Annual Report

2019

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

www.nbs.sk

Published by

Electronic version
www.nbs.sk/en/publications-issued-by-the-nbs/annual-report

Address
Národná banka Slovenska
Imricha Karvaša 1
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ISBN 978-80-8043-245-4 (ONLINE)

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Foreword

The 2019 Annual Report of Národná banka Slovenska is coming out at an exceptional time.

Slovakia, Europe and the world are facing a socio-economic crisis that has no parallel in modern history. The implications of the coronavirus (COVID-19) pandemic are tangible and visible wherever we look. It is affecting the life of each one of us, the lives of our families and friends. The current crisis, although diametrically different in its source from the financial crisis, is having deadly consequences for people, governments, businesses and the global economy.

At present, we still cannot say exactly how long this situation will last and when the storm will be over. What we do know, however, is that it will be some time before we can breathe freely and begin the clearing up.

This global calamity, accompanied by unprecedented volatility in financial markets, is the first time since the financial crisis that we have needed aggressive, radical and preventive anti-crisis measures to protect us from the worst. Central banks around the world, including Národná banka Slovenska and the European Central Bank, are fully committed to the fight against the pandemic.

The first priority of the crisis measures is, quite rightly, the protection of human health. But the challenges do not end there. The role of central banks is to do their utmost to preserve financial system stability, to maintain the smooth flow of financial liquidity, and to ensure that financing to the real economy is as efficient and cheap as possible, so as to minimise the adverse repercussions for people's livelihoods. It is our responsibility to give a helping hand that mitigates the shocks as much as possible. In other words, we must make access to liquidity as uncomplicated as we can, so enabling firms and governments to refinance on the market and thus obtain the funds needed to come through the current situation. We must offer that hand to the large, medium-sized and small.

Without effective and dynamic cooperation, however, we will come out of this fight more wounded than we would wish. Although not everything is in our hands, we have an arsenal that is sufficiently robust and powerful to temper the direct consequences and side effects of the pandemic, thereby allowing the economic convalescence to start earlier than would otherwise be the case. Let's keep our fingers crossed that the crisis regime period is a matter of weeks and not months.

Time will tell.

Despite these difficult circumstances, I would like to take a moment to look back on 2019, when together we embarked on a new wave of modernisation of the Slovak central bank.

Along with the other Eurosystem national central banks, Národná banka Slovenska stands before challenges that are fundamentally redefining the traditional understanding of what central banks do and how they operate.

At a time when the innovation and technology boom is ruffling the waters of the financial world, Národná banka Slovenska, as a regulator, must be ready and capable to respond to and operate in that evolving world. The role of NBS in this regard is to make thorough preparations for what is emerging. Our common goal to set the structure of our institution. NBS must exercise competence in the field of new technology and have an organisational structure suited to that task. I would like to see NBS establish itself in certain areas as an "exporter" of experience, solutions and innovative ideas for other central banks — and we will work together to achieve that objective.

Our priority areas of attention will be financial literacy, innovation in financial and payment services and in communication, and, last but not least, macroprudential policy instruments. It is in these areas that Národná banka Slovenska has huge potential to share experience and knowledge.

March 2020

Peter Kažimír
Governor

2019 at a glance

€321.6 million
total return on NBS investment portfolios

2.8%
average annual consumer price inflation

€2.7 billion
balance of payments current account deficit

1.2%
employment growth

251.8 million
transactions in the Slovak Interbank Payment System

644
and €2.3 billion – average number and value of daily transactions in the TARGET2-SK payment system

629 million
and 64% – number of transactions made with domestically issued payment cards and the percentage that were contactless

4,089
entities recorded in the NBS Statistics Collection Portal

655
reports designed by NBS for statistical data collection

17
NBS research seminars

4,875
new records processed by the NBS library

1,914
loans made by the NBS library

5 thousand
pupils and students attending NBS talks and workshops

9,400
files received by the NBS Registry Centre

reduction in gas consumption and a 20% cut in CO2 emissions at the NBS Regional Office in Nové Zámky

1 Macroeconomic developments

1.1 External economic environment

1.1.1 Global trends in output and prices

Compared with the previous year, global economic activity weakened in 2019. According to IMF estimates, world GDP growth slowed to 2.9%, down from 3.6% in 2018. The main headwind facing the global economy was an increase in protectionist measures, with the escalation of tit-for-tat tariffs between the United States and China. This was reflected in increasing uncertainty and a softening of business confidence. Global economic growth was further dampened by specific factors that weighed on the performance of certain emerging market economies, as well as by geopolitical tensions. The global slowdown was driven mainly by a decline in manufacturing industry. Rising import tariffs resulted in the weakening of trade growth and, with a certain lag, investment. Uncertainty about the timing of Brexit and about the subsequent renegotiation of the United Kingdom's relations with the European Union continued in 2019, but became more moderate in the second half of the year. The impact of dampening factors was partially offset by further monetary policy accommodation. At the same time, towards the end of the year, the United States and China announced a "Phase 1" trade deal. These developments were expected to support the global economy in the next period.

Global price developments in 2019 were affected mainly by energy commodity prices, as was also the case in the previous year. Falling world oil prices had a strong downward impact on energy price inflation. Food inflation remained largely unchanged, as did core inflation. Across advanced economies, average annual consumer price inflation slowed to 1.4% in 2019, down from 2.0% in the previous year. Average headline inflation in emerging market economies did not change significantly in 2019, edging up by 0.3 percentage point to 5.1%.

1.1.2 The euro area

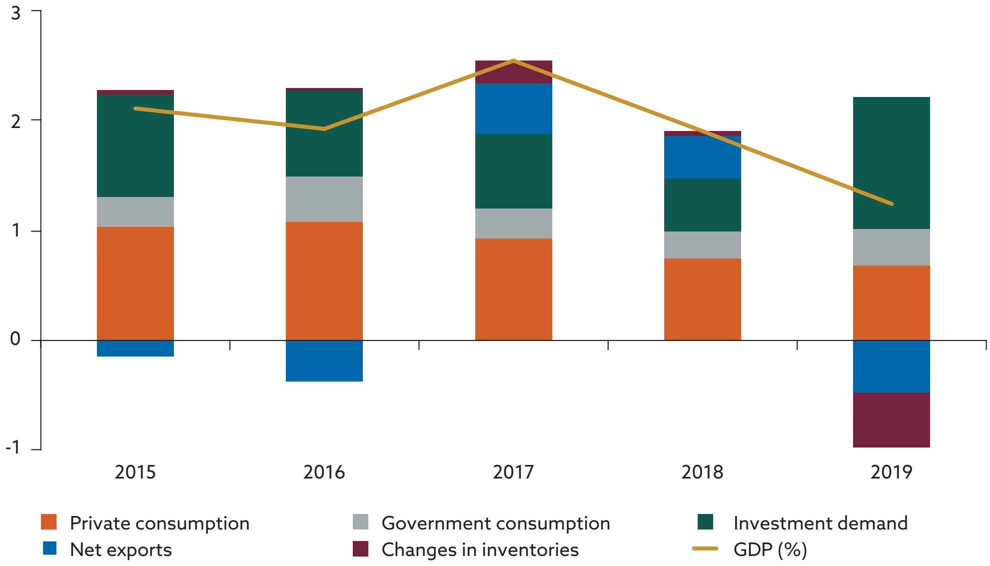
The euro area's annual GDP growth moderated to 1.2% in 2019, down from 1.9% in the previous year (Chart 1). The slowdown stemmed largely from the weakening of the global economy and international trade in an environment of persisting uncertainty. This adversely affected the most significant export sector – manufacturing industry – which saw its output contract for the first year since 2013. The hardest hit segment was the car industry. On the other hand, the economy was boosted by continuing monetary policy accommodation and favourable trends in employment and wages, which stoked domestic demand and contributed to positive developments in the service sector.

Private consumption continued to benefit from labour market buoyancy, which resulted in increases in employment and wage growth. Despite a decelerating global economy and increasing uncertainty, investment contributed positively to economic growth in 2019. Net exports, by contrast, had a negative impact.

The further strengthening of the labour market supported economic activity in 2019. Employment increased by 1.1% and the unemployment rate fell to 7.6% (its 2008 level).

Chart 1

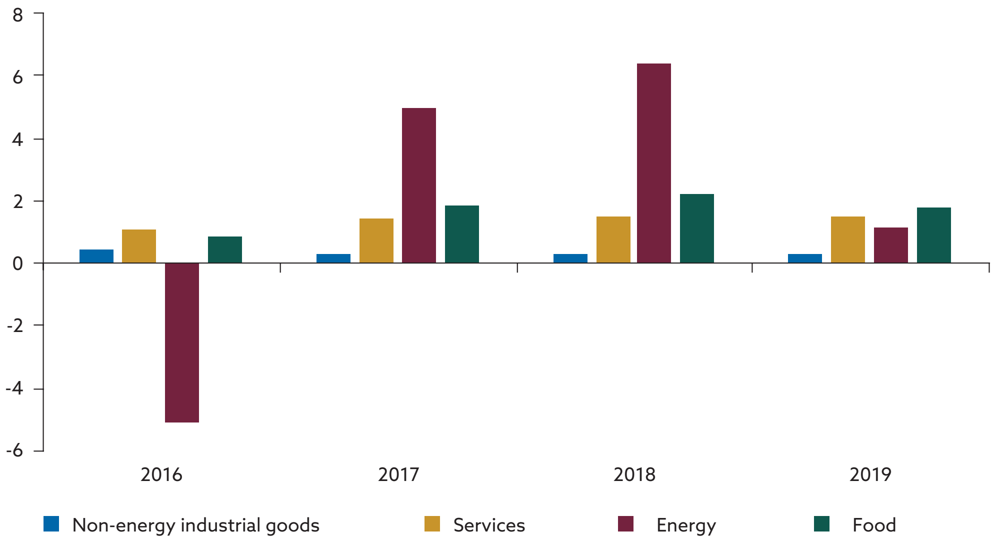
Euro area GDP and its components (annual percentage changes; percentage point contributions)



Source: Eurostat.

The euro area's average annual HICP inflation eased to 1.2% in 2019, from 1.8% in the previous year. The slowdown was due largely to the energy and food components (Chart 2). HICP inflation excluding energy and food was at around its historical levels, averaging 1.0% in 2019, the same as in the previous two years.

Chart 2
Components of HICP inflation (annual percentage changes)



Source: Eurostat.

1.2 Macroeconomic developments in Slovakia

Slovakia's annual GDP growth slowed to 2.3% in 2019 (from 4.0% in 2018), largely because foreign demand weakened.

The economic slowdown had only a partial impact on the labour market. This was confined mainly to the industry sector, which experienced a decline in production. Overall annual employment growth eased to 1.2% in 2019 (from 2.0% in 2018). The increase in the number of employed people was reflected in the average unemployment rate, which fell to a historical low of 5.8% (6.6% in 2018). The labour market's ongoing tightness coupled with elevated labour demand put upward pressure on annual wage growth, which rose to 7.8% (up from 6.2% in 2018). This growth was also supported by increases in public sector wages and the impact of certain legislative amendments.

In the balance of payments for 2019, the current account showed a deficit of €2.7 billion (after a deficit of €2.4 billion in 2018), with the change caused mainly by an increase in the trade deficit.

