No 279/2017 Coll.

Act No 203/2011 Coll. on collective investment, as amended, was amended in 2017 by Act No 237/2017 Coll. and Act No 279/2017 Coll.

Act No 371/2014 Coll. on resolution in the financial market (and amending certain laws), as amended, was amended in 2017 by Act No 279/2017 Coll.

Act No 39/2015 Coll. on insurance (and amending certain laws), as amended, was amended in 2017 by Act No 282/2017 Coll.

Act No 90/2016 Coll. on housing loans (and amending certain laws), as amended, was amended in 2017 by Act No 279/2017 Coll.

Act No 43/2004 Coll. on the old-age pension scheme (and amending certain laws), as amended, was amended in 2017 by Act No 97/2017 Coll. and Act No 279/2017 Coll.

Act No 650/2004 Coll. on the supplementary pension scheme (and amending certain laws), as amended, was amended in 2017 by Act No 279/2017 Coll.

IMPLEMENTING LEGISLATION OF GENERAL APPLICATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2017

Decrees promulgated in the Collection of Laws of the Slovak Republic by the publication of a notification of their issuance

Decree No 1/2017 of Národná banka Slovenska of 30 May 2017 on risks, risk management and measurement systems, and the calculation of global exposure and counterparty risk in supplementary pension funds.

Decree No 2/2017 of Národná banka Slovenska of 20 June 2017 amending Decree No 8/2012 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska, as amended.

Decree No 3/2017 of Národná banka Slovenska of 20 June 2017 on reporting by banks, foreign bank branches and investment firms for data collection purposes under a separate law.

Decree No 4/2017 of Národná banka Slovenska of 10 July 2017 on the elements of a notification required to identify other persons who, by virtue of their relationship to the notifier, have a special relationship with a bank or foreign bank branch.

Decree No 5/2017 of Národná banka Slovenska of 10 July 2017 on the elements of a bank's application for prior approval to establish a foreign branch.

Decree No 6/2017 of Národná banka Slovenska of 5 September 2017 amending Decree No 5/2015 of Národná banka Slovenska on how to demonstrate compliance with conditions for the granting of prior approval of Národná banka Slovenska under Article 77(1) of Act No 39/2015 Coll. on insurance (and amending certain laws).

Decree No 7/2017 of Národná banka Slovenska of 5 September 2017 amending Decree No 8/2015 of Národná banka Slovenska on how to demonstrate compliance with conditions under which undertakings not subject to a special regime may be authorised to conduct insurance business or reinsurance business.

Decree No 8/2017 of Národná banka Slovenska of 5 September 2017 amending Decree No

35/2015 of Národná banka Slovenska on how insurance undertakings subject to a special regime are to demonstrate compliance with conditions for the granting of an authorisation to conduct insurance business.

Decree No 9/2017 of Národná banka Slovenska of 14 November 2017 laying down national discretions for institutions under a separate regulation.

Decree No 10/2017 of Národná banka Slovenska of 14 November 2017 laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans.

Decree No 11/2017 of Národná banka Slovenska of 28 November 2017 amending Decree No 17/2014 of Národná banka Slovenska on reporting for statistical purposes by banks, branches of foreign banks, investment firms and branches of foreign investment firms, as amended.

Decree No 12/2017 of Národná banka Slovenska of 28 November 2017 amending Decree No 22/2014 of Národná banka Slovenska on reporting for statistical purposes by payment institutions, branches of foreign payment institutions, electronic money institutions and branches of foreign electronic money institutions, as amended by Decree No 24/2015.

Decree No 13/2017 of Národná banka Slovenska of 12 December 2017 on reporting for supervisory purposes by banks and branches of foreign banks.

Decree No 14/2017 of Národná banka Slovenska of 12 December 2017 on reporting for supervisory purposes by creditors providing consumer loans.

Decree No 15/2017 of Národná banka Slovenska of 12 December 2017 amending Decree No 13/2014 of Národná banka Slovenska of 29 July 2014 on reporting for supervisory purposes by investment firms and branches of foreign investment firms, as amended.

Decree No 16/2017 of Národná banka Slovenska of 12 December 2017 amending Decree No 16/2007 of Národná banka Slovenska of 18 December 2007 on reporting for supervisory purposes by stock exchanges and central securities depositories, as amended.

10 Institutional developments

10.1 Institutional framework

Národná banka Slovenska (NBS) was established as the independent central bank of Slovakia on 1 January 1993, under Act No 566/1992 Coll. on Národná banka Slovenska ('the NBS Act'). The bank is a member of the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks of those countries that have adopted the euro. It joined the Eurosystem on 1 January 2009, when the euro was introduced in Slovakia. The NBS Governor is a member of the ECB's Governing Council, the Eurosystem's highest decision-making body.

The bank contributes to the activities of the Eurosystem and the ESCB through its involvement in the Eurosystem/ESCB committees and working groups. The Eurosystem/ESCB committees operating in 2017 were as follows:

- 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
- Market Infrastructure and Payments Committee

- Risk Management Committee
- Statistics Committee
- Budget Committee
- Human Resources Conference

As the national supervisory authority in Slovakia, NBS has been part of the EU's Single Supervisory Mechanism (SSM) since the SSM came into operation on 4 November 2014. The SSM is a mechanism for exercising supervision over credit institutions in participating EU Member States.

NBS participates in specific supervisory tasks of the ECB through the direct involvement of staff members of the NBS Financial Market Supervision Unit in Joint Supervisory Teams and through cooperation in the drafting of ECB decisions. As regards the supervision of significant banks, NBS exercises supervision over the banks' activities on a daily basis, continuously monitors quantitative data, and oversees risk management processes.

Slovakia's Resolution Council was established in January 2015 as part of the EU's Single Resolution Mechanism – the second pillar of the Banking Union – with NBS assigned the role of providing expertise to the Council and organising its functioning. In 2017 NBS staff members worked in internal resolution teams established for all significant banks in Slovakia and contributed to the successful finalisation of the third version of resolution plans.

Since 1 January 2015, in accordance with its competences under the Financial Market Supervision Act, NBS has been supervising the protection of financial consumers and other customers with regard to the marketing and provision of financial services by supervised entities and by entities operating without NBS authorisation.

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 NBS Act, other legislation of general application, and the Organisational Rules of NBS.

The Bank Board currently comprises five members including the Governor and Deputy Governor. In 2017 the previous Deputy Governor's term of office ended on 5 November, and consequently the Bank Board had four members for the rest of the year.

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

The number of Bank Board members has been set at six since 1 January 2015, under the NBS Act. The term of office of Bank Board members is six years (or five years for those appointed before 1 January 2015), 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 terms.

The members of the Bank Board as at 31 December 2017 were:

- Jozef Makúch, Governor;
- Vladimír Dvořáček, Executive Director of the Prudential Supervision Division and Executive Director of the Financial Market Supervision Unit;
- Karol Mrva, Executive Director of the Risk Management, Settlement and Payment Services Division;
- Ľuboš Pástor, external member.

Until 5 November 2017, when his term of office ended, Ján Tóth was Deputy Governor reponsible for the Monetary Policy Statistics and Research Division.

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 bank's managing, executive and coordination authority.

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

The NBS Bank Board as at 31 December 2017

First row (from the left): Jozef Makúch (Governor), Ján Tóth (Deputy Governor)*.
Second row (from the left): Karol Mrva, Vladimír Dvořáček, Ľuboš Pástor.
*Mr Tóth's term as Deputy Governor and his membership of the Bank Board ended on 5 november 2017.

The members of the Executive Board as at 31 December 2017 were:

- Jozef Makúch, Governor;
- Štefan Králik, Executive Director of the Legal Services and Cash Management Division;
- Karol Mrva, Executive Director of the Risk Management, Settlement and Payment Services Division;
- Vladimír Dvořáček, Executive Director of Prudential Supervision Division and Executive Director of the Financial Market Supervision Unit;
- Miroslav Uhrin, Executive Director of the Financial Management, Banking Transactions and Information Technology Division;
- Viliam Ostrožlík, Executive Director of the Facility Services and Security Division;
- Júlia Čillíková, Executive Director of the Regulation and Financial Consumer Protection Division;
- Renáta Konečná, General Director of the Economic and Monetary Analysis Department and acting Director of the Monetary Policy, Statistics and Research Division.