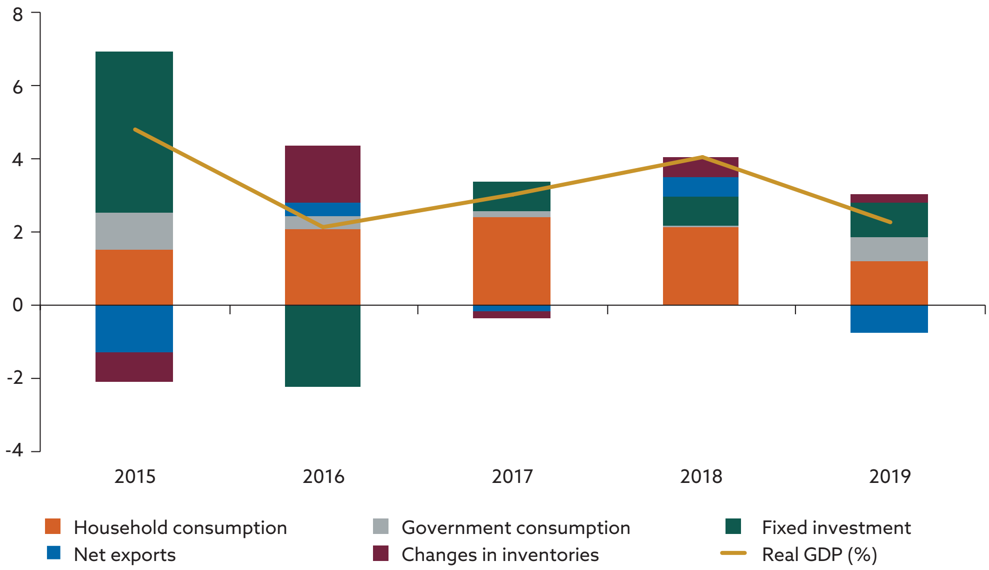
Average annual HICP inflation accelerated to 2.8% in 2019 (from 2.5% in 2018), owing mainly to developments in administered energy prices and to increases in food and services inflation.

1.2.1 The real economy

Slovakia's annual GDP growth eased to 2.3% in 2019 (from 4.0% in 2018). The slowdown resulted from a gradual weakening of foreign demand and its consequent downward impact on Slovak export performance. The main driver of growth was the domestic side of the economy. Household consumption and investment continued to grow, albeit more moderately compared with the previous year (Chart 3).

Chart 3

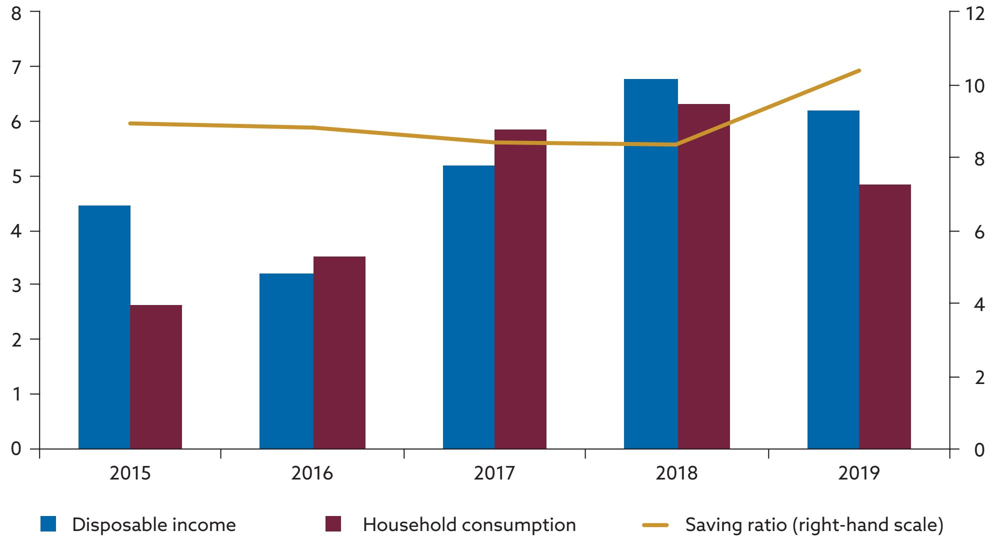
Real GDP and its components (annual percentage changes; percentage point contributions)



Source: SO SR.

Household consumption increased by 2.2% in 2019, supported by a still favourable labour market situation. Wages and salaries continued to grow in relative terms during the period under review and represented the main source of household income. Consumption growth was driven mainly by services, in particular by spending in restaurants and hotels, which was boosted partly by the introduction of employee vouchers for domestic holidays as well as by households' increasing preference for higher-end goods. At the same time, the growth rate for spending on everyday goods, such as food, decelerated. Despite the consumption growth, households' consumption spending relative to income was lower than in the past and their propensity to save increased. As a result, the saving ratio rose above 10%, a level not previously exceeded since 2000 (Chart 4).

Chart 4
Household consumption and disposable income (annual percentage changes; constant prices)

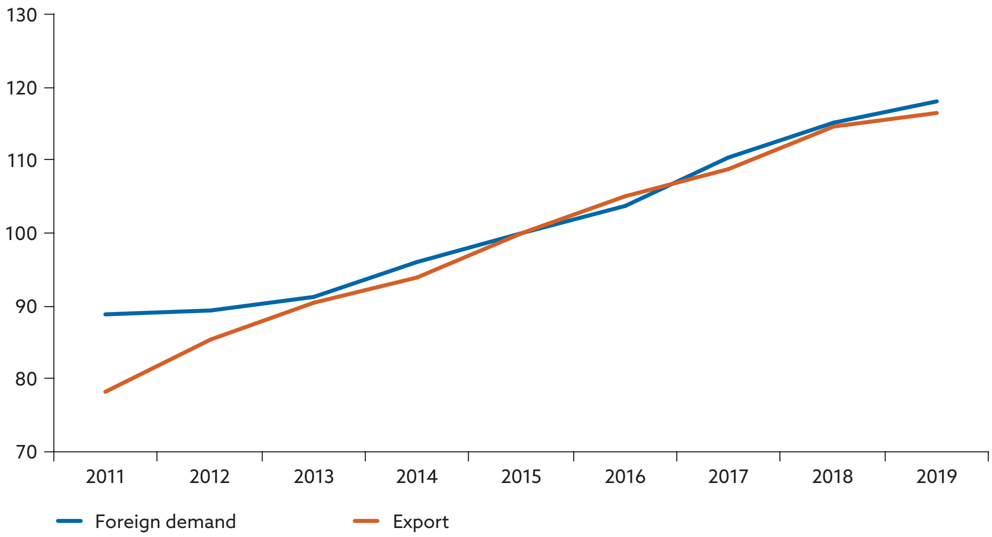


Source: SO SR, and NBS calculations.

Fixed investment growth accelerated to 4.4% in 2019, underpinned by an increase in private sector investment activity. Another contributor was the favourable situation in financial markets. Interest rates remained subdued, so firms could finance investment activities on favourable terms. The strongest-growing area of investment was in residential construction and in other construction. The absorption of EU funds slowed in 2019, as certain infrastructure projects were halted. The only sector that contributed negatively to overall investment activity growth was the general government sector.

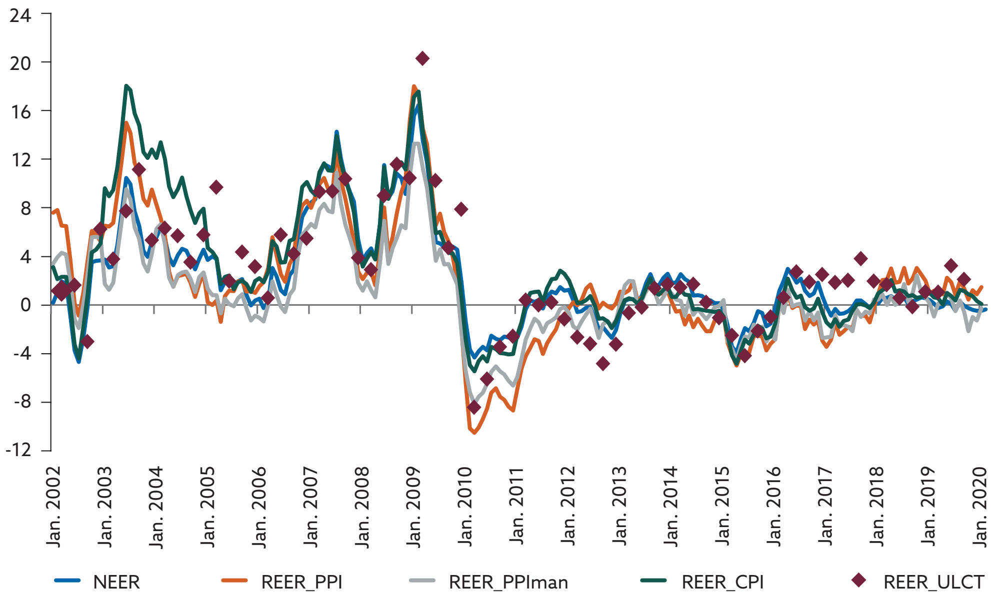
Slovakia's export growth moderated in 2019, owing to the weakening of global demand and to specific difficulties in certain sectors. It was the third successive year in which the country's export growth was lower than foreign demand growth (Chart 5). This trend may be related to structural factors. Looked at through the lens of the real effective exchange rate (REER) (Chart 6), the Slovak economy's competitiveness appears to have deteriorated appreciably. Weaker demand from trading partners has dented exports not only in the car industry, but also in metal manufacturing and in the petrochemical industry. Imports maintained their uptrend amid strong domestic demand and increasing inventories; their growth rate surpassed export growth.

Chart 5
Exports and foreign demand (index: 2015 = 100; constant prices)



Sources: SO SR, and NBS calculations.

Chart 6
NEER and REER indices (calculated with respect to 15 trading partners; annual percentage changes)



Source: NBS calculations.
Note: Appreciation and depreciation of the NEER and REER indices are denoted by positive figures and negative figures respectively.

As regards GDP calculated by the production approach, its slower growth rate in 2019 was caused mainly by a decline in value added in industry. The sectors of services (excluding trade) and construction made the largest contributions to GDP growth. In the services sector, the highest increase in value added was recorded in public services, possibly owing to increased expenditure on wages and salaries. Higher tax collection also contributed positively to growth.

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

	2018	2019				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Gross domestic product	**4.0**	**3.8**	**2.2**	**1.3**	**2.0**	**2.3**
Final consumption of households and non-profit institutions serving households	3.9	1.9	2.7	1.9	2.2	2.2
Final consumption of general government	0.2	2.3	5.0	3.7	3.9	3.8
Gross fixed capital formation	3.7	0.0	2.4	7.8	6.2	4.4
Exports of goods and services	5.4	9.0	-0.9	-0.2	-0.5	1.7
Imports of goods and services	5.0	6.5	1.5	3.3	-0.5	2.6

Source: SO SR.

1.2.2 Labour market

The weakening of economic activity growth was reflected in a slowdown in job creation. Average wage growth remained strong, due mainly to increases in contractual wages in the public sector and civil service. The unemployment rate fell to a historical low.

Table 2 Labour market indicators

	2018	2019				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wages (index)	6.2	7.1	9.7	7.7	6.9	7.8
Real wages (index)	3.6	4.6	7.0	4.7	3.9	5.0
Nominal compensation per employee – ESA 2010 (index)	5.6	5.7	8.0	6.1	5.1	6.2
Labour productivity – GDP per person (index; current prices)	4.1	4.9	3.4	2.3	4.3	3.7
Labour productivity – GDP per person (index; constant prices)	2.0	2.0	0.7	0.2	1.3	1.0
Employment – ESA 2010 (index)	2.0	1.8	1.4	1.0	0.7	1.2
Unemployment rate – LFS[1)] (percentage)	6.6	5.8	5.7	5.9	5.6	5.8
Nominal unit labour costs (ULCs)[2)]	3.5	3.7	7.2	5.8	3.8	5.1

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

Employment

Employment as defined in the ESA 2010 increased, year on year, by 1.2% in 2019 (after rising by 2.0% in 2018), and net job creation amounted to around 30,200. The sectors that contributed most to the employment growth slowdown were industry, in which employment fell by 0.3% year on year, and trade. Employment growth in the services sector slowed growth, due largely to an easing of recruitment in the IT sector; nevertheless, it remained above the national average. Construction outperformed other sectors on the employment front, with a growth rate of almost 5%. In the public sector, too, most notably in the health sector, employment trends were favourable. The average number of Slovak citizens working abroad fell for a third consecutive year, by 10,200 in headcount terms. On the other hand, the number of foreigners working in Slovakia is increasing year by year and climbed by 14,400 in 2019.

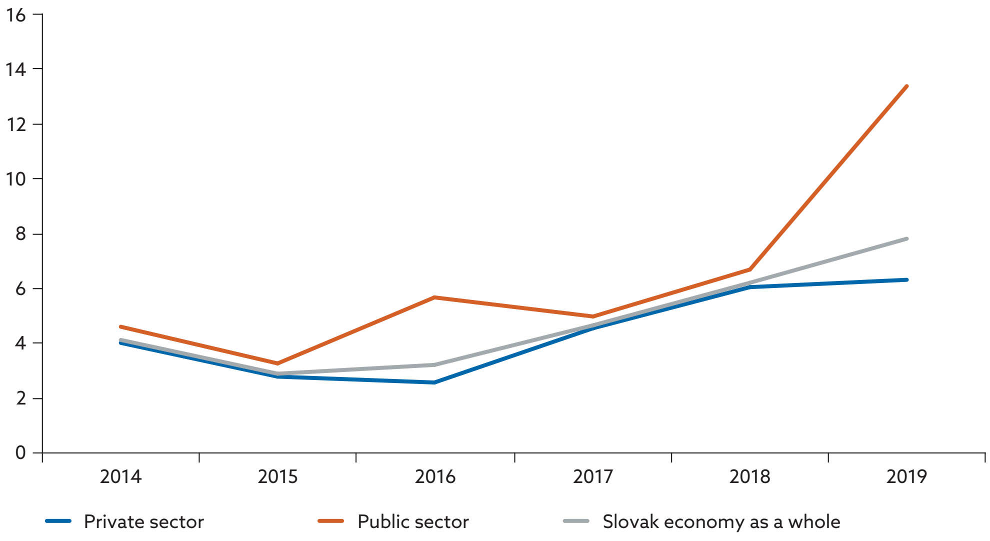
Unemployment

The number of unemployed (as measured by the Labour Force Survey) continued falling in 2019, albeit more moderately than in the previous year. The year-on-year decrease of 22 thousand was approximately half of the 2018 figure. Compared with the previous year, the average unemployment rate dropped by 0.8 percentage point, to 5.8%. This reflected not only net job creation, but also the continuing decrease in the economically active population.

Wages and labour productivity

Average annual wage growth accelerated to 7.8% in 2019 (Chart 7), owing mainly to double-digit increases in contractual wages in the public sector and civil service. Private sector wage growth accelerated only slightly and was also affected by notably slower wage growth in industry and construction. Services, on the other hand, contributed positively to wage growth, mainly through rising wages in the tourism industry. Another factor supporting overall wage growth was the payment of “13th” and “14th” salaries exempt from income tax and health insurance contributions. The weakening of demand resulted in an easing of labour market tightness and therefore a gradual moderation of wage growth. Amid decelerating economic growth, nominal labour productivity growth slowed in 2019 and thus lagged behind wage growth.

Chart 7
Average nominal wage (annual percentage changes)



Sources: SO SR, and NBS calculations.

1.2.3 Inflation

Slovakia's annual average HICP inflation increased slightly in 2019, to 2.8% (from 2.5% in 2018) (Chart 8). The inflation rate reflected the impact of both domestic factors and the external environment. The labour market's continued overheating accounted for the domestic environment's impact on price developments. The external factors consisted mainly of the cost-push pressures from rising energy commodity prices and agricultural commodity prices and of lower foreign inflation. Compared with other euro area countries, Slovakia had one of the higher inflation rates. Administered energy prices accelerated and so did food inflation and services inflation.

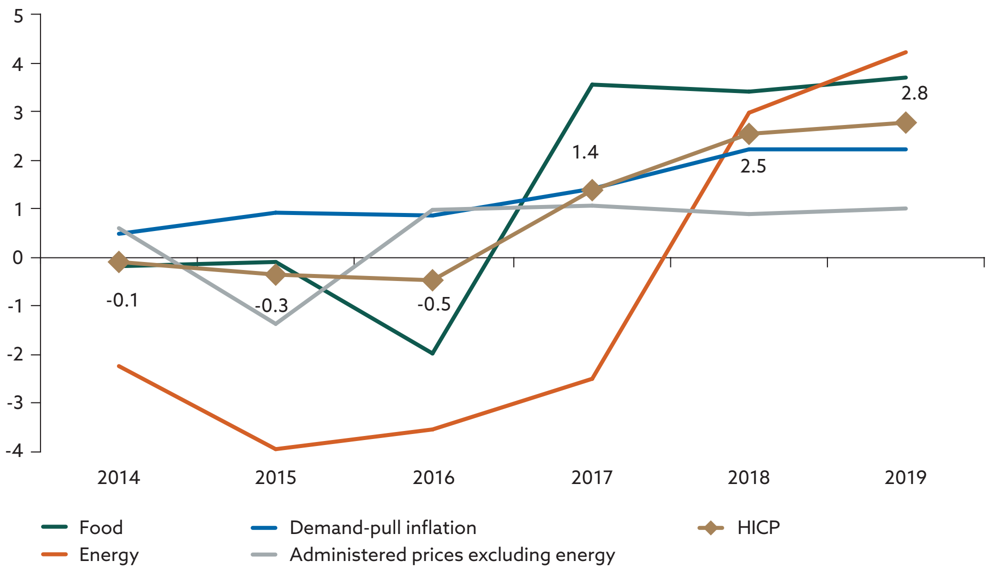
The increase in headline inflation was due mainly to a large rise in administered prices in the energy sector. Household gas and electricity prices were raised significantly, as a consequence of energy commodity price developments in 2018. Via the regulatory framework, these developments passed through with a lag to consumer prices at the start of 2019.

Food inflation was relatively elevated in 2019, reflecting labour costs and the gradual increase in global meat prices. Labour costs were heightened by increases in the minimum wage and in wage premia. The rise in meat prices stemmed from the impact of Swine flu on pork production in Asia.

Average demand-pull inflation was the same in 2019 as in the previous year (Chart 9). Increases in wage growth, energy inflation and food inflation pushed up costs in the services sector. At the same time, the continuing strength of real wage growth generated additional consumer demand for personal care and recreation services. The introduction of employee vouchers for domestic holidays helped increase household demand and simultaneously put upward pressure on prices of accommodation-related services. Import price inflation gradually moderated during 2019 and eventually averaged just above 1%. This trend was reflected in increasing prices of non-energy industrial goods in Slovakia.

Chart 8

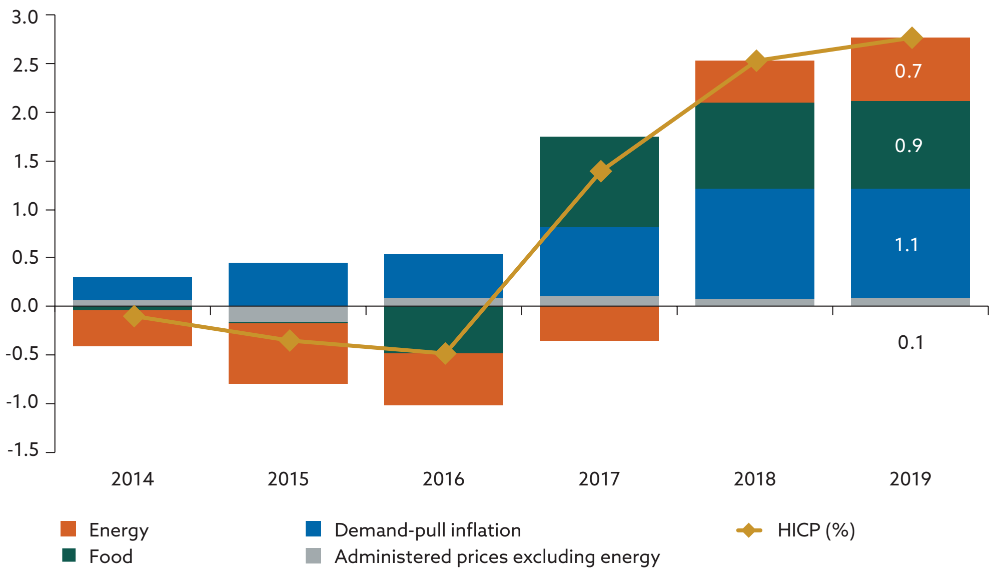
HICP inflation and selected components (annual percentage changes)



Sources: SO SR, and NBS calculations.

Chart 9

Contributions of components of HICP inflation (percentage point contributions; annual percentage changes)



Sources: SO SR, and NBS calculations.

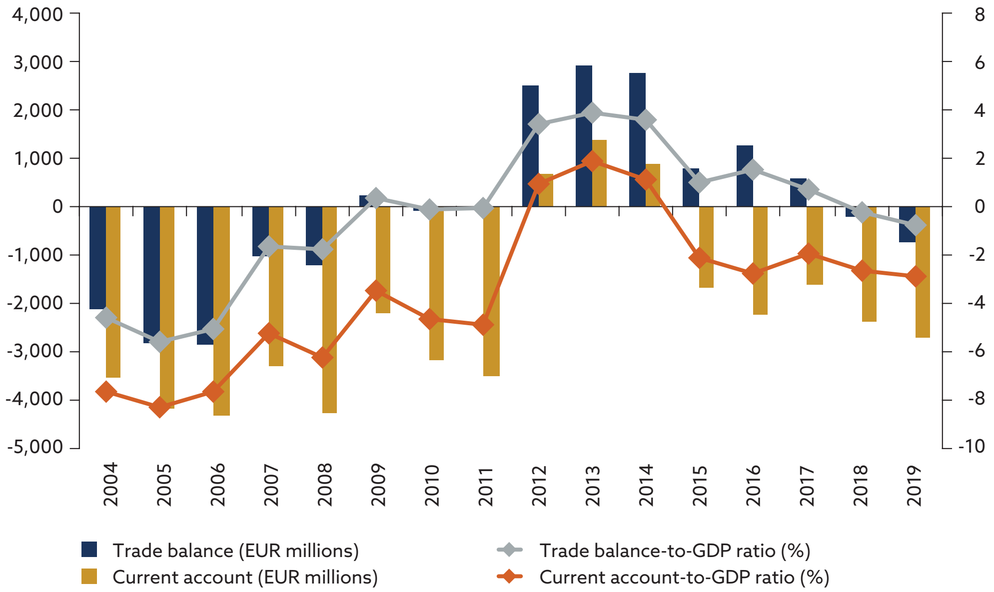
1.2.4 Balance of payments

Current and capital accounts

In Slovakia's balance of payments for 2019, the current account showed a deficit of €2.7 billion, which was €0.3 billion higher than the deficit in 2018 owing mainly to an increase in the trade deficit. The ratio of the current account deficit to GDP (at current prices) increased by 0.3 percentage point year on year, to 2.9% (Chart 10).