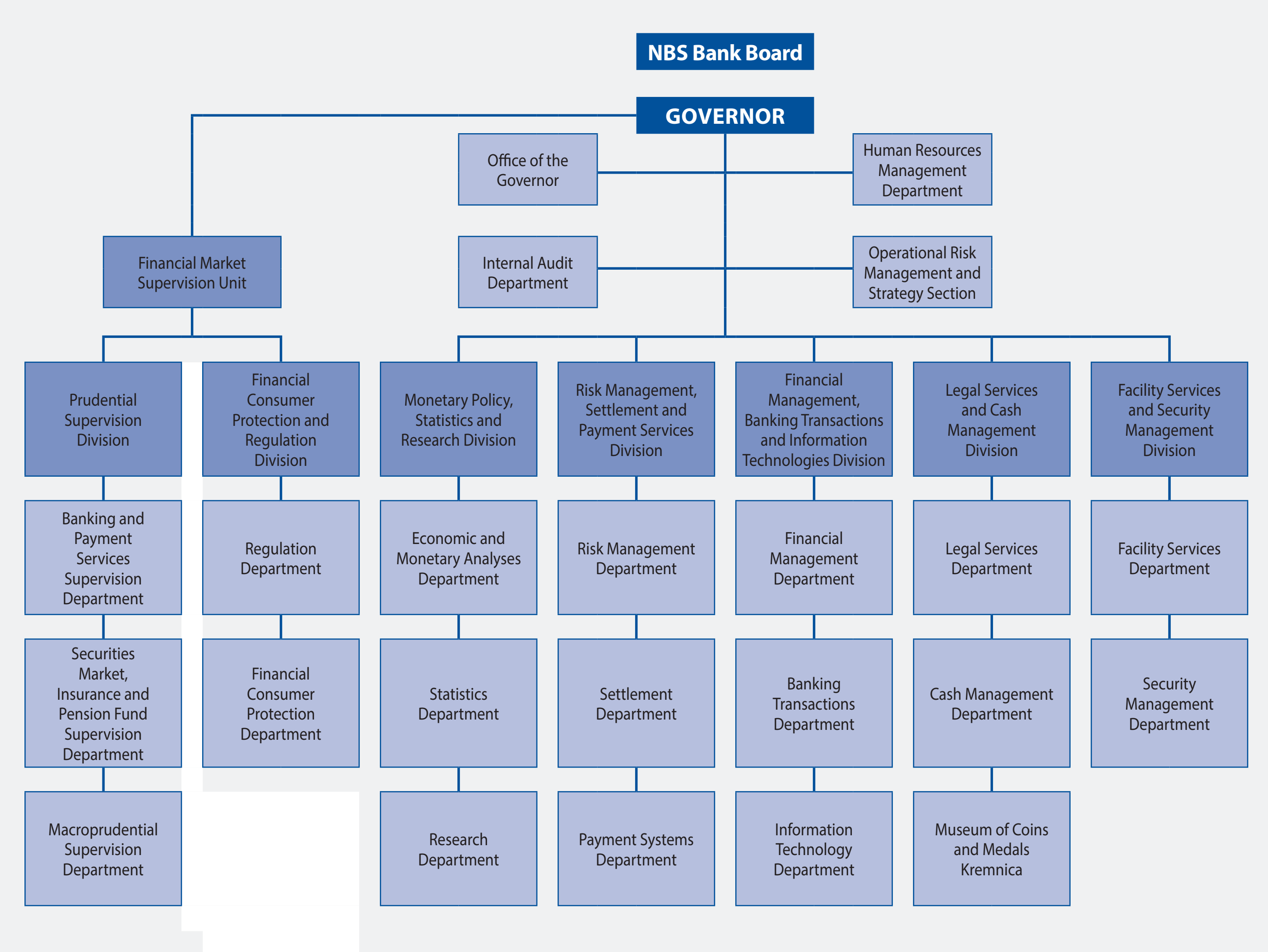
Under an amendment to the NBS Organisational Rules which was approved in 2017 and entered into force on 1 January 2018, the remits of certain organisational units were modified.

10.3 HUMAN RESOURCES

Národná banka Slovenska had 1,093 employees as at 31 December 2017. A total of 59 employees ended their employment with the bank in 2017 and 75 were hired. There were 87 recruitment campaigns for 95 vacancies.

Staff exchanges between ESCB national central banks, the European Central Bank and other international financial institutions support staff mobility within the ESCB, the exchange of experience and know-how, and staff development. A total of eleven NBS employees were on secondment during the whole or part of 2017, either at the ECB, the Bank for International Settlements, or the International Association of Insurance Supervisors.

NBS organisational structure as at 31 December 2017



The rules and principles of staff remuneration at the bank are laid down in an internal NBS Work Regulation. The average monthly salary in 2017 was €2,239.19.

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 921 as at 31 December 2017.

10.4 TRAINING AND DEVELOPMENT

To support employees in their educational and professional development, the Human Resources Management Department, in cooperation with the bank's Institute of Banking Education, arranges staff participation in courses tailored to their identified requirements and the needs of their respective unit.

The courses run in 2017 were attended by 1,039 employees and focused on the following areas:

- professional training;
- management training and development;
- language training;
- IT training;
- social skills training;
- general training.

In 2017 a number of NBS employees pursued their professional development by attending events organised abroad by ESCB national central banks, national supervisory authorities, and other institutions, including the Joint Vienna Institute, the Financial Stability Institute and the Federal Reserve Bank of New York.

Every year a number of NBS employees conduct professional training by performing teaching, lecturing and consultation activities. In 2017 a total of 91 employees from 19 departments were engaged in such activity.

Six undergraduate students completed internships at the bank in 2017, including one studying in Slovakia and five studying in other European Union countries.

The bank hosted the following two ESCB and SSM training activities: *Economics for Non-Economists*; *Meetings in a Multicultural Context;* and one open training activity *English in Legal and Contractual Central Banking Practice* in 2017.

10.5 ENVIRONMENTAL POLICY

Národná banka Slovenska takes a responsible approach to the impact of its activities on the environment. A core element of this approach is strict compliance with Slovak legislation and European Commission recommendations on environmental matters. The bank has implemented several measures aimed at meeting its four principal environmental policy objectives:

Air protection

The bank has ceased using fully halogentated hydrocarbons and halon in its air-conditioning systems. These systems and the fixed fire-fighting equipment at NBS premises are subject to regular inspection and servising that prevents them leaking any undesirable substances into the air.

Water protection and water use efficiency

By having waste water samples from its premises regularly monitored and laboratory tested and by upgrading the grease traps used in its kitchens, the bank has reduced the risk of pollutants seeping into the public sewerage system. The bank ensures efficient management of its drinking water mainly by taking measures to prevent plumbing system malfunctioning and breakdowns and by using water-saving equipment.

Energy efficiency

In 2017 the bank reduced its electricity consumption for lighting by 40%. It achieved this largely by replacing old lighting and by producing its own electricity in cogeneration units.

Waste management

Waste separation is now an integral feature of working life at the bank. The total weight of the bank’s separately collected waste in 2017 was 3,424 kg, comprising 2,800 kg of paper and 624 kg of plastic.

In 2017 NBS continued to support environmental protection initiatives both at the global level (*Earth Day* and *Earth Hour*) and in Slovakia *(Bike to Work)*.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2017

C

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Národná banka Slovenska

INDEPENDENT AUDITOR'S REPORT

To the Bank Board of Národná banka Slovenska:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS"), which comprise the balance sheet as at 31 December 2017, the income statement for the year then ended, and notes, which include a summary of significant accounting policies and accounting methods.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2016/34 (hereinafter the "ECB Guideline") and the Act on Accounting No. 431/2002 Coll. as amended (hereinafter the "Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Národná banka Slovenska for the year ended 31 December 2016 were audited by another auditor, which expressed an unqualified opinion thereon dated 14 March 2017.

Responsibilities of the Bank Board of the NBS for the Financial Statements

The Bank Board of the NBS is responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the ECB Guideline and the Act on Accounting, and for such internal control as the Bank Board of the NBS determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank Board of the NBS is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

This is an English language translation of the original Slovak language document.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank Board of the NBS.
- Conclude on the appropriateness of the Bank Board of the NBS's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

The Bank Board of the NBS is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting and Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (hereinafter the "Act on NBS"). Our opinion on the financial statements stated above does not apply to other information disclosed in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

When we obtain the annual report, we will evaluate whether the Bank's annual report includes information whose disclosure is required by the Act on Accounting and Act on NBS, and based on procedures performed during the audit of the financial statements, we will express our opinion on whether:

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting and Act on NBS.

Furthermore, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Bank and its position, obtained in the audit of the financial statements.

Bratislava, 6 March 2018

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Zuzana Letková, FCCA
Responsible Auditor
Licence SKAu No. 865

This is an English language translation of the original Slovak language document.

Národná banka Slovenska
Financial statements as at 31 December 2017 – Balance Sheet
(in thousands of EUR)

BALANCE SHEET
of Národná banka Slovenska

ASSETS	Note	31 Dec 2017 EUR '000	31 Dec 2016 EUR '000
A1 Gold and gold receivables	1	1,102,289	1,118,757
A2 Claims on non-euro area residents denominated in foreign currency	2	3,805,316	1,885,015
A3 Claims on euro area residents denominated in foreign currency	3	440,484	272,732
A4 Claims on non-euro area residents denominated in euro	4	1,052,919	2,187,170
A5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	1,081,700	761,370
A6 Other claims on euro area credit institutions denominated in euro	6	19,114	23,135
A7 Securities of euro area residents denominated in euro	7	20,084,383	15,080,227
A8 General government debt denominated in euro		0	0
A9 Intra-Eurosystem claims	8	9,792,091	1,225,880
A10 Items in course of settlement		0	0
A11 Other assets	9	5,129,342	5,315,374
A12 Loss for the year		0	0
TOTAL ASSETS		**42,507,638**	**27,869,660**

LIABILITIES	Note	31 Dec 2017 EUR '000	31 Dec 2016 EUR '000
L1 Banknotes in circulation	10	11,818,378	11,369,151
L2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	1,953,084	1,876,725
L3 Other liabilities to euro area credit institutions denominated in euro	12	766,202	2,787,545
L4 Debt certificates issued		0	0
L5 Liabilities to other euro area residents denominated in euro	13	1,603,211	997,730
L6 Liabilities to non-euro area residents denominated in euro	14	22,160,033	1,571,094
L7 Liabilities to euro area residents denominated in foreign currency	15	750,512	912,905
L8 Liabilities to non-euro area residents denominated in foreign currency	16	844,082	860,198
L9 Counterpart of special drawing rights allocated by the IMF	17	404,353	433,972
L10 Intra-Eurosystem liabilities	18	219,343	5,041,652
L11 Items in course of settlement		0	0
L12 Other liabilities	19	354,487	338,054
L13 Provisions	20	643,849	638,313
L14 Revaluation accounts	21	504,595	537,499
L15 Capital and reserves	22	357,797	357,797
L16 Profit for the year	35	127,712	147,025
TOTAL LIABILITIES		**42,507,638**	**27,869,660**

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This version of the accompanying financial statement is a translation from the original, which was prepared in Slovak, and all due care has been taken to ensure that it is an accurate representation. However, in interpreting information, views or opinions, the original language version of the financial statements takes precedence.