Chart 10

Current account balance and trade balance (EUR millions; percentages)



Sources: SO SR, and NBS calculations.

Goods export growth was lower in 2019 than in the previous year. For a third successive year, export growth (2.9%) was slower than import growth (3,6 %). As a result of that difference, the goods trade deficit increased in year-on-year terms.

As for other components of the current account, their balances changed only marginally compared with 2018. It is worth noting that despite the softening of foreign demand, the services balance continued the improvement which began in 2016.

The capital account surplus fell year on year, reflecting the lower absorption of EU funds.

Table 3 Current account and capital account balances (EUR billions, unless otherwise indicated)		
	2018	2019
Goods	-0.2	-0.7
Exports	75.7	77.9
Imports	75.9	78.6
Services	0.9	1.0
Primary income balance	-1.9	-2.0
Secondary income balance	-1.2	-1.0
Current account	-2.4	-2.7
Current account-to-GDP ratio (percentage)	-2.6	-2.9
Capital account	1.2	0.9

Sources: SO SR, and NBS calculations.

Financial account

The balance of payments financial account recorded a net inflow of €1.6 billion in 2019, which was €0.3 billion lower than the inflow in 2018.

Table 4 Financial account balance (EUR billions)		
	2018	2019
Direct investment	-0.8	-2.1
Portfolio investment and financial derivatives	3.8	0.4
Other investment	-6.3	-1.4
Reserve assets	1.4	1.5
Financial account	-1.9	-1.6

Source: NBS calculations.
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.

The main factors affecting the financial account balance were the non-resident investment inflow in the direct investment balance and the decline in banks' deposits abroad in the other investment balance.

External debt of Slovakia

Slovakia's balance of payments transactions in 2019 resulted in its external debt increasing by €3.5 billion (from €101.9 billion to €105.4 billion). The country's ratio of gross external debt to GDP (at current prices) was 111.9% in 2019, which was 1.7 percentage points lower than the figure for 2018 (113.6%). The ratio of short-term external debt to gross external debt decreased by 2.9 percentage points in 2019, to 47.4%. Debt per capita rose by €611 in 2019, to €19,309 as at the year-end.

2 Eurosystem monetary policy

The Eurosystem's accommodative monetary policy implementation in the form of non-standard monetary policy measures remained necessary in 2019

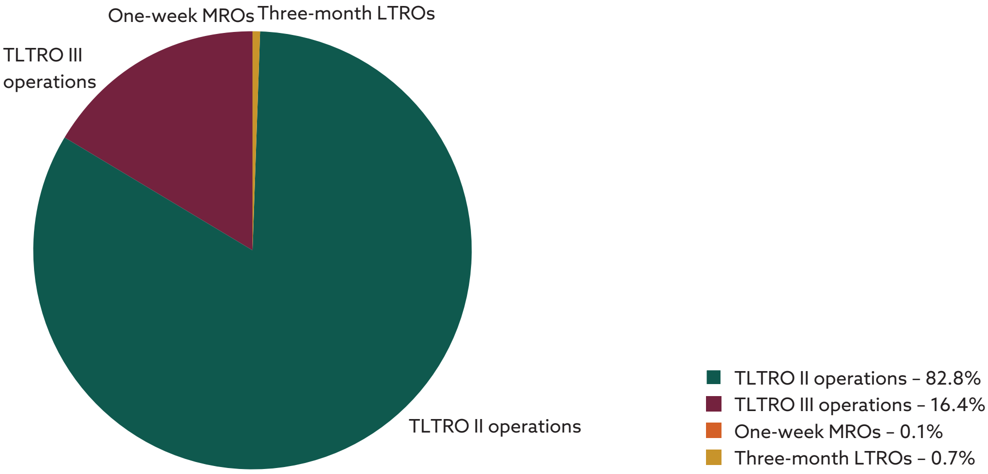
The standard channel of monetary policy transmission encompasses a range of policy instruments aimed at managing short-term money market interest rates. In 2014, in response to a prolonged period of low inflation and disruption of the transmission mechanism, non-standard monetary policy instruments were activated in order to influence also medium-term and long-term interest rates. These accommodative monetary conditions remained in place during the year under review. The Eurosystem has been active not only in the money market, but also, via the expanded asset purchase programme (APP), in the government bond market, the covered bond market, the corporate bond market, and the asset-backed securities (ASB) market. In addition, the Eurosystem has provided a substantial amount of funding through longer-term refinancing operations with a maturity of four years. Forward guidance on monetary policy has been a crucial element of the policy toolkit.

At its meeting in December 2018, the ECB's Governing Council decided to end net purchases under the APP, effective from the start of 2019. The Eurosystem continued to reinvest principal payments from maturing APP holdings, so as to keep the total amount of APP holdings unchanged at €2.6 trillion. In March 2019 the Governing Council announced a new series of quarterly targeted longer-term refinancing operations (TLTRO III) with the aim of preserving favourable bank lending conditions. In September 2019, in response to persistently low inflation, the Governing Council unveiled a package of measures to strengthen monetary policy accommodation in the euro area.

With inflation not converging sufficiently towards its target rate, the Governing Council decided to reduce the deposit facility (by 10 basis points, to -0.50%), but also to adopt additional measures

As part of the September package, the Governing Council decided to lower the interest rate on the deposit facility by 10 basis points to -0.50%. Another measure was the decision to restart net purchases under the APP at a monthly pace of €20 billion as from 1 November 2019. The Governing Council also decided to change the modalities of the TLTRO III operations so as to further support the accommodative stance of monetary policy. At the same time, there was a reformulation of the forward guidance on policy rates. Alongside these monetary policy measures, the Governing Council also decided to introduce a two-tier system for reserve remuneration in order to support the positive impact of negative interest rates on the transmission mechanism.

Chart 11
Outstanding amount of Eurosystem refinancing operations at end-2019 broken down by operation (percentages)



Sources: ECB, and NBS calculations.

As regards its **open market operations** in 2019, the Eurosystem continued to conduct weekly main refinancing operations (MROs) and three-month longer-term refinancing operations (LTROs). In March 2019 the Governing Council decided that it would continue conducting these operations as fixed rate tender procedures with full allotment until March 2021. The new TLTRO III operations began in September and are due to end in March 2021. The last of the TLTRO III operations will mature in 2024, ten years after the Eurosystem launched its first series of TLTROs in 2014 (the second series followed in 2016). The outstanding amount of Eurosystem refinancing operations stood at €624 billion at the end of 2019. MROs and three-month LTROs made up only a sliver of that total, since TLTROs accounted for the vast majority of it (see Chart 11). Besides conducting monetary policy operations, the Eurosystem also continued to conduct tenders providing US dollar liquidity based on the ECB's swap line with the US Federal Reserve System. There was minimal demand in these tenders.

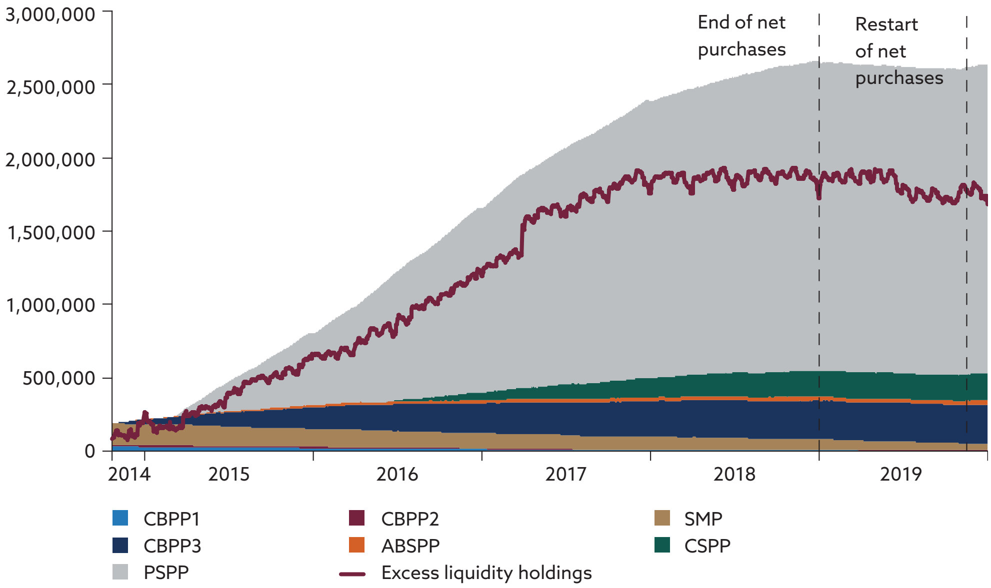
Restart of the asset purchase programme

Based on the ECB Governing Council's decision in September 2019, the Eurosystem restarted net asset purchases under its expanded asset purchase programme (APP). Of the four programmes that make up the APP, the public sector purchase programme (PSPP) accounts for the majority of APP holdings (see Chart 12). Under the PSPP, the ECB and Eurosystem national central banks (NCBs) purchased government bonds issued by Eurosystem countries, and some NCBs also purchased bonds issued by EU supranational institutions. The allocation of purchases to jurisdictions was guided by the respective NCB's subscription to the ECB capital key. At the end of 2019 total PSPP holdings amounted to €2.1 trillion. The APP's second largest component was the third covered bond purchase programme (CBPP3), which at the year-end accounted for €264 billion of the APP holdings. The other two components – the corporate sector purchase programme (CSPP) and the asset-backed securities purchase programme (ASBPP) – contributed €185 billion and €28 billion respectively. The Eurosystem's monetary policy-related assets amounted to €3.3 trillion at the end of 2019, which was slightly lower than their historical high at the end of 2018 (€3.4 trillion).

The drop was caused mainly by early repayments of funds raised through the second series of targeted longer-term refinancing operations (TLTRO II). In 2019 the APP continued to be the Eurosystem's main channel of liquidity provision, accounting for 79% of the annual total. The rest was provided through monetary policy operations. At the same time, in order to mitigate the negative effects of the APP on the securities market, the Eurosystem continued to make assets purchased under the APP available for securities lending.

Chart 12

Asset purchase programme (EUR millions)



Sources: ECB, and NBS calculations.
Note: CBPP1 – first covered bond purchase programme; CBPP2 – second covered bond purchase programme; CBPP3 – third covered bond purchase programme; SMP – Securities Markets Programme; ABSPP – asset-backed securities purchase programme; CSPP – corporates sector purchase programme; PSPP – public sector purchase programme.

Reformulation of forward guidance on monetary policy

An important part of the monetary policy toolkit is the **forward guidance** by which the Governing Council indicates its intentions regarding the future path of policy rates and the reinvestment horizon. Twice in 2019, in March and June, the Governing Council decided to shift out the period for which it expected key interest rates to remain unchanged. In March it said they should be kept at present levels at least through the end of 2019, and in June it extended that period through the first half of 2020. In July the Governing Council opened the possibility of an earlier decrease in rates. By its September decision to cut the deposit facility rate, the Governing Council removed the calendar-based leg of its forward guidance. Its forward guidance on the path of policy rates would now apply until such time as projected inflation converged to a level sufficiently close to the inflation target. At the same time, the Governing Council introduced forward guidance on the duration of the asset purchase programme, stating its expectation that APP purchases would be terminated shortly before the Governing Council started to raise key interest rates. In 2019 the Governing Council not only used forward guidance to shape expectations about the path of short-term interest rates, but also extended it to the longer term.