Národná banka Slovenska
Financial statements as at 31 December 2017 – Profit and Loss Account
(in thousands of EUR)

PROFIT AND LOSS ACCOUNT of Národná banka Slovenska

	Note	31 Dec 2017 EUR '000	31 Dec 2016 EUR '000
1.1 Interest income		161,076	141,819
1.2 Interest expense		(50,162)	(46,715)
1 Net interest income	24	**110,914**	**95,104**
2.1 Realised gains/(losses) arising from financial operations		32,513	43,201
2.2 Write-downs on financial assets and positions		(12,611)	(14,097)
2.3 Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		0	30,000
2 Net result of financial operations, write-downs and risk provisions	25	**19,902**	**59,104**
3.1 Fees and commissions income		2,190	1,034
3.2 Fees and commissions expense		(1,040)	(1,180)
3 Net income/(expense) from fees and commissions	26	**1,150**	**(146)**
4 Income from equity shares and participating interests	27	**14,381**	**14,337**
5 Net result of pooling of monetary income	28	**78,139**	**67,094**
6 Other income	29	**13,094**	**11,779**
Total net income		**237,580**	**247,272**
7 Staff costs	30	**(45,573)**	**(43,762)**
8 Administrative expenses	31	**(19,300)**	**(19,026)**
9 Depreciation of tangible and intangible fixed assets	32	**(8,758)**	**(8,348)**
10 Banknote production services	33	**(93)**	**(6,107)**
11 Other expenses	29	**(7,684)**	**(4,947)**
12 Income tax and other charges on income	34	**(28,460)**	**(18,057)**
Profit for the year	35	**127,712**	**147,025**

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NOTES

to the Financial Statements as at 31 December 2017

Bratislava, 6 March 2018

This version of the accompanying financial statement is a translation from the original, which was prepared in Slovak, and all due care has been taken to ensure that it is an accurate representation. However, in interpreting information, views or opinions, the original language version of the financial statements takes precedence.

(in thousands of EUR)

A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska (the "NBS" or the "Bank") was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (the „NBS Act"). The NBS commenced its activities on 1 January 1993.

Upon euro adoption in Slovakia on 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 the results of its operations to the National Council of the Slovak Republic within three months of 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 Bank'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 provide explanations to the submitted report.

The supreme governing body of the NBS is the Bank Board of the NBS (the "Bank Board"). As at 31 December 2017, the Bank Board had the following structure:

Name	Term of Office in the Bank Board		Current Position	Date of Appointment
	from	until		
doc. Ing. Jozef Makúch, PhD.	1 January 2006	12 January 2021	Governor	12 January 2015
RNDr. Karol Mrva	1 June 2012	2 June 2023	Member	2 June 2017
Ing. Vladimír Dvořáček	2 April 2014	2 April 2019	Member	2 April 2014
prof. Mgr. Ľuboš Pástor, M.A. PhD.	15 March 2015	15 March 2021	Member	15 March 2015

The term of office of Deputy Governor, Mgr. Ján Tóth, M. A., ended as at 5 November 2017.

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Legal framework and accounting principles

The Bank applies accounting principles in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2016/34 (the "ECB Guideline"). When recognising transactions not regulated by the ECB Guideline, the Bank observes International Financial Reporting Standards. 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 fundamental accounting principles:

- Economic reality and transparency
- Prudence
- Recognition of post-balance sheet events
- Materiality
- Accruals principle
- Going-concern basis
- Consistency and comparability

Assets and liabilities are only held on the balance sheet if it is probable that any future economic benefits associated with them will flow to or from the Bank, all risks and benefits have been transferred to the Bank and the assets or liabilities can be valued reliably.

Foreign exchange transactions, financial instruments excluding securities, and the corresponding accruals, are subject to the economic principle. 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 and transactions with 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.

Interest accruals attributable to financial instruments are calculated and recorded on a daily basis. Accruals of premium and discount are recorded using the internal rate of return method (IRR). In other cases, the linear method is applied. Interest accruals are reported separately from the financial instrument in "Other assets" or "Other liabilities". Accruals of premium and discount are reported together with the financial instrument.

When preparing the financial statements, the Bank acts in accordance with the recommended harmonised disclosures for Eurosystem national central banks' annual accounts.

The Bank does not prepare consolidated financial statements in accordance with Article 22 of the Act on Accounting.

(b) Valuation of assets and liabilities

Financial assets and liabilities, excluding held-to-maturity securities, securities held for monetary policy purposes and non-marketable participating interests, are valued on a monthly basis at mid-market rates and prices. Foreign currency revaluation, including balance sheet and off-balance sheet transactions, is performed for each currency separately; securities are valued for each ISIN separately and interest rate swaps and futures agreements are valued individually. For gold, no distinction is made between price and currency revaluation differences.

Securities held for monetary policy purposes are valued at amortised 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. The provision for impairment of securities acquired under the securities market programme ("SMP"), the third covered bond purchase programme ("CBPP3") and securities issued by international organisations and multilateral development banks acquired under the public sector purchase programme on the secondary market ("PSPP") is created in percentage proportion to the prevailing ECB capital key shares valid at the time of the initial impairment. In the event of an impairment of securities acquired under the covered bond purchase programme ("CBPP1") or securities issued by the Government of the Slovak Republic acquired under the PSPP programme the Bank creates a provision in full amount (see Note 7).

Current accounts and deposits granted/received and loans are valued at face value.

Participating interests, except the BIS Investment Pool Sovereign China fund denominated in CNY (Chinese Yuan Renminbi) ("BISIP CNY"), are valued at historical cost and are subject to an impairment test. A provision is recognised for the impairment in participating interests through profit/loss. The BISIP CNY fund is valued at market value on a monthly basis, based on the supporting documentation from the Bank for International Settlements ("BIS") in Basel, Switzerland.

(in thousands of EUR)

The exchange rates of key foreign currencies against EUR 1, used to value the assets and liabilities as at 31 December 2017, were as follows:

Currency	31 Dec 2017	31 Dec 2016	Change
GBP	0.88723	0.85618	0.03105
USD	1.19930	1.05410	0.14520
JPY	135.01000	123.40000	11.61000
XDR	0.84203	0.78456	0.05747
CNY	7.80440	7.32020	0.48420
EUR/ozs*	1,081.881	1,098.046	(16.16500)

* 1 ozs (troy ounce) = 31.1034807 g

(c) Accounting and recognition of revenues

Realised profits and losses are derived from the daily valuation of changes in assets and liabilities and represent the difference between the transaction value and the average value of the respective financial instrument or currency. They are recognised directly in the profit and loss account.

Unrealised profits and losses result from the monthly valuation of assets and liabilities and represent the difference between the average value and the month-end accounting and market value of the respective financial instrument or currency. Unrealised profits are shown in equity on revaluation accounts (see Note 21). Unrealised losses in excess of unrealised revaluation profits from the given financial instrument or currency are recognised in the profit and loss account. Unrealised losses on a financial instrument or currency are not netted off against unrealised profits made on another financial instrument or currency. In the event of an unrealised loss at year-end, the average acquisition cost is adjusted to the year-end exchange rate or fair value of the valued item. Unrealised revaluation losses on interest rate swaps and marketable securities are amortised to income in the following years.

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

According to the agreed recommended harmonised disclosure rules, the Bank presents the negative interest income or expense stemming from the application of negative interest rates on a net basis with other interest income or expense on the underlying transactions. The net interest income is included in interest income; net interest expense is included in interest expense.

(d) Gold and gold receivables

Gold swap transactions are recognised as repurchase transactions with gold (see Notes 12, 14 and 16). The gold used in such transactions remains in the Bank's total assets under the item "Gold and gold receivables".

(e) Debt securities

At initial recognition, securities are valued at transaction costs. Fees which are not part of the transaction costs are directly recognised in the profit and loss account and are not considered as part of the average cost of the securities.

Securities are recognised together with the accrued premium and discount. Coupons are recorded under "Other assets". The withholding income tax on bonds and treasury notes is recognised in the profit and loss account under “Income tax and other charges on income” (see Note 34).

(f) Derivatives

Spot, forward and swap transactions are included in the net currency positions for calculating the average acquisition cost of currencies and foreign exchange gains and losses. They are recognised 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.

The forward position of currency swaps is valued together with the related spot position, so the currency position is only affected by the accrued interest in foreign currency.

Interest rate swaps are recorded in the off-balance sheet accounts from the trade date until the settlement date. They are valued based on generally accepted valuation models using corresponding yield curves derived from quoted interest rates.

For interest rate or currency swaps, if there is an increase or decrease in the net swap position, a collateral adjustment in the form of deposits with a daily extension is agreed upon contractually with selected counterparties. Payment of interest is on a monthly basis (see Notes 9 and 19).

The Bank recognises futures contracts on off-balance sheet accounts from the trade date to the settlement at the nominal value of the underlying instrument. Initial margins may be provided either in cash, or as securities. The initial deposit in the form of securities is not accounted for. The daily settlement of revaluation differences on the margin account is recognised in the profit and loss account.

(g) Reverse transactions

Reverse transactions are the transactions that the Bank conducts under reverse repo agreements or collateralised loan transactions.

Repo agreements (repo transactions) are recognised as a collateralised inward deposit on the liabilities side of the balance sheet, and the item provided as collateral remains on the assets side of the balance sheet. Securities provided under a repo transaction remain part of the Bank’s portfolio.

Reverse repo agreements (reverse transactions) are recognised as a collateralised outward loan on the assets side of the balance sheet. Securities accepted under a reverse repo 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 extended on a daily basis (see Notes 12 and 14).

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

(h) Banknotes in circulation

Pursuant to 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 of the total amount of banknotes in circulation is 8%. Pursuant to the Decision cited above, the NBS's share of the total issue of euro banknotes within the Eurosystem is 1.0095%. The share of banknotes in circulation is recognised under liabilities "Banknotes in circulation" (see Note 10).

The difference between banknotes allocated according to the Banknote Allocation Key and banknotes in circulation represents an interest-bearing claim or liability within the Eurosystem. This is disclosed under the item "Net claims or liabilities related to the allocation of euro banknotes within the Eurosystem".

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

(i) ECB profit redistribution

In accordance with Decision ECB/2014/57 as amended, the ECB's income, consisting of the remuneration of the ECB's 8% share in euro banknote issues and net income from securities purchased by the ECB under the SMP, CBPP3, asset-backed securities purchase programme (ABSPP) and PSPP, is re-allocated among the Eurosystem's individual central banks and is recognised in the year in which originated as an interim distribution of the ECB's profit (see Note 27).

Under Article 33 of the Statute, the ECB's remaining net profit is reallocated 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 and intangible fixed assets with an input price higher than EUR 10,000 and with a useful life of more than one year. Immovables, works of art, immovable cultural monuments and collections, with the exception of those listed under separate regulations (Act No. 206/2009 Coll. on Museums and Galleries and on the Protection of Cultural Valuables, as amended), are recognised on the balance sheet irrespective of their input price. The assets listed under separate regulations are recognised on the off-balance sheet and in records maintained for collection items at 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 recognised at cost net of accumulated depreciation and provisions, or at fair value net of cost of sale, whichever amount is lower.

(in thousands of EUR)

Depreciation Group	Depreciation Period in Years
1. Buildings, long-term investments, technical improvements to immovable cultural monuments	30
2. Separable components built into structures identified for separate depreciation	4 - 20
3. Utility networks	20
4. Machines and equipment	2 - 12
5. Transport means	4 - 6
6. Fixtures and fittings	4 - 12
7. Intangible fixed assets - purchased software	2 - 10
8. Other intangible fixed assets	4 or as per contract

(k) Taxes

In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes, as amended, the NBS is not a corporate income tax payer. Only income taxed by withholding tax is subject to taxation (see Note 34).

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 creates a general provision for foreign exchange rate, interest rate and credit and gold price risks (see Notes 20 and 25), which is presented in the Bank's equity. The amount and reasonableness of the general provision is reassessed on an annual basis with the impact on the profit and loss account. The provision is subject to the approval of the Bank Board.

The Bank creates a provision for losses from Eurosystem monetary policy transactions (see Section B, Note b).

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, the 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. Losses incurred in the 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 accumulated loss forward to the following reporting period.

(in thousands of EUR)

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

1. Gold and gold receivables

	31 Dec 2017	31 Dec 2016	Change
Gold in repo transactions	1,097,554	1,113,951	(16,397)
Gold stored in banks	3,033	3,078	(45)
Gold in stock	1,702	1,728	(26)
	1,102,289	**1,118,757**	**(16,468)**

As at 31 December 2017, gold totalled 1,019 thousand t oz. (1,019 thousand t oz. as at 31 December 2016), of which 1,014 thousand t oz. were used in repo transactions, 3 thousand t oz. deposited with correspondent banks and 2 thousand t oz. deposited with the Bank.

As at 31 December 2017, the market price of gold was EUR 1,081.881 per t oz. (EUR 1,098.046 per t oz. as at 31 December 2016). The changes in the account balances were associated with revaluation differences (see Note 21).

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

	31 Dec 2017	31 Dec 2016	Change
Receivables from/Payables to the IMF	537,434	424,096	113,338
Balances with banks and security investments, external loans and other external assets	3,267,882	1,460,919	1,806,963
	3,805,316	**1,885,015**	**1,920,301**

Receivables from/Payables to the International Monetary Fund

	31 Dec 2017		31 Dec 2016		
	Equivalent mil. XDR	EUR '000	Equivalent mil. XDR	EUR '000	Change EUR '000
Receivables from IMF	**1,300**	**1,543,947**	**1,180**	**1,505,084**	**38,863**
1) Member's quota	1,001	1,188,685	1,001	1,276,504	(87,819)
a) Member's contribution	848	1,006,513	848	1,080,988	(74,475)
b) reserve position	153	182,172	153	195,516	(13,344)
- foreign exchange part of Member's quota	153	182,172	153	195,516	(13,344)
2) Nostro account in IMF	299	355,262	179	228,580	126,682
Payables to IMF:	**848**	**1,006,513**	**848**	**1,080,988**	(74,475)
Total reported amount (net)		**537,434**		**424,096**	**113,338**

The nostro account in XDR increased mainly as a result of purchasing XDR 119.7 mil. under the Permanent Agreement on the Purchase and Sale of XDR.

Payables to the IMF represent the IMF loro accounts and the associated currency valuation adjustment account. Liabilities in local currency change depending on the IMF representative exchange rate. A significant part of payables on the IMF loro accounts consists of a note of EUR 867,740 thousand (EUR 858,059 thousand as at 31 December 2016).

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

(in thousands of EUR)

Balances with banks and security investments, external loans and other external assets

	31 Dec 2017	31 Dec 2016	Change
Debt securities	1,299,913	1,050,992	248,921
Other	1,967,969	409,927	1,558,042
	3,267,882	**1,460,919**	**1,806,963**

The caption "Debt securities" mainly consists of securities denominated in USD, GBP and CNY. As at 31 December 2017, the Bank mainly records securities issued by monetary financial institutions.

The caption "Other" mainly includes cash on nostro accounts in foreign currency.

3. Claims on euro area residents denominated in foreign currency

	31 Dec 2017	31 Dec 2016	Change
Debt securities	439,698	272,141	167,557
Current accounts	786	591	195
	440,484	**272,732**	**167,752**

Debt securities categorised under this caption are denominated in USD and GBP. As per security issuers, as at 31 December 2017 the Bank mainly recorded securities of monetary financial institutions.

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

	31 Dec 2017	31 Dec 2016	Change
Debt securities	1,052,339	2,187,045	(1,134,706)
Current accounts	580	125	455
	1,052,919	**2,187,170**	**(1,134,251)**

As per security issuers, the Bank mainly recorded securities of monetary financial institutions. Compared to the previous period, the decrease was mainly due to the sale of securities.

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

	31 Dec 2017	31 Dec 2016	Change
Main refinancing operations	0	25,000	(25,000)
Longer-term refinancing operations (LTRO)	0	15,000	(15,000)
Targeted longer-term refinancing operations (TLTRO)	16,160	46,160	(30,000)
Targeted longer-term refinancing operations (TLTRO II)	1,065,540	675,210	390,330
	1,081,700	**761,370**	**320,330**

The main refinancing operations are regular liquidity-providing reverse transactions at one-week intervals with a current maturity of one week. As at 31 December 2017, the Bank recorded no main refinancing operations (EUR 25,000 thousand as at 31 December 2016).

(in thousands of EUR)

In accordance with the rules for monetary policy operations in the Eurosystem, the NBS recognised longer-term refinancing operations of EUR 1,081,700 thousand as at 31 December 2017 (EUR 736,370 thousand as at 31 December 2016).

Within longer-term operations, the Bank also recognises targeted longer-term refinancing operations (TLTRO) with a maturity of 1 to 3 years, bearing a fixed interest rate of 0.05% p.a. The second series of targeted longer-term refinancing operations (TLTRO II) was concluded in June 2016 with a maturity of 4 years, bearing a negative interest rate for deposit facilities (see Note 24). Targeted longer-term refinancing operations are aimed at improving bank lending to the non-financial private sector, excluding loans to households for house purchases.

As at 31 December 2017, the Bank recorded no longer-term refinancing operations (LTRO) which are performed through standard tenders with a maturity of 3 months (EUR 15,000 thousand as at 31 December 2016).

The risks arising from monetary policy operations are subject to sharing with the central banks in proportion to their capital key, pursuant to Article 32 (4) of the Statute.

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

	31 Dec 2017	31 Dec 2016	Change
Redistribution loan	18,435	21,451	(3,016)
Deposits to repo transactions	0	1,001	(1,001)
Current accounts	679	683	(4)
	19,114	**23,135**	**(4,021)**

A redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. For 2017, the interest rate for the redistribution loan remained at 0.50% p.a. (0.50% p.a. as at 31 December 2016).

As at 31 December 2017, the NBS recorded a state guarantee for the provided redistribution loan in the amount of EUR 19,085 thousand on the off-balance sheet (EUR 22,256 thousand as at 31 December 2016). The amount of the state guarantee represents the principal and interest up to the loan maturity.

7. Securities of euro area residents denominated in euro

	31 Dec 2017	31 Dec 2016	Change
Securities held for monetary policy purposes	19,881,042	13,738,968	6,142,074
Other securities	203,341	1,341,259	(1,137,918)
	20,084,383	**15,080,227**	**5,004,156**

Debt securities held for monetary policy purposes

Under this caption, the Bank disclosed securities purchased under the SMP, CBPP1, CBPP3 and PSPP programmes. They are mainly issued by public authorities and monetary financial institutions of the euro area.

The purchase of securities under the CBPP1 programme was terminated in June 2010 and terminated under the SMP programme in September 2012. The decrease in securities purchased under the CBPP1 and SMP programmes by EUR 133,795 thousand compared to the previous year was due to the maturity of securities. The CBPP3 programme was announced by the Governing Council of the ECB in October 2014 and is still open. The PSPP programme was announced by the Governing Council of the ECB in January 2015 with an expected duration until the end of September 2018, or longer if necessary. Under the PSPP programme, the Bank purchases securities issued by the government of the Slovak Republic, international organisations and multilateral development banks in the euro area. According to Article 3 (5) of Decision ECB/2015/10 on the secondary markets public sector asset purchase programme, as amended, the NBS may also purchase securities with a negative yield to maturity which is above the deposit facility rate. Income on securities with a source in the Slovak Republic is net of withholding tax (see Note 34).