The Governing Council introduced a measure to support the positive impact of negative interest rates on the monetary policy transmission mechanism, given the need to maintain negative rates for an extended period

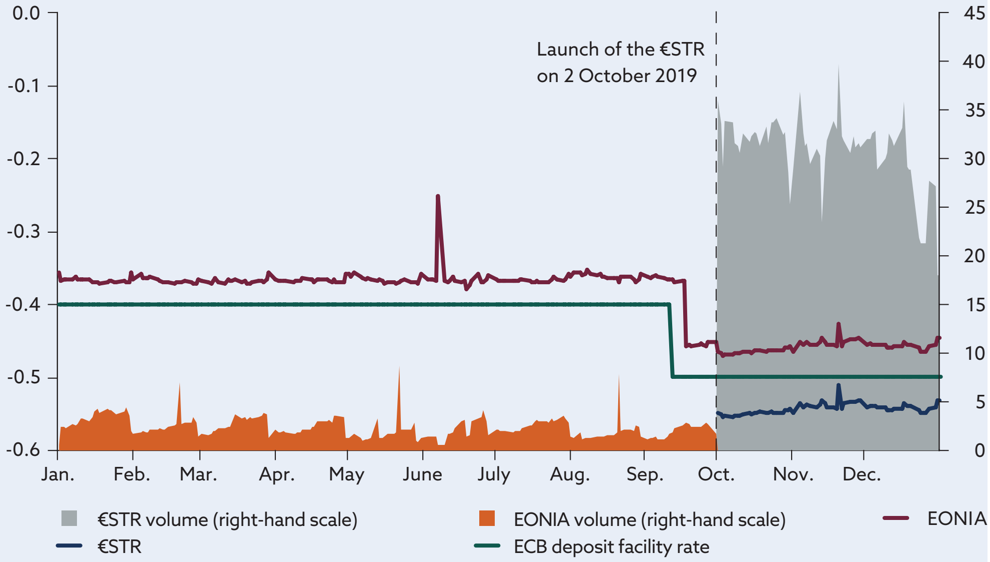
From 30 October 2019, i.e. the start of the seventh maintenance period of 2019, the Eurosystem began implementing a **two-tier system for reserve remuneration (so-called 'tiering')**. Since banks' reserve holdings in excess of their minimum reserve requirements were being remunerated at the negative deposit facility rate, the Governing Council decided that a portion of banks' excess liquidity holdings – set at six times the mandatory reserves – would be exempted from that rate, seeing this step as necessary to ensure the continuing positive impact of negative rates on the monetary policy transmission mechanism. The exemption applies to around €800 billion of the total €1.8 trillion of excess liquidity holdings.

Daily fine-tuning of the banking sector's liquidity is ensured by **overnight liquidity-providing and liquidity-absorbing operations, i.e. standing facilities.** While demand for overnight liquidity provision was close to zero in 2019 (owing mainly to the substantial liquidity surplus in the European banking sector), there continued to be significant recourse to the deposit facility. Nevertheless, due to the local and cross-border reallocation of excess liquidity triggered by the tiering system, the total amount of banks' holdings in the deposit facility was notably lower at the end of 2019 (€250 billion) than at the end of 2018 (around €650 billion).

Box 1
Euro short-term rate (€STR)

In 2017 the ECB's Governing Council decided to develop a new euro short-term interest rate to complement existing benchmarks. After two years of preparation, **the ECB published the euro short-term rate (€STR) for the first time on 2 October 2019. The new rate is published on every business day and is based on banks' actual transactions in the euro area money market.** In substance, the €STR reflects the wholesale euro unsecured overnight borrowing costs of euro area banks. The €STR is calculated by the ECB on every business day on the basis of banks' trading during the previous business day under normal market conditions, so providing an objective representation of current market rates. In contrast to the ECB's key interest rates, which are set by the Governing Council at its monetary policy meetings, the €STR is a weighted average interest rate based on market transactions.

Chart 13
The EONIA and €STR rates (percentages, EUR billions)



Sources: Bloomberg, ECB, and NBS calculations.

In May 2018 the administrator of the euro overnight index average (EONIA) – the European Money Markets Institute – announced that a review of the EONIA aimed at making the benchmark compliant with the EU Benchmarks Regulation had not been successful. At the recommendation of leading representatives of the European banking sector, market participants are expected to replace the existing EONIA benchmark with the new €STR. Although there are several technical differences between the two rates, each represents the overnight interest rate for euro unsecured market transactions. The €STR, however, is more representative since its calculation derives from transactions amounting around €30 billion, while the

EONIA is determined according to transactions worth only around €2 billion. The first publication of the €STR was accompanied by a change in the methodology used to set the EONIA. As a result, the EONIA was redefined as the €STR plus a fixed spread of 8.5 basis points, and this spread will be applied until the EONIA is discontinued on 3 January 2022. The reason for publishing the modified EONIA for a temporary period is to give market participants sufficient time to make the transition from the EONIA to the €STR. Chart 13 shows the EONIA and €STR rates in 2019.

3 Financial market developments[1]

The global economy slowed and a new wave of monetary stimulus mitigated macroeconomic risk

The global economy continued to decelerate during 2019, after showing the first signs of slowdown in the previous year. The economic environment included rising global uncertainty stemming from the trade conflict between the world's two largest economies (the United States and China) and from the ongoing discussions surrounding the United Kingdom's withdrawal from the European Union. The decline in output centred mainly on manufacturing industry, which suffered the consequences of reduced demand for investment-related products. The severe drop in foreign sales weighed most heavily on industrial production, whose downtrend dated back to latter part of 2018.

In Slovakia, like most EU countries, the growth phase had already peaked and was moderating to a significant extent. Cooling global demand was therefore gradually ending the recent expansionary phase experienced by the majority of European countries. The Slovak economy was adversely affected by economic developments in the country's trading partners, in particular Germany, the principal destination for Slovak exports. Household consumption in Slovakia continued to grow, amid a still favourable labour market situation and strong growth in the average wage; nevertheless, its contribution to GDP growth was not as high as in previous years.

In financial markets, periods of asset price growth and risk premium compression were interspersed with bouts of heightened nervousness. Market interest rates, in response to both actual and expected easing of monetary conditions, fell to historical lows, often entering negative territory. Sentiment in financial markets, as well as in the real economy, was anchored by a new wave of central bank stimulus. This appears to have prevented the economic cooling from developing into a more serious crisis.

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1 This text is based on NBS's November 2019 Financial Stability Report. A comprehensive analysis of the financial sector for the whole of 2019 is provided by the Analysis of the Slovak Financial Sector, which was published on the NBS website in April 2020.

Banks' business models came under pressure from the low interest rate environment

In 2019 the environment of very low interest rates was affecting the domestic financial market and resulted in several risks to financial stability. In regard to the Slovak credit market, these risks included the following: excessive growth in household indebtedness; the long-term adverse impact of low interest rates on the profitability of banks and insurers (in the context of maintaining the traditional business model); the increasing vulnerability of households to the business cycle; the rising pressure in the property market; and, in regard to the investment policy of domestic financial institutions, in the shift to riskier or less liquid investments. These were further exacerbated by certain specificities of the Slovak financial sector which relate mainly to the legislative environment (the bank levy; the insurance levy and tax; a significant reduction in early repayment fees for housing loans) and to the fierce competition in certain segments (supported by the high share of new business arranged through financial brokers).

A development in 2019 which had particular significance for the banking sector's stability was the Government's decision to retain the special bank levy for an extended period and to increase it. With their profit-generating capacity reduced, banks will have less scope to increase their capital and may therefore find themselves less resilient in bad times. Given its size, the levy also has negative implications for the attractiveness of Slovak banks to foreign investors. This could lead to a decline in investment in the banking sector, thereby having a negative impact on lending to the domestic economy (to the corporate sector in particular) and on the quality of customer services.

The growth rates of loans to households and loans to NFCs moderated, while increasing household indebtedness was one of the most significant risks to financial stability

The growth rate of total loans to households moderated gradually in 2019, and the slowdown was more pronounced in the case of consumer loans. The main causes were NBS's tightening of regulatory retail lending requirements and the incipient saturation of certain market segments. Slovakia's growth rate for household loans went from being the highest in the EU to the fourth highest. In line with credit market trends, the rate of increase in household indebtedness also slowed, while nevertheless remaining among the highest in the EU. The risks related to household indebtedness were accentuated by the low ratio to GDP of households' net financial assets – assets that may be used as a buffer if the financial situation deteriorates. The marked increase in the household sector's vulnerability is therefore the most significant risk in regard to any deterioration in the economic situation.

Economic cooling translated into declines in foreign trade and sales in 2019. The consequent worsening of the situation in the corporate sector was evident in investment loans, as firms' diminishing interest in investment activity meant they had less need to finance such activity. While the non-financial corporate debt-to-GDP ratio is low in international comparison, the greatest risk of a structural nature is the debt-to-equity ratio, which is among the highest in the EU. The downtrend in default rates came to a halt in 2019, but these rates remained at historically low levels.

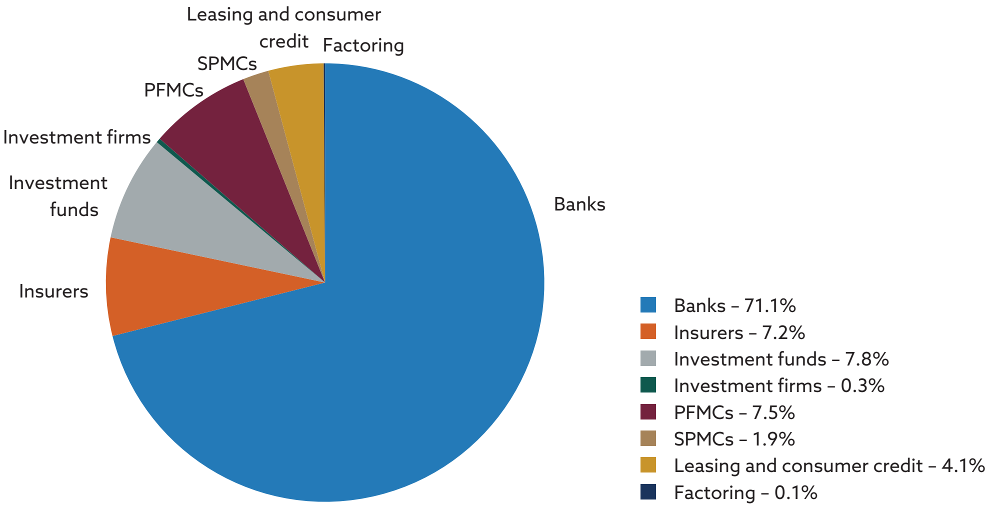
The banking sector's profitability and capital adequacy became increasingly vulnerable to any economic deterioration

The main cause of the decline in the banking sector's profit in 2019 was lower net income from the retail sector. This stems from the fact that banks are less able to offset the substantial impact of declining returns on loans by increasing their volume of lending or reducing their cost of funds rates. Compared with other banking union countries, the profitability of banks in Slovakia remains above average; however, that gap is gradually narrowing.

Given the ongoing build-up of cyclical risks associated with the increase in household indebtedness, the strengthening of domestic banks' solvency is positive news. Their improving resilience is also supported by other significant features of the sector, not least that it has one of the highest NPL coverage ratios (including provisions and collateral) in the whole EU. The funding structure of banks also improved during 2019, owing to stronger growth in deposits and to banks' issuance of covered bonds.

Chart 14

Financial sector assets as at 31 December 2019 broken down by market segment



Source: NBS.
Note: PFMCs – pension fund management companies; SPMCs – supplementary pension management companies.