(in thousands of EUR)

Securities acquired under all monetary policy programmes are valued on an amortised cost basis and are subject to an impairment test. The amortised and market values of securities held for monetary policy purposes are shown in the table below (market valuation is not recorded in the Balance Sheet or the Profit and Loss Account and is only provided for comparison purposes):

	31 Dec 2017		31 Dec 2016		Change	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
CBPP1	35,096	36,432	85,655	88,866	(50,559)	(52,434)
CBPP3	2,162,630	2,194,187	2,133,041	2,154,304	29,589	39,883
SMP	327,489	358,309	410,725	458,258	(83,236)	(99,949)
PSPP gov.	8,422,354	8,572,256	6,694,978	6,793,292	1,727,376	1,778,964
PSPP supr.	8,933,473	8,880,406	4,414,569	4,359,097	4,518,904	4,521,309
	19,881,042	**20,041,590**	**13,738,968**	**13,853,817**	**6,142,074**	**6,187,773**

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities acquired under the monetary policy programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council of the ECB. On the basis of the results of the impairment test on securities acquired for monetary policy purposes performed as at 31 December 2017 and pursuant to the decision of the Governing Council of the ECB which has deemed it appropriate to establish a buffer, the NBS created a provision for impairment losses in accordance with Article 32 (4) of the Statute (see Note 20).

Other securities

Under this caption, as at 31 December 2017, the Bank recognised securities for trading issued mainly by monetary financial institutions and public authorities of the euro area.

The decrease compared to the previous period of EUR 1,137,918 thousand was mainly caused by the sale of securities.

8. Intra-Eurosystem claims

	31 Dec 2017	31 Dec 2016	Change
Participating interest in ECB	262,722	262,722	0
Claims equivalent to the transfer of foreign reserves	447,672	447,672	0
Net claims related to the allocation of euro banknotes within the Eurosystem (see Note 18)	0	515,486	(515,486)
Other claims within the Eurosystem (net)	9,081,697		9,081,697
	9,792,091	**1,225,880**	**8,566,211**

(in thousands of EUR)

Participating interest in the ECB

As at 31 December 2017, the Bank recorded a participating interest in the ECB's subscribed capital of EUR 83,623 thousand and a claim of EUR 24,885 thousand from the changes of its participating interest in the ECB's net equity.

In accordance with Article 49 (2) of the Statute and the decision of the Governing Council of the ECB, 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.

As at 31 December 2017, the shares of 28 central banks of the European Union in the ECB's capital were as follows:

	Capital Key for Subscription of ECB's Capital (%)	Subscribed Share in the ECB's Capital (EUR)	Paid-up Capital (EUR)	Eurosystem Key (%) - Share on the ECB's Paid-up Capital
Banque National de Belgique	2.4778	268,222,025.17	268,222,025.17	3.5200
Eesti Pank	0.1928	20,870,613.63	20,870,613.63	0.2739
Deutsche Bundesbank	17.9973	1,948,208,997.34	1,948,208,997.34	25.5674
Central Bank and Financial Services Authority of Ireland	1.1607	125,645,857.06	125,645,857.06	1.6489
Bank of Greece	2.0332	220,094,043.74	220,094,043.74	2.8884
Banco de España	8.8409	957,028,050.02	957,028,050.02	12.5596
Banque de France	14.1792	1,534,899,402.41	1,534,899,402.41	20.1433
Banca d'Italia	12.3108	1,332,644,970.33	1,332,644,970.33	17.4890
Central Bank of Cyprus	0.1513	16,378,235.70	16,378,235.70	0.2150
Latvijas Banka	0.2821	30,537,344.94	30,537,344.94	0.4008
Lietuvos bankas	0.4132	44,728,929.21	44,728,929.21	0.5870
Banque centrale du Luxembourg	0.2030	21,974,764.35	21,974,764.35	0.2884
Central Bank of Malta	0.0648	7,014,604.58	7,014,604.58	0.0921
De Nederlandsche Bank	4.0035	433,379,158.03	433,379,158.03	5.6875
Oesterreichische Nationalbank	1.9631	212,505,713.78	212,505,713.78	2.7888
Banco de Portugal	1.7434	188,723,173.25	188,723,173.25	2.4767
Banka Slovenije	0.3455	37,400,399.43	37,400,399.43	0.4908
Národná banka Slovenska	**0.7725**	**83,623,179.61**	**83,623,179.61**	**1.0974**
Suomen Pankki – Finlands Bank	1.2564	136,005,388.82	136,005,388.82	1.7849
*Subtotal euro area NCBs**	*70.3915*	*7,619,884,851.40*	*7,619,884,851.40*	*100.0000*
Българска народна банка (Bulharská národná banka)	0.8590	92,986,810.73	3,487,005.40	
Česká národní banka	1.6075	174,011,988.64	6,525,449.57	
Danmarks Nationalbank	1.4873	161,000,330.15	6,037,512.38	
Magyar Nemzeti Bank	1.3798	149,363,447.55	5,601,129.28	
Narodowy Bank Polski	5.1230	554,565,112.18	20,796,191.71	
Banca Naţională a României	2.6024	281,709,983.98	10,564,124.40	
Sveriges Riksbank	2.2729	246,041,585.69	9,226,559.46	
Bank of England	13.6743	1,480,243,941.72	55,509,147.81	
Hrvatska narodna banka	0.6023	65,199,017.58	2,444,963.16	
*Subtotal non-euro area NCBs**	*29.6085*	*3,205,122,218.22*	*120,192,083.17*	
Total*	**100.00**	**10,825,007,069.61**	**7,740,076,934.57**	

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

(in thousands of EUR)

Claims equivalent to the transfer of foreign reserves

The NBS records a claim from the transfer of foreign reserves to the ECB of EUR 447,672 thousand (EUR 447,672 thousand as at 31 December 2016), in accordance with Article 30 (1) of the Statute. The claim bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2017, the Bank recorded no interest income from the claim equivalent to the transfer of foreign reserves due to the interest rate of 0% p.a. (EUR 40 thousand as at 31 December 2016, see Note 24).

Other claims within the Eurosystem (net)

Claims within the Eurosystem represent the NBS's position towards other members of the European System of Central Banks ("ESCB") arising from cross-border transactions. This caption comprises the claim of the NBS against other central banks and the ECB arising from operations within TARGET 2, which amounted to EUR 8,991,962 thousand as at 31 December 2017 (a liability of EUR 5,119,350 thousand as at 31 December 2016). The position bears an interest rate for the main refinancing operations. The Bank recorded no interest as at 31 December 2017 due to the interest rate of 0% p.a. (interest expense of EUR 5 thousand as at 31 December 2016, see Note 24).

The caption also comprises a receivable from monetary income of EUR 78,895 thousand (EUR 67,094 thousand as at 31 December 2016, see Note 28) and a receivable from the NBS's share in the ECB's profit for 2017 of EUR 10,840 thousand (EUR 10,604 thousand as at 31 December 2016, see Note 27).

9. Other assets

	31 Dec 2017	31 Dec 2016	Change
Tangible and intangible fixed assets	122,348	128,817	(6,469)
Other financial assets	53,624	57,678	(4,054)
Off-balance sheet instruments revaluation differences	540	714	(174)
Accruals and prepaid expenses	235,052	194,340	40,712
Accumulated losses from previous years	4,661,980	4,809,810	(147,830)
Sundry	55,798	124,015	(68,217)
	5,129,342	**5,315,374**	**(186,032)**

(in thousands of EUR)

Tangible and intangible fixed assets

This caption comprises fixed assets of the NBS as at 31 December 2017:

	Tangible Assets, Advances and Assets under Construction	Intangible Assets, Advances and Assets under Construction	TOTAL
Acquisition cost as at 1 January 2017	**257,525**	**37,825**	**295,350**
Additions	1,488	3,627	5,115
Disposals	3,043	2,781	5,824
Acquisition cost as at 31 December 2017	**255,970**	**38,671**	**294,641**
Accumulated depreciation as at 1 January 2017	**140,657**	**28,898**	**169,555**
Additions	6,713	2,045	8,758
Disposals	2,714	284	2,998
Accumulated depreciation and provisions as at 31 December 2017	**144,656**	**30,659**	**175,315**
Carrying amount of tangible and intangible assets as at 1 January 2017	**116,868**	**8,927**	**125,795**
Carrying amount of tangible and intangible assets as at 31 December 2017	**111,314**	**8,012**	**119,326**

As at 31 December 2017, the NBS recognised fixed assets held for sale in the amount of EUR 3,022 thousand (EUR 3,022 thousand as at 31 December 2016).

Other financial assets

	31 Dec 2017	31 Dec 2016	Change
Shares of BISIP CNY fund	42,684	45,399	(2,715)
Shares of BIS	7,009	7,522	(513)
Share certificates of RVS, a.s.	3,806	4,632	(826)
Inštitút bankového vzdelávania, n.o.	33	33	0
Shares of SWIFT	92	92	0
	53,624	**57,678**	**(4,054)**

As at 31 December 2017, the Bank recognised shares within the BISIP CNY programme which represents an indirect form of investing in the on-shore Chinese government bonds' market. The share represents 1.57% of the fund's total value (1.74% share of the fund's total value as at 31 December 2016, see Section B, Note b).

The Bank's share in the BIS capital represents 0.51% (0.51% as at 31 December 2016). The participating interest in BIS is recognised in the amount of the paid-up share (25%). The unpaid proportion of the share (75%) is payable on demand. Dividends are distributed in euro from the total share of the NBS in BIS held in XDR (see Note 27).

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. 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 holds a 99.54% equity share in RVS, a.s. (77.26% as at 31 December 2016).

Since 2008, the Bank has recognised a contribution to the registered capital of Inštitút bankového vzdelávania NBS, n. o. Bratislava. The Bank holds a 100% share in the company.

(in thousands of EUR)

The Bank holds shares of SWIFT, representing a 0.0245% capital share (0.0245% capital share as at 31 December 2016).

Off-balance sheet instruments revaluation differences

As at 31 December 2017, this item represented foreign exchange gains from the valuation of currency swaps in the amount of EUR 540 thousand (EUR 714 thousand as at 31 December 2016).

Accruals and prepaid expenses

This item mainly represents accrued bond coupons of EUR 201,900 thousand (EUR 164,507 thousand as at 31 December 2016) and the value of purchased bond coupons in the amount of EUR 21,120 thousand (EUR 23,360 thousand as at 31 December 2016).