The insurance sector was facing long-term risks, while pension funds and investment funds were investing in riskier assets

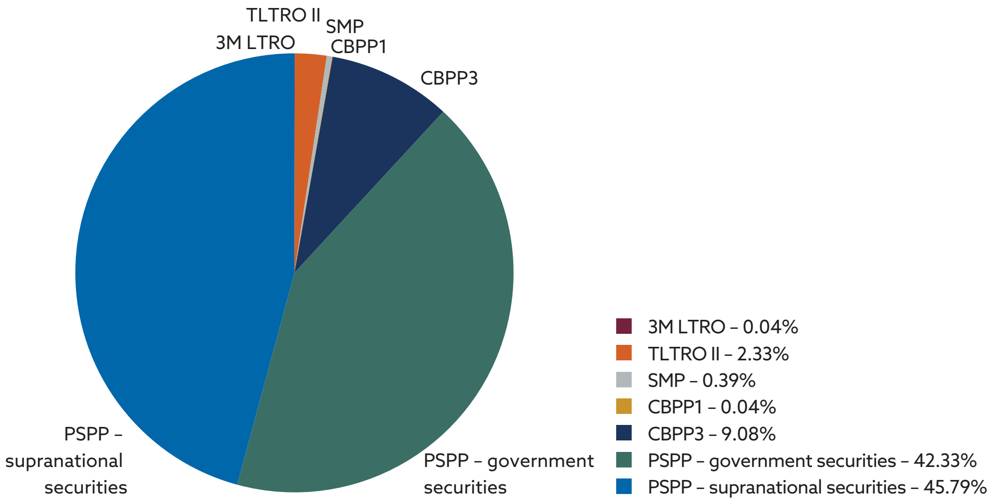
In 2019 the insurance sector was facing several long-term risks. The first risk was lower than originally expected returns on assets, which resulted in insurers having to top up their reserves at the expense of their profitability. The second risk was the introduction of a new tax on non-life insurance business, which is eroding profits and, in certain segments, also reducing customer, and therefore premium, growth. This is further exacerbating the long-term problem of losses on motor insurance. A significant structural risk is that a large part of insurers' capital comprises the volatile component that is *expected profits included in future premiums (EPIFP)*, which will not be ready to absorb any sudden, unexpected losses. Although the EPIFP share in the insurance sector's aggregate capital has fallen slightly, it remains the highest in the EU.

The low interest rate environment of recent years has also been reflected in the search-for-yield in non-bank sectors in Slovakia. Among companies managing customer assets (pension fund management companies, supplementary pension management companies, and investment fund management companies) and insurers, 2019 saw a gradual increase in their equity investments and a lengthening of the duration of their bond portfolios. Another trend within bond holdings was an increase in the share of bonds of a lower investment-grade credit rating, and in the case of investment funds, also in the share of speculative-grade and unrated securities. Across investment funds there was also an uptrend in investments in less liquid assets, such as assets related to the financing of property or financial instruments not traded on an exchange. The main risk is the extent to which such assets can be realised in the event that funds face a sudden wave of redemptions. At present, this risk is mitigated by regulatory minimum requirements for the amount of liquid asset holdings. Funds are comfortably meeting this requirement as well as requirements for the regular stress testing of their liquidity.

1 Monetary policy implementation and investment portfolio management

In 2019 Národná banka Slovenska (NBS) participated in the ECB's asset purchase programme (APP) by making purchases under the public sector purchase programme (used for purchasing central government bonds and bonds issued by international and supranational institutions and agencies located in the area) and the third covered bond purchase programme (CBBP3). At the end of 2019 the securities in NBS's monetary policy portfolio, measured at amortised cost amounted to €22 billion. Of that total, Slovak government bonds accounted for €10.3 billion, supranational bonds for €9.6 billion, and covered bonds purchased under the CBPP3 for €2 billion. The outstanding amount of domestic banks' borrowing under the second series of targeted longer-term financing operations (TLTRO II) was €526 million at the end of 2019, and the outstanding amount under the three-month LTROs was €8 million. NBS's involvement in monetary policy operations in 2019 centred on the APP (see chart 15) and predominantly on the APP's public sector purchase programme (PSPP). Of NBS's monetary policy assets at end-2019, 88% were purchased through the PSPP. In 2019 NBS was also lending domestic and foreign government securities purchased under the APP. This lending was conducted under APP securities lending framework in two ways: via the State Street Bank and Trust Company, as an agent, and via Euroclear Bank, as a custodian. The securities were lent both automatically and to third parties on request.

Chart 15
NBS monetary policy assets (percentages)



Source: NBS.
Note: CBPP1 – first covered bond purchase programme; SMP – Securities Markets Programme; 3M LTROs – three-month longer-term refinancing operations.

1.1 Minimum reserve requirements

In 2019 the ECB introduced a two-tier system for reserve remuneration

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, i.e. the period over which compliance with reserve requirements is calculated.

In 2019 a total of 27 credit institutions in Slovakia were subject to minimum reserve requirements. They comprised 12 banks incorporated in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions.

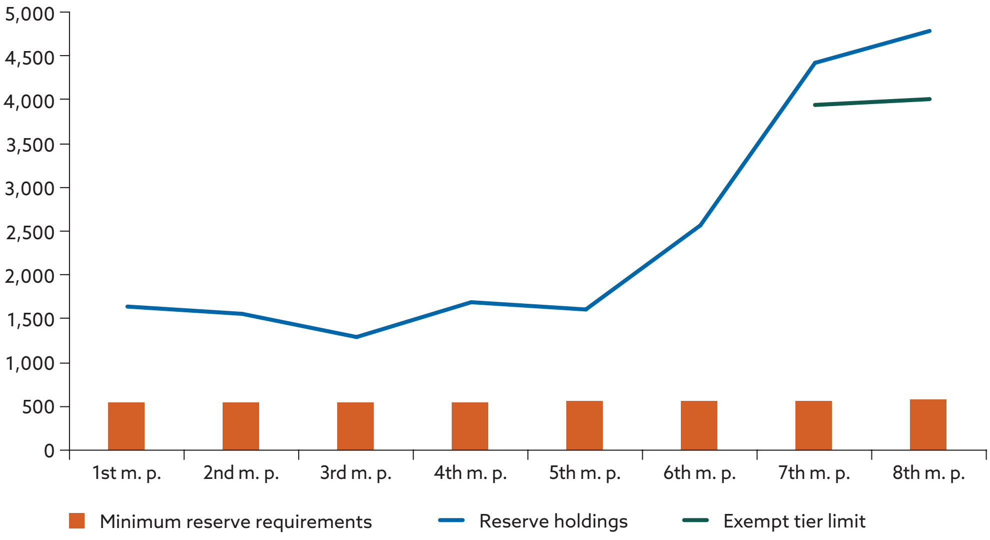
Excess reserves continued to be remunerated at a negative rate in 2019, as they had been since 11 June 2014. That rate was lowered from -0.40% to -0.50% on 18 September 2019.

Under the new two-tier system for remunerating excess reserve holdings, a fraction of banks' excess reserve holdings (the exempt tier) is exempt from the negative deposit rate, and this tier is determined as a multiple of a bank's minimum reserve requirements. As from 30 October 2019 the multiple and remuneration rate were set at six and 0% respectively. The non-exempt tier of excess liquidity holdings continued to be remunerated at the deposit facility rate, which at the start of the tiering system stood at -0.5%.

The average amount of reserves that banks were required to hold with Národná banka Slovenska in 2019 was €553.56 million, 5.8% more than in 2018. In 2019 the amount of banks' actual reserve holdings at NBS was, on average, 341.4% higher than the reserve requirement, while in 2018 it had been 181.7% higher. This increase was due largely to the launch of the two-tier system for remunerating excess reserve holdings, as banks increased their reserve holdings in order to take advantage of the zero interest rate applied to the exempt tier.

Chart 16

Reserve holdings and minimum reserve requirements in 2019 (EUR millions)



Source: NBS.
Note: m. p. – maintenance period.

1.2 Eligible assets

As a share of the assets used as collateral in Eurosystem credit operations, covered bonds continue to increase gradually at the expense of government debt securities

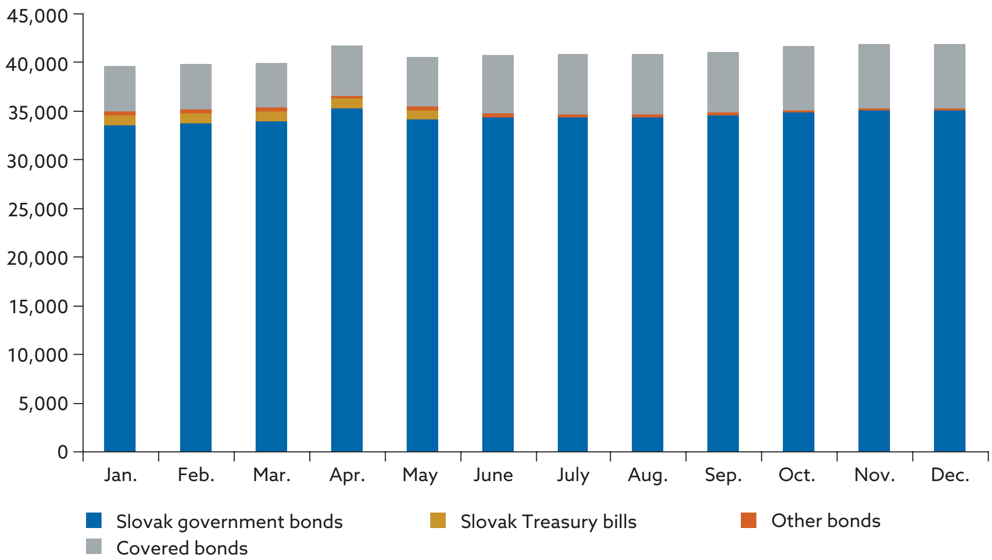
The collateral eligibility criteria for Eurosystem credit operations underwent only minor changes in 2019, mainly concerning the further elaboration of existing rules. One change was to align the criteria used for recognised agencies in the collateral framework and agencies eligible for the public sector purchase programme (PSPP). The ECB also amended the criteria for own-use of covered bonds. From 1 February 2020 covered bonds must have an external credit assessment institution (ECAI) rating to be eligible for own-use.

There were also changes relating to credit claims used as collateral in Eurosystem credit operations. Floating rate credit claims with an existing floor or ceiling became eligible again, and it was clarified that credit claims are not eligible if their most recent cash flow is negative. The method of assessing floating rate credit claims for valuation haircut purposes was also modified.

The value of Slovak marketable eligible assets was, on average, 2% higher in 2019 than in 2018. In absolute terms, the value of these assets at the end of 2019 was €40,893 million, which compared to its level at the end of the previous year was higher by €717 million. Slovak government bonds constituted almost 84.3% of these eligible assets, covered bonds 13.9%, Slovak Treasury bills 1.0% and other bonds around 0.8%. Chart 17 shows eligible asset trends in 2019, and Chart 18 compares the year-end composition of eligible assets in 2018 and 2019.

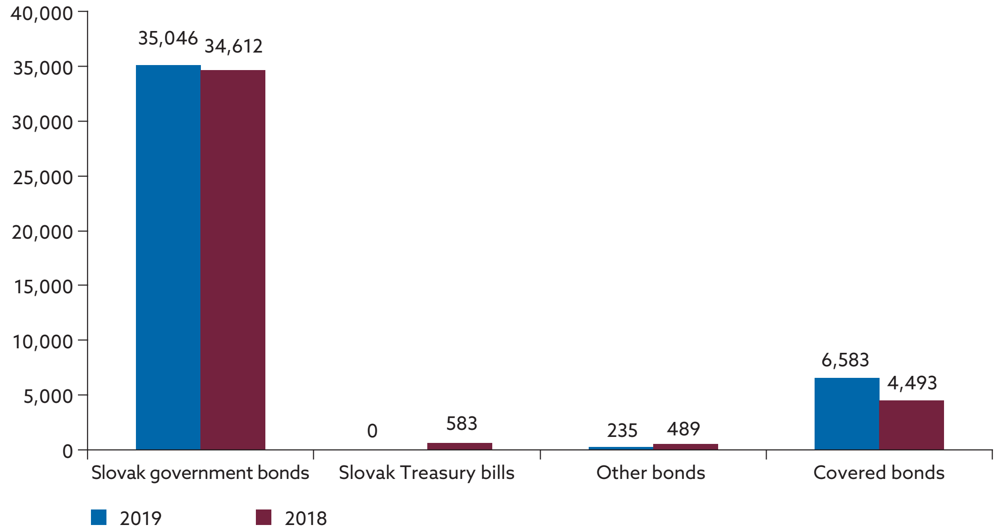
Chart 17

Composition of Slovak eligible assets in 2019 (EUR millions)



Source: NBS.

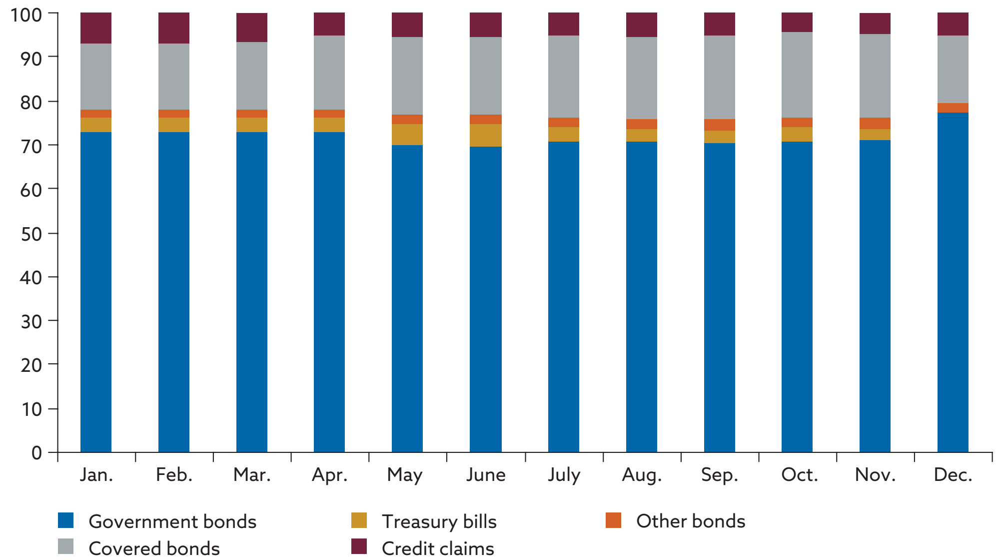
Chart 18
Composition of Slovak eligible assets as at end-December 2019 and end-December 2018 (EUR millions)



Source: NBS.

As regards the collateral pledged by domestic banks in Eurosystem operations in 2019, its value declined slowly over most of the year and then fell more sharply in December. Its average value for 2019 was around 7% lower compared with the previous year. The average share of government debt securities in the pledged collateral has been gradually declining in recent years, and in 2019 it dropped to 75%. By contrast, the average share of covered bonds continued to increase, up to 17.4%. The shares of credit claims and other bonds remained broadly unchanged from the previous year, at 5.5% and 2.1% respectively.

Chart 19
Eligible collateral pledged by domestic banks in Eurosystem credit operations in 2019 (percentages)



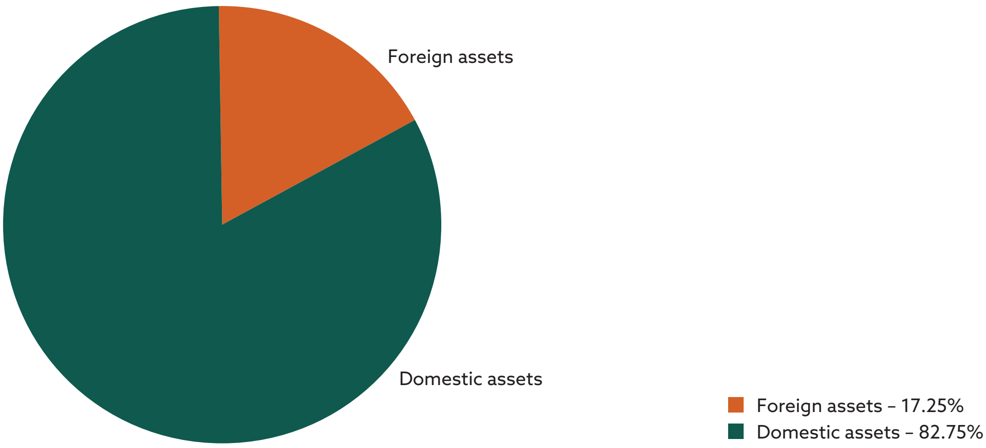
Source: NBS.

As for collateral issued in foreign markets, its share in the collateral pledged by domestic banks in Eurosystem operations maintained its year-on-year uptrend in 2019

As a share of the total collateral pledged by domestic banks, collateral issued in the domestic market fell slightly, to almost 74.29% (see Chart 21). In previous years this figure had been around 80% (the share in 2018 is shown in Chart 20). Slovak counterparties use a collateral pool to manage their collateral.

Chart 20

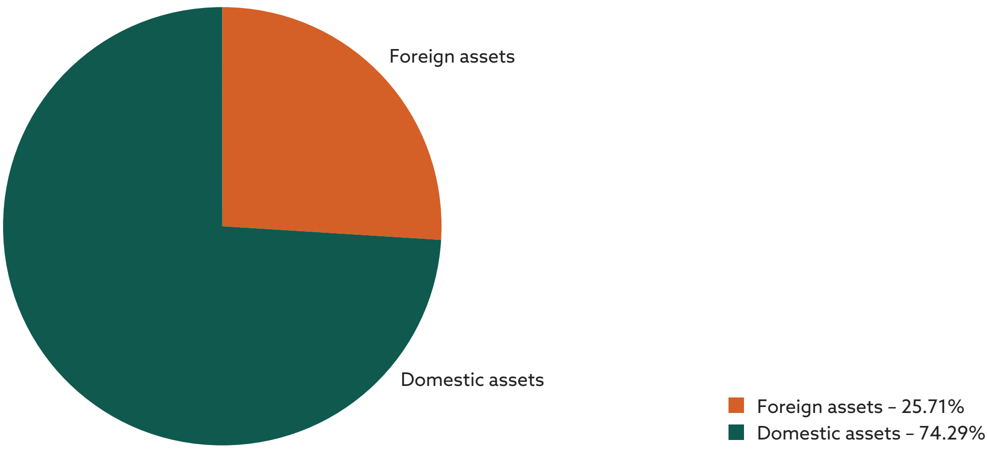
Use of domestic and foreign eligible assets in 2018 (percentages)



Source: NBS.

Chart 21

Use of domestic and foreign eligible assets in 2019 (percentages)



Source: NBS.

1.3 Investment portfolio management

The total value of NBS's investment portfolios was €9.86 billion at the end of 2019.

Under an investment policy adopted in 2008 and amended in 2014 and 2016, Národná banka Slovenska manages its investment portfolios with the aim of ensuring that they contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at 31 December 2019 was €8.48 billion (at corresponding exchange rates and with securities at nominal value), or €9.86 billion including gold. Most of the portfolios are bond portfolios, which are currency hedged by including portfolios denominated in euro, US dollars, British pounds, Swiss francs and Japanese yen (where interest rate risk is managed in a standard way through interest rate swaps and futures contracts) and a portfolio of Chinese government bonds. Chart 22 shows the change in value of these bond portfolios during 2019, and Chart 23 shows the breakdown of NBS's bond holdings by country of issuer.

The total return on NBS's investment portfolios in 2019 stood at €321.6 million

Since June 2018 NBS has had an equity portfolio that comprises shares in selected exchange-traded funds representing the global equity market. As at 31 December 2019 the market value of this portfolio stood at €177.7 million. The central bank's indirect investment in the Chinese renminbi[2] had a market value of around USD 52 million at the end of 2019. The total return on NBS's investment portfolios in 2019 was around €321.6 million (converted to euro at year-end exchange rates), including the return on gold reserves[3] and taking into account hedging costs and other expenses and income arising from operations on the liability side of the individual portfolios.

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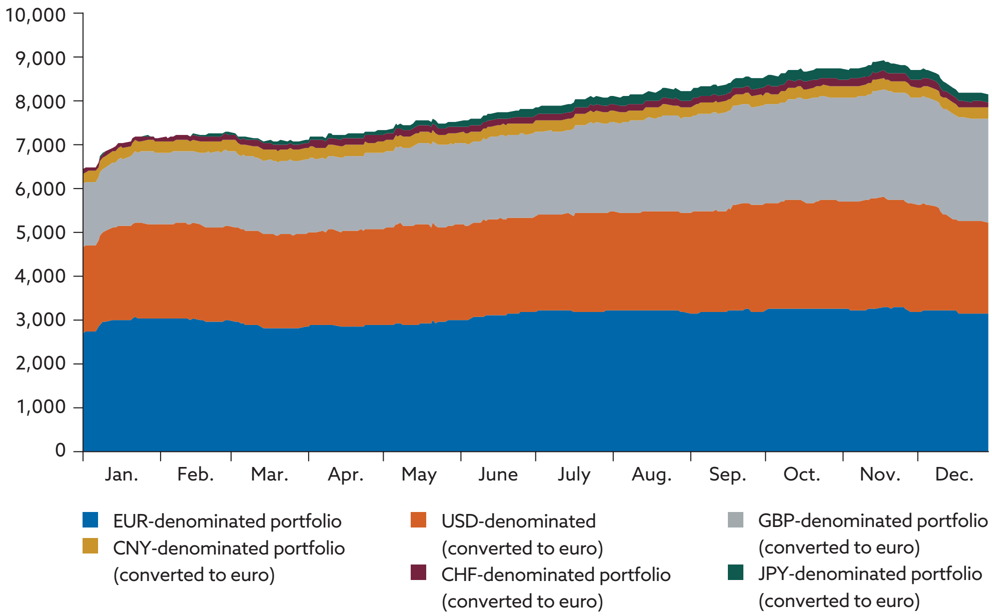
2 Invested in the currency through the BISIP CNY, a fund comprising Chinese government bonds which is managed by the Bank for International Settlements in Basel.

3 The overall return on gold holdings was around €245.7 million, mostly accounted for by gold price movements.

Chart 22

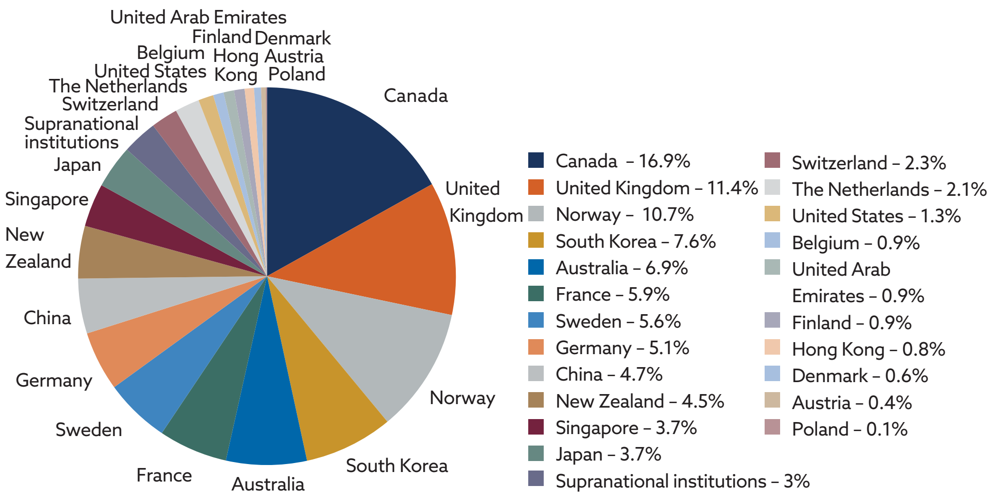
NBS bond portfolios in 2019 – nominal value of securities (EUR millions)



Source: NBS.