Sundry

	31 Dec 2017	31 Dec 2016	Change
Deposits - collaterals to derivatives	37,070	106,770	(69,700)
Fair value of interest rate swaps	8,491	6,210	2,281
Investment loans granted to employees	5,789	6,415	(626)
Interest rate futures	920	395	525
Other	3,528	4,225	(697)
	55,798	**124,015**	**(68,217)**

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

10. Banknotes in circulation

	31 Dec 2017	31 Dec 2016	Change
Euro banknotes in circulation issued by the NBS	12,037,721	10,853,665	1,184,056
Euro banknotes not issued by the NBS	(219,343)	515,486	(734,829)
Total volume of euro banknotes in line with the NBS Banknote Allocation Key	**11,818,378**	**11,369,151**	**449,227**

As at 31 December 2017, the Bank issued banknotes amounting to EUR 12,037,721 thousand, which is an increase of EUR 219,343 thousand (decrease of EUR 515,486 thousand as at 31 December 2016) 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 to the Eurosystem (see Note 18).

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

	31 Dec 2017	31 Dec 2016	Change
Current accounts covering the minimum reserve system	1,831,084	1,736,725	94,359
Deposit facility	122,000	140,000	(18,000)
	1,953,084	**1,876,725**	**76,359**

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 fulfilment of monetary reserves of credit institutions over the set maintenance period, as published by the ECB. The MRS bear interest of the average rate of the Eurosystem's main refinancing operations, valid over the given maintenance period. In accordance with Decision ECB/2014/23 on the remuneration of deposits, balances and holdings of excess reserves, reserve holdings exceeding the MRS are remunerated at 0% p.a., or the deposit facility rate, whichever is lower. With effect from 16 March 2016, the ECB applies a negative interest rate of -0.40% p.a. for the deposit facility.

(in thousands of EUR)

As at 31 December 2017, the net interest income resulting from this liability represents EUR 3,735 thousand (EUR 2,819 thousand as at 31 December 2016).

The deposit facility represents overnight deposits at a pre-specified interest rate as announced 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 2017, a negative interest rate of -0.40% p.a. was set for this type of transactions.

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

	31 Dec 2017	31 Dec 2016	Change
Liabilities from repo transactions	563,905	873,026	(309,121)
Liabilities from repo transactions with gold	201,374	214,194	(12,820)
Deposits received to repo transactions	757	155	602
Interbank clearing in Slovakia (SIPS)	166	170	(4)
Tri-party repo transactions	0	1,700,000	(1,700,000)
	766,202	**2,787,545**	**(2,021,343)**

The interest rate applicable to repo transactions is from -0.42 to -0.45% p.a. (from -0.20 to -0.35% p.a. as at 31 December 2016).

13. Liabilities to other euro area residents denominated in euro

	31 Dec 2017	31 Dec 2016	Change
General government	1,290,902	744,362	546,540
Other liabilities	312,309	253,368	58,941
	1,603,211	**997,730**	**605,481**

General government

Under this caption, the NBS recognised current accounts of the State Treasury.

Other liabilities

	31 Dec 2017	31 Dec 2016	Change
Client current accounts	63,759	16,456	47,303
Client term deposits	37,463	32,177	5,286
Current accounts of auxiliary financial institutions	6,094	2,276	3,818
Term deposits of auxiliary financial institutions	204,993	202,459	2,534
	312,309	**253,368**	**58,941**

Under this caption, the Bank recognises current accounts and deposits from clients and auxiliary financial institutions (the Deposit Protection Fund and the Investment Guarantee Fund). The bulk of “Other liabilities” was represented by term deposits of the Deposit Protection Fund.

(in thousands of EUR)

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

	31 Dec 2017	31 Dec 2016	Change
Client current accounts	20,026,450	21,061	20,005,389
Liabilities from received term deposits	1,230,000	570,000	660,000
Liabilities from repo transactions with gold	903,498	729,527	173,971
Deposits received to repo transactions	85	0	85
Liabilities from repo transactions	0	250,506	(250,506)
	22,160,033	1,571,094	20,588,939

"Client current accounts" are funds in the TARGET2 accounts of clients who are not subject to MRS. The interest rate for client current accounts is -0.40% p.a.

Liabilities from received term deposits represent central banks' deposits with a maturity of one month at an interest rate of -0.40% p.a. (-0.40% p.a. as at 31 December 2016).

15. Liabilities to euro area residents denominated in foreign currency

	31 Dec 2017	31 Dec 2016	Change
Liabilities from repo transactions	750,505	865,471	(114,966)
State Treasury current accounts in foreign currency	7	0	7
Liabilities from received deposits	0	47,434	(47,434)
	750,512	912,905	(162,393)

The interest rate applicable to repo transactions in USD ranges from 1.77 to 4.51% p.a. (1.25 to 5.25% p.a. as at 31 December 2016).

16. Liabilities to non-euro area residents denominated in foreign currency

	31 Dec 2017	31 Dec 2016	Change
Liabilities from repo transactions	748,193	347,669	400,524
Liabilities from repo transactions with gold	0	232,669	(232,669)
Liabilities from received deposits	95,889	279,860	(183,971)
	844,082	860,198	(16,116)

The decrease of liabilities from repo transactions with gold was due to their settlement in January 2017.

The interest rate applicable to repo transactions denominated in GBP ranges from 0.66 to 0.70% p.a. and repo transactions denominated in USD from 2.00 to 6.75% p.a. (1.37 to 1.40% p.a. as at 31 December 2016). The interest rate applicable to received deposits denominated in USD ranges from 1.75 to 6.50% p.a. (1.25 to 1.70% p.a. as at 31 December 2016).

17. Counterpart of special drawing rights allocated by the IMF

As at 31 December 2017, the Bank recorded a liability to the IMF from the allocation of EUR 404,353 thousand (EUR 433,972 thousand as at 31 December 2016). The liability from the allocation is denominated in XDR. As part of the general allocation and special allocation, the IMF allocated XDR 265 million and XDR 75 million to the Slovak Republic, respectively.

(in thousands of EUR)

18. Intra-Eurosystem liabilities

This position is the net liability of the NBS from the allocation of euro banknotes within the Eurosystem, which amounted to EUR 219,343 thousand (a receivable of EUR 515,486 thousand as at 31 December 2016, see Note 10). The position bears interest rate at the rate for the main refinancing operations. As at 31 December 2017, the Bank has no interest expense resulting from the liability from the euro banknote allocation within the Eurosystem due to the interest rate of 0% p.a. (interest income of EUR 77 thousand as at 31 December 2016, see Note 24).

19. Other liabilities

	31 Dec 2017	31 Dec 2016	Change
Off-balance sheet instruments revaluation differences	11,923	6,858	5,065
Accruals and income collected in advance	16,918	15,105	1,813
Sundry	325,646	316,091	9,555
	354,487	**338,054**	**16,433**

Off-balance-sheet instruments revaluation differences

As at 31 December 2017, this item represented foreign exchange losses from the revaluation of currency swaps.

Accruals and income collected in advance

As at 31 December 2017, the bulk of accruals was represented by interest expense from euro-denominated interest rate swaps of EUR 9,969 thousand (EUR 12,442 thousand as at 31 December 2016).

Sundry

	31 Dec 2017	31 Dec 2016	Change
Euro coins in circulation	175,605	163,864	11,741
SKK banknotes in circulation	72,650	73,785	(1,135)
SKK coins in circulation	23,186	23,188	(2)
Fair value of interest rate swaps	14,718	29,676	(14,958)
Deposits - collaterals to derivatives	5,900	1,300	4,600
Other	33,587	24,278	9,309
	325,646	**316,091**	**9,555**

The value of interest rate swaps as at 31 December 2017 represented the cumulative year-end revaluation loss, which is gradually amortised to the profit and loss account under net realised gains from interest rate swaps in accordance with the ECB Guideline (see Note 25).

The purpose of received deposits (collateral to derivatives) is to secure the NBS credit risk in the event of a decrease in the swap value on the part of the counterparty. The annual increase of deposits is connected with the decrease of the market value of interest rate swaps on the party of the counterparty.

(in thousands of EUR)

20. Provisions

	31 Dec 2017	31 Dec 2016	Change
General provision for financial risks	630,000	630,000	0
Provision for losses from monetary policy operations	756	0	756
Other	13,093	8,313	4,780
	643,849	**638,313**	**5,536**

The Bank created a general provision for financial risks to hedge against foreign exchange, interest rate, credit and gold price risks. The amount of the provision was reviewed as at 31 December 2017 and equals the estimated potential loss in the future periods, taking into account historical scenarios of development on the financial markets in relation to the Bank's total investment reserves and a portion of the monetary policy portfolio. The creation of the provision reflected the potential impact of risks resulting from the Bank's monetary-policy refinancing operations and participation in the ECB's intervention purchase programmes. Based on the Bank Board's decision, the provision will be used to cover future losses from financing activities (see Part B, paragraph I and Note 25).

As a result of the impairment test conducted on CSPP portfolio, the Governing Council of the ECB has deemed it appropriate to establish a provision totalling EUR 68 871 thousand against losses in monetary policy operations, in relation to a security held by a national central bank of the Eurosystem. The size of this provision has been calculated taking into account the information regarding the security sale in January 2018. This is in line with the framework for accounting and financial reporting in the European System of Central Banks for post balance sheet events. In accordance with Article 32 (4) of the Statute, this provision is funded by all the national central banks of the Eurosystem in proportion to their subscribed capital key shares in the ECB prevailing in 2017. As a result, the NBS established a provision of EUR 756 thousand (see part B, paragraph b and Note 28).

As at 31 December 2017, the Bank's "Other provisions" mainly represented provisions for payables to employees of EUR 8,501 thousand (EUR 7,269 thousand as at 31 December 2016).

21. Revaluation accounts

	31 Dec 2017	31 Dec 2016	Change
Revaluation accounts of gold	469,055	485,523	(16,468)
Revaluation accounts of securities	12,799	40,783	(27,984)
Revaluation accounts of derivatives	8,491	6,210	2,281
Revaluation accounts of foreign currency	10,977	1,602	9,375
Revaluation accounts of shares in BISIP fund	3,273	3,381	(108)
	504,595	**537,499**	**(32,904)**

22. Capital and reserves

This item includes the statutory fund representing the paid-up capital assumed from the 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, ÚFT was dissolved and merged with the NBS in accordance with the applicable law.

Reserves consist of general reserves and capital reserves.

(in thousands of EUR)

As at 31 December 2017, the closing balance of the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2016). The general reserves consist of contributions from profits of EUR 337,412 thousand generated in previous years. As at 1 January 2006, following the merger of ÚFT with the NBS, ÚFT's general reserves of EUR 3,462 thousand were transferred to the NBS's general reserves.

As at 31 December 2017, the closing balance of the NBS's capital reserves was EUR 882 thousand (EUR 882 thousand as at 31 December 2016).

Summary of changes in equity and accumulated losses

	Statutory Fund	Capital Reserves	General Reserves	General Provision for Financial Risks	Revaluation Accounts Gain/(Loss)	Change of the Accounting Method	Accumulated (Loss) from Previous Years	Profit/(Loss) for the Current Year	Equity
1. Balance as at 31 Dec 2016	**16,041**	**882**	**340,874**	**630,000**	**537,499**	**805**	**(4,809,810)**	**147,025**	**(3,136,684)**
2. Transfer of profit from the change of accounting methods to accumulated loss from previous years						(805)	805		
3. Transfer of profit for 2016 to accumulated loss from previous years							147,025	(147,025)	
4. Transfer to statutory fund									
5. Transfer to general reserves									
6. Change in the general provision for financial risks									
7. Change in revaluation accounts of securities					(27,984)				(27,984)
8. Change in revaluation accounts of derivatives					2,281				2,281
9. Change in revaluation accounts of gold					(16,468)				(16,468)
10. Change in revaluation accounts of foreign currencies					9,375				9,375
11. Change in revaluation accounts of shares in BISIP fund					(108)				(108)
12. Profit for the current reporting period								127,712	127,712
13. Change for the reporting period					(32,904)	(805)	147,830	(19,313)	94,808
14. Balance as at 31 Dec 2017	**16,041**	**882**	**340,874**	**630,000**	**504,595**		**(4,661,980)**	**127,712**	**(3,041,876)**

23. Off-balance sheet instruments

	31 Dec 2017 Receivables	31 Dec 2017 Payables	31 Dec 2016 Receivables	31 Dec 2016 Payables	Change Receivables	Change Payables
Currency swaps in EUR	2,093,482	99,468	443,783	446,561	1,649,699	(347,093)
Currency swaps in USD	96,781	106,729	442,615	47,434	(345,834)	59,295
Currency swaps in CNY	0	15,504	0	0	0	15,504
Currency swaps in GBP	1,364	12,398	0	0	1,364	12,398
Currency swaps in CHF	0	0	0	398,547	0	(398,547)
Currency swaps in JPY	0	10,814	0	0	0	10,814
Currency swaps in CZK	0	1,958,097	0	0	0	1,958,097
	2,191,626	**2,203,010**	**886,398**	**892,542**	**1,305,228**	**1,310,468**

	31 Dec 2017 Receivables	31 Dec 2017 Payables	31 Dec 2016 Receivables	31 Dec 2016 Payables	Change Receivables	Change Payables
Interest rate futures in EUR	0	50,000	0	55,000	0	(5,000)
Interest rate futures in GBP	169,066	312,208	0	0	169,066	312,208
Interest rate futures in USD	0	10,006	0	0	0	10,006
	169,066	**372,213**		**55,000**	**169,066**	**317,213**

(in thousands of EUR)

24. Net interest income

	31 Dec 2017	31 Dec 2016	Change
Investments in EUR:	**23,179**	**25,249**	**(2,070)**
net income from securities	9,989	25,230	(15,241)
net expense from derivatives	(10,579)	(19,095)	8,516
net income from repo transactions	10,952	16,387	(5,435)
net income from current accounts and term deposits	12,716	2,607	10,109
other	101	120	(19)
Investments in foreign currency:	**8,380**	**1,749**	**6,631**
net income from securities	26,582	19,891	6,691
net income/(expense) from derivatives	2,236	(4,701)	6,937
net expense from current accounts and term deposits	(3,220)	(2,346)	(874)
net expense from repo transactions	(18,026)	(11,152)	(6,874)
compensation from MF SR	808	57	751
Monetary policy operations:	**79,355**	**67,994**	**11,361**
net income from securities	79,349	66,151	13,198
net expense from deposits and loans	(3,729)	(976)	(2,753)
net income from MRS	3,735	2,819	916
Remuneration of claims equivalent to the transfer of foreign reserves	**0**	**40**	**(40)**
Remuneration of euro banknotes	**0**	**77**	**(77)**
Remuneration of TARGET2	**0**	**(5)**	**5**
	110,914	**95,104**	**15,810**

The decrease in net interest income from investments in euro is mainly linked to the decrease in the net interest income from securities resulting from the reduction of the portfolio's volume (see Note 7). As at 31 December 2017, the Bank reports no interest on remuneration of claims equivalent to the transfer of foreign reserves, remuneration of banknotes and TARGET2 due to an interest rate of 0% p.a. (see Notes 8 and 18). The increase in interest income on monetary policy operations is due to continuing purchases of securities held for monetary policy purposes (see Note 7).

(in thousands of EUR)

Due to the introduction of negative interest rates to the financial markets since 2014, and the method of reporting (see Section B, Note c), the NBS recorded the following gross interest income and gross interest expense as at 31 December 2017:

	Balance Sheet Item	31 Dec 2017	31 Dec 2016	Change
Investments in EUR				
Gross interest income, of which:		**18,865**	**14,884**	**3,981**
Repo transactions	L3, L6	4,929	11,394	(6,465)
Current accounts and term deposits	L6	13,936	3,490	10,446
Gross interest expense, of which:		**(13)**	**(13)**	**0**
Current accounts	A6	(13)	(13)	0
Investments in foreign currency:				
Gross interest expense, of which:		**(58)**	**(1)**	**(57)**
Current accounts	A2, A3	(58)	(1)	(57)
Monetary policy operations:				
Gross interest income, of which:		**3,928**	**2,895**	**1,033**
MRS	L2	3,735	2,866	869
Deposit facility	L2	193	29	164
Gross interest expense, of which:		**(3,940)**	**(1,287)**	**(2,653)**
Longer-term refinancing operations	A5	(3,940)	(1,287)	(2,653)

Development of interest rates announced by the ECB:

With Effect fom	Marginal Lending Facility	Main Refinancing Operations	Deposit Facility
16 March 2016	0.25% p.a	0.00% p.a	-0.40% p.a

(in thousands of EUR)

25. Net result of financial operations, write-downs and risk provisions

	31 Dec 2017	31 Dec 2016	Change
Realised gains from financial operations	**32,513**	**43,201**	**(10,688)**
Net gains from interest rate swaps	12,851	20,239	(7,388)
Net gains from sale of securities	18,720	5,077	13,643
Net foreign exchange gains	942	17,885	(16,943)
Write-downs on financial assets and positions	**(12,611)**	**(14,097)**	1,486
Losses from interest rate swaps revaluation	(1,158)	(8,983)	7,825
Losses from securities revaluation	(4,460)	(3,561)	(899)
Losses from foreign currency revaluation	(6,993)	(1,553)	(5,440)
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks	**0**	**30,000**	(30,000)
General provision for financial risks	0	30,000	(30,000)
	19,902	**59,104**	**(39,202)**

26. Net income/(expense) from fees and commissions

	31 Dec 2017	31 Dec 2016	Change
Fees and commissions from investment operations:	**117**	**(48)**	**165**
Net loss from operations with banks	(71)	(387)	316
Net profit from operations with clients	216	216	0
Net profit from operations with securities	10	153	(143)
Net loss from interest rate futures	(5)	(3)	(2)
Other	(33)	(27)	(6)
Fees and commissions from monetary policy operations:	**963**	**(162)**	**1,125**
Net loss from operations with banks	(564)	(400)	(164)
Net profit from operations with securities	1,527	238	1,289
Net profit from exchange of euro coins	**70**	**64**	**6**
	1,150	**(146)**	**1,296**

27. Income from equity shares and participating interests

	31 Dec 2017	31 Dec 2016	Change
Share in the ECB's profit of the current year	10,840	10,604	236
Share in the ECB's profit of the previous year	2,490	2,959	(469)
Dividends from BIS shares	1,051	774	277
	14,381	**14,337**	**44**

28. Net result of pooling of monetary income

Monetary income in accordance with Article 32 (1) of the Statute and Decision ECB/2016/36 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 from the assets of the national central bank, held against banknotes in circulation and deposit liabilities to credit institutions. Monetary income is the income resulting from the performance of the monetary policy of the ESCB.

(in thousands of EUR)

Monetary income is distributed in proportion to NBS's share of the paid-up capital of the ECB after the end of each financial year (1.0974%).

Monetary income pooled by the NBS for 2017 into the common pool of monetary income of the Eurosystem amounted to EUR 39,474 thousand. The monetary income equivalent to the 1.0974% share of the NBS amounted to EUR 118,402 thousand. The difference of EUR 78,928 thousand (EUR 67,098 thousand as at 31 December 2016) represents the net result of the pooling of monetary income. NBS revenues decreased by EUR 33 thousand as a result of a revision to Eurosystem monetary income for 2016 (revenues decreased by EUR 4 thousand as at 31 December 2016 as a result of a revision for 2015).

In this caption, the Bank recognises a share in the provision for impairment losses from monetary policy operations of EUR 756 thousand in connection with a security held in the CSPP portfolio (see Note 20).

29. Other income and other expenses

As at 31 December 2017, the most significant portion of the Bank's "Other income" was represented by income from fees and contributions from financial market entities of EUR 8,186 thousand (EUR 6,787 thousand as at 31 December 2016), earned fees from participation in settlement systems of EUR 3,011 thousand (EUR 2,828 thousand as at 31 December 2016), and income from sale of commemorative and collector coins of EUR 1,473 thousand (EUR 1,655 thousand as at 31 December 2016).

As at 31 December 2017, the Bank's "Other expenses" mainly represented costs of the minting of general circulation and collector coins, including costs of related services, of EUR 4,359 thousand (EUR 4,002 thousand as at 31 December 2016).

30. Staff costs

	31 Dec 2017	31 Dec 2016	Change
Wages and salaries	(29,678)	(27,633)	(2,045)
Social security costs	(10,875)	(9,726)	(1,149)
Other employee costs	(5,020)	(6,403)	1,383
	(45,573)	**(43,762)**	**(1,811)**

As at 31 December 2017, the average FTE number of employees was 1,094 (1,063 as at 31 December 2016), of who 104 were managers (102 as at 31 December 2016).

Wages and employee benefits of the members of the Bank Board for 2017 amounted to EUR 617 thousand (EUR 601 thousand in 2016). As at 31 December 2017 and 2016, the Bank recorded no outstanding loans to the members of the Bank Board.

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

(in thousands of EUR)

31. Administrative expenses

As at 31 December 2017, this item mainly included costs for repairs and maintenance, technical support and IS maintenance, energy consumption and telecommunications costs totalling EUR 9,707 thousand (EUR 9,339 thousand as at 31 December 2016).

Costs for audit and verification of the financial statements by the auditor amounted to EUR 86 thousand as at 31 December 2017 (EUR 68 thousand as at 31 December 2016). As at 31 December 2017, 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

	31 Dec 2017	31 Dec 2016	Change
Depreciation of tangible fixed assets	(6,713)	(6,707)	(6)
Depreciation of intangible fixed assets	(2,045)	(1,641)	(404)
	(8,758)	**(8,348)**	**(410)**

33. Banknote production services

As at 31 December 2017, the costs of printing euro banknotes were EUR 93 thousand (EUR 6,107 thousand as at 31 December 2016).

34. Income tax and other charges on income

According to Article 43 of Act No. 595/2003 Coll. on Income Tax, as amended, the NBS is a payer of tax on income (proceeds) from bonds issued in the jurisdiction of the Slovak Republic. In 2017, the NBS paid a withholding tax of EUR 28,460 thousand (EUR 18,057 thousand at 31 December 2016). The increase by EUR 10,403 thousand compared to the preceding period was due to an increase in securities for monetary policy purposes (see Note 7).

35. Profit for the year

The Bank's result of operations as at 31 December 2017 was a profit of EUR 127,712 thousand (profit of EUR 147,025 thousand as at 31 December 2016). The bulk of the profit was generated by net interest income (see Note 24).

D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 21 February 2018, the Governing Council of the ECB decided to distribute the ECB's net profit for 2017 to individual central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 3,150 thousand from the profit distribution is recognised in the 2018 reporting period.

Mgr. Ľudovít Ódor was appointed as the Deputy Governor of the NBS for a six-year term of office with effect from 20 February 2018.

No significant events occurred subsequent to 31 December 2017 that would require any further adjustments to the 2017 financial statements.

Bratislava, 6 March 2018

doc. Ing. Jozef Makúch, PhD.

Governor

Ing. Miroslav Uhrin

Executive Director
Division for
Financial Management,
Banking Transactions and
Information
Technology

Ing. Katarína Tarageľová

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Národná banka Slovenska

SUPPLEMENT TO THE INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT Pursuant to Article 27 (6) of Act No. 423/2015 Coll.

To the Bank Board of Národná banka Slovenska:

I. We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS") as at 31 December 2017 presented on pages 69 to 99 of the accompanying annual report of the Bank. We issued an Independent Auditor's Report on the Audit of Financial Statements dated 6 March 2018 in the wording as follows:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS"), which comprise the balance sheet as at 31 December 2017, the income statement for the year then ended, and notes, which include a summary of significant accounting policies and accounting methods.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2016/34 (hereinafter the "ECB Guideline") and the Act on Accounting No. 431/2002 Coll. as amended (hereinafter the "Act on Accounting").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the provisions of Act No. 423/2015 Coll. on Statutory Audit and on Amendment to and Supplementation of Act No. 431/2002 Coll. on Accounting, as amended (hereinafter the "Act on Statutory Audit") related to ethical requirements, including the Code of Ethics for Auditors that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Národná banka Slovenska for the year ended 31 December 2016 were audited by another auditor, which expressed an unqualified opinion thereon dated 14 March 2017.

Responsibilities of the Bank Board of the NBS for the Financial Statements

The Bank Board of the NBS is responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the ECB Guideline and the Act on Accounting, and for such internal control as the Bank Board of the NBS determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Bank Board of the NBS is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Bank Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

This is an English language translation of the original Slovak language document.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies and accounting methods used and the reasonableness of accounting estimates and related disclosures made by the Bank Board of the NBS.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

II. Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report – Supplement to the Independent Auditor's Report

The Bank Board of the NBS is responsible for information disclosed in the annual report prepared under the requirements of the Act on Accounting and Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (hereinafter the "Act on NBS"). Our opinion on the financial statements stated above does not apply to other information disclosed in the annual report.

In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the annual report and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We evaluated whether the Bank's annual report includes information whose disclosure is required by the Act on Accounting and Act on NBS.

Based on procedures performed during the audit of the financial statements, in our opinion:

- Information disclosed in the annual report prepared for 2017 is consistent with the financial statements for the relevant year; and

- The annual report includes information pursuant to the Act on Accounting and Act on NBS.

Furthermore, based on our understanding of the Bank and its position, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received after the date of issuance of the report on the audit of financial statements. There are no findings that should be reported in this regard.

Bratislava, 24 April 2018

Deloitte Audit s.r.o.
Licence SKAu No. 014

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This is an English language translation of the original Slovak language document.

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Abbreviations

BSSE	Bratislava Stock Exchange / Burza cenných papierov v Bratislave, a.s.
CDCP	Centrálny depozitár cenných papierov SR, a.s. (a central securities depository)
CERI	A databse of regulated information and other data compiled in accordance with the Stock Exchange Act and the Securities Act
COREP	Common Reporting
CNB	Česká národní banka
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FINREP	Financial Reporting
FMS Unit	Financial Market Supervision Unit of Národná banka Slovenska
GDP	gross domestic product
IFRS	International Financial Reporting Standard
ITS	implementing technical standard
KID	key information document
MPSVaR SR	Ministry of Labour, Social Affairs and Family of the Slovak Republic
NAV	net asset value
NBS	Národná banka Slovenska
NCDCP	Národný centrálny depozitár cenných papierov, a.s. (a central securities depository)
O-SII	other systemically important institution
Q&A	Questions and Answers
REGFAP	Register of Financial Agents and Advisers (listing agents, advisers and intermediaries from other Member States active in the insurance and reinsurance sectors, and tied financial agents, in accordance with the Act on financial intermediation and financial advisory services
RTS	regulatory technical standard
SASS	Slovenská asociácia správcovských spoločností / Slovak Association of Fund Management Companies
SBA	Slovak Banking Association
SCR	Solvency Capital Requirement
SR	Slovak Republic
SSM	Single Supervisory Mechanism
SCP	Statistics Collection Portal
ULI	unit-linked (life) insurance

Short titles of legal acts

Recommendation on risks related to market developments in retail lending	Macroprudential Policy Recommendation No 1/2014 of Národná banka Slovenska of 7 October 2014 on risks related to market developments in retail lending
NBS Decree No 10/2016	Decree No 10/2016 of Národná banka Slovenska of 13 December 2016 laying down detailed provisions on the assessment of borrowers' ability to repay housing loans
NBS Decree No 10/2017	Decree No 10/2017 of Národná banka Slovenska of 14 November 2017 laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans
Banking Act	Act No 483/2001 Coll. on banks (and amending certain laws), as amended
Securities Act	Act No 566/2001 Coll. on securities and investment services (and amending certain laws), as amended
Foreign Exchange Act	Act No 202/1995 Coll. – the Foreign Exchange Act (and amending Act No 372/1990 Coll. on non-indictable offences, as amended), as amended
Financial Market Supervision Act	Act No 747/2004 Coll. on financial market supervision (and amending certain laws), as amended
Supplementary Pension Scheme Act	Act No 650/2004 Coll. on the supplementary pension scheme (and amending certain laws), as amended
Financial Intermediation Act	Act No 186/2009 Coll. on financial intermediation and financial advisory services (and amending certain laws), as amended
Collective Investment Act	Act No 203/2011 Coll. on collective investment, as amended
Payment Services Act	Act No 492/2009 Coll. on payment services (and amending certain laws), as amended
Insurance Act	Act No 39/2015 Coll. on insurance (and amending certain laws), as amended
Consumer Credit Act	Act No 129/2010 Coll. on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended
Old-Age Pension Scheme Act	Act No 43/2004 Coll. on the old-age pension scheme (and amending certain laws), as amended
Housing Loan Act	Act No 90/2016 Coll. on housing loans (and amending certain laws), as amended
Delegated Regulation No 529/2014	Commission Delegated Regulation (EU) No 529/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach
CRR	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
Regulation No 1024/2013	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

MiFIR	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012
PRIIP Regulation	Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products
AML Directive	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC
CRD IV	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
IORP II Directive	Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision
MiFID	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
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU
PSD 2	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC
Insurance Distribution Directive	Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution
ESMA Guidelines on sound remuneration policies under the AIFMD	ESMA Guidelines of 3 July 2013 on sound remuneration policies under the AIFMD (ESMA/2013/232)