Chart 23

Total value of NBS bond portfolios as at 31 December 2019 – broken down by country of issuer (percentages)



Source: NBS.

2 Financial stability and financial market supervision[4]

2.1 Banking sector, payment services, and AML/CFT

2.1.1 Banking sector

As at 31 December 2019 a total of 12 banks and 15 foreign bank branches were operating in Slovakia. Under the Single Supervision Mechanism (SSM), consisting of the European Central Bank (ECB) and the national competent authorities of participating Member States, all banks and foreign bank branches in Slovakia are categorised as either:

- significant institutions (SIs),[5] supervised directly by the ECB in cooperation with Národná banka Slovenska;
- less significant institutions (LSIs),[6] supervised directly by NBS; three of these institutions are classified as high-priority LSIs.

In 2019 a total of 24 proceedings were initiated in which the ECB exercises decision-making power in cooperation with NBS. The majority of these proceedings concerned fit and proper assessments of persons nominated to be a member of a significant bank's management board or supervisory board.

In 2019 NBS issued a total of 73 decisions under supervisory proceedings concerning this sector; most of them were grants of prior approval for appointments to one or more of the following positions: member of a management board or supervisory board, senior manager, and chief internal control/audit officer.

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4 Further details are provided in a Slovak-language report entitled "Správa o činnosti útvaru dohľadu nad finančným trhom NBS za rok 2019" (Report on the Activities of the Financial Market Supervision Unit of NBS in 2019), which is published on the NBS website at http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf.

5 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 belonging to KBC Group), UniCredit Bank Czech Republic and Slovakia, a.s. (foreign bank branch), Komerční banka, a.s. (foreign bank branch), mBank S.A. (foreign bank branch), and Raiffeisen Centrobank AG Slovak Branch (foreign bank branch).

6 Other banks and foreign bank branches operating in Slovakia.

NÁRODNÁ BANKA SLOVENSKA EUROSYSTÉM

Priorities of the SSM and NBS banking supervision

One of the key priorities for all the Bank's supervisory activities in 2019 was credit risk. Supervision focused mainly on analysing the quality of banks' portfolios in close connection with the approval of a new definition of "default" and with the continuing long-term SSM project focused on reviewing banks' internal models used for the capital requirement calculation.

Inspections targeted at reviewing housing loan portfolios

NBS banking supervision responded to developments in the Slovak banking market, which, on the one hand, was reporting a prolonged uptrend in retail lending and, on the other hand, a downtrend in interest rates, in particular rates on loans secured by residential real estate. It was natural in this situation to open discussions at SSM fora on the need to review the quality of retail portfolios.

Two comprehensive inspections conducted by international teams commenced in 2019 at two significant institutions in Slovakia and neither was formally completed by the end of the year. In addition to these inspections, NBS banking supervision staff participated in a further eight international inspections and in four on-site inspections at LSIs.

Reviewing of credit standards at EU and national levels

In an environment of low interest rates, high non-performing loan ratios in several European countries, discussions about loan pricing, and downward pressure on banks' profitability, the ECB and the European Banking Authority responded with a number of initiatives in 2019. Among them was a review of credit underwriting standards conducted at EU and national levels. In Slovakia, the review was conducted by NBS through ongoing supervision of the country's three largest banks.

In 2019 NBS banking supervision actively participated in the work of the ECB's joint supervisory teams (JSTs) and supervisory colleges for individual European banks, which includes the production of annual assessments of the supervised banks. Compared with the 2019 assessments of other EU banks, the assessment results for Slovak banks were among the best.

2.1.2 Payment services and electronic money issuance

The fastest-growing sector of the Slovak financial market in 2019 was payment services. As at 31 December 2019 a total of 13 payment service providers were authorised to operate in the Slovak financial market; nine of them were authorised to provide payment services to an unlimited extent, and four of them to a limited extent. One electronic money institution was active in the Slovak financial market in 2019.

A total of 25 final decisions concerning payment services were issued by NBS in 2019, including one decision to authorise the provision of payment services. The other decisions concerned the grant of prior approval for appointments to one or more of the following positions: member of a management board or supervisory board, and chief internal control officer.

New EU legislation concerning the provision of payment services is bringing several innovations

The Commission Delegated Regulation on strong customer authentication and secure standards of communication ('the SCA regulation'), in force from 14 September 2019, supports new security requirements introduced into the payment services market by the EU's second Payment Service Directive (PSD 2) and does so partly by regulating third-party access. In this case, 'third party' means account information service providers and payment initiation service providers in regard to payment accounts accessible online which are held with account servicing payment service providers, in particular with banks. The operational testing of these bank interfaces was already available for functional testing by third parties from 14 March 2019.

Banks that decided to establish a dedicated interface for third-party communication with customer accounts were required to provide a fallback mechanism to ensure that third parties continue to have access to payment accounts in the event of an unexpected occurrence. Banks and other account servicing payment providers that opt for a dedicated interface may be exempted by NBS from having to provide a fallback mechanism only if their dedicated interface complies with all stipulated conditions. In 2019 NBS granted five such exemptions.

Certain problems were highlighted by the implementation of the SCA regulation

The SCA regulation defined new categories of security features for customer authentication. The technical demands of harmonising SCA requirements across the EU necessitated the adoption of measures by the EBA and national regulators, including Národná banka Slovenska.

In the European context, the main problematic area in the implementation of the SCA regulation concerns compliance with requirements in regard to e-commerce card-based payment transactions (where the payment card is not physically present when the purchase is made).

On this matter, in 2019, NBS was communicating regularly with banks in their capacity as payment service providers. There was also intensive communication between the EBA, NBS and the Slovak Banking Association (SBA).

Based on the results of a survey conducted in the EU internal market, in October 2019 the EBA issued an Opinion on the deadline and process for completing the migration to SCA for e-commerce card-based payment transactions.

In accordance with the EBA Opinion, NBS in November 2019 issued a methodological guideline for financial market participants (specifically banks and payment institutions) in order to give payment service providers guidance on time periods, deadlines, procedures and information obligations in regard to the EU-wide harmonisation of procedures for e-commerce card-based transactions.

2.1.3 Foreign exchange activity

As at 31 December 2019 there were 673 entities in Slovakia holding a foreign exchange authorisation. During 2019 NBS issued 16 decisions in this area, 14 of which were decisions to issue a foreign exchange authorisation.

Eighteen sanction proceedings that resulted in the imposition of a fine were initiated in 2019.

In the same year NBS conducted six on-site inspections focused on checking compliance with the Foreign Exchange Act.

2.1.4 Non-bank consumer lending

As at 31 December 2019 there were 32 non-bank lenders operating in the Slovak financial market, of which 31 were authorised to provide consumer credit to an unlimited extent and one to a limited extent.

In 2019 NBS issued 39 final decisions under approval proceedings concerning non-bank lenders, including two authorisations to provide consumer credit to an unlimited extent and 27 prior approvals for appointments to one or more of the following positions: member of a management board or supervisory board, authorised representative, and chief internal control officer.

In 2019 NBS conducted four comprehensive on-site inspections at non-bank lenders. These inspections focused mainly on reviewing and assessing compliance with the Consumer Credit Act in the provision of consumer credit, compliance with business conditions, the internal control/audit system, and the system for preventing money laundering and terrorist financing.

2.1.5 First comprehensive risk assessment of Slovakia in the area of anti-money laundering and combating the financing of terrorism

Action plan to combat money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction for the period 2019 to 2022

Risk assessments in the AML/CFT area were a feature of 2019. In connection with a cross-cutting project entitled "National assessment of the risk of money laundering and terrorist financing", the Slovak Government in May 2019 approved an "Action plan to combat money laundering, financing of terrorism and financing of the proliferation of weapons of mass destruction for the period 2019 to 2022". The document sets out specific tasks aimed at improving the efficiency of AML/CFT activities in Slovakia. Národná banka Slovenska, in cooperation with other sectors, is actively engaged in the performance of these tasks and in mitigating risks in this area. Several national authorities are cooperating on the project, including ministries with competence in this area, the Financial Intelligence Unit,[7] the General Prosecutor's Office, and the courts. As regards the assessment and analysis of risks to financial market participants, NBS is the principal actor.

5. Evaluation of Slovakia by experts from the Council of Europe's MONEYVAL Committee

Another important assessment activity in which NBS is actively involved is the evaluation of Slovakia carried out by the Council of Europe's Committee of Experts for the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). The Committee is tasked with assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation.

From the beginning of 2019, the Bank was preparing documents for what would be MONEYVAL's 5th round of an evaluation covering the whole financial market in Slovakia. The primary purpose of the evaluation is to assess the overall effectiveness of Slovakia's AML/CFT system – to evaluate Slovakia from both a technical perspective (the provisions of the legisla-

[7] Financial Intelligence Unit of the National Criminal Agency of the Presidium of the Police Force of the Slovak Republic.

tive framework for AML/CFT) and in terms of efficiency (how effectively AML/CFT legislative provisions are applied). The MONEYVAL evaluation visit took place in Bratislava from 7 to 18 October, and the evaluation process will continue into the period ahead.

In 2019 NBS conducted four AML/CFT-related on-site inspections at banks and foreign bank branches, during which it checked the institutions' compliance with AML/CFT obligations. In addition, members of the NBS supervisory staff prepared a set of questions that are required for off-site supervision and are designed to identify AML/CFT risks to the financial market.

2.2 Insurance sector

Insurance undertakings in 2019

During 2019 a total of 14 insurance companies were operating in the Slovak financial market under the Solvency II regime. As of 31 December 2019 one insurer was dissolved by merging with another insurer. In the same year, one insurer ceased its activities, and its insurance portfolio was transferred to another insurer. Twenty branches of (re)insurers from other EU Member States were also operating in Slovakia in 2019.

2.2.1 Review of Solvency II

The need for a review of insurers' reporting obligations was clear from practical experience

Throughout 2019, NBS was actively involved in activities of EIOPA working groups aimed at improving insurance-related EU legislation, which is undergoing a substantial review. The Bank was able to support these efforts with the experience gained from its regulatory and financial market supervision activities, thus enabling a transfer of knowledge acquired from the practical application of regulations in national conditions.

Proposals for the review were divided into two independent areas and put out for consultation.

The first area concerned insurers' reporting of supervisory data and disclosure of data. Since the entry into force of the Solvency II regulatory regime for (re)insurers, it has become clear that some of the reporting requirements for insurers need to be reviewed. At the same time, data which would help improve the performance of supervision and are not available on a periodic basis should be added to insurers' reporting statements.

The review is also focused on improving the financial condition report which, under the regulatory regime, all insurers are required to disclose. The purpose is to make the report clearer for consumers, so that they themselves can evaluate and assess the information contained in it. On the other hand, investors and analysts considered the report to be lacking in detail; in their view, it should be tailored to a professional readership, to make it easier to use for analytical purposes. This is also why EIOPA is considering whether there should be two reports instead of one: a report for consumers and a report for analysts, investors and other professionals.

In the second round of the consultation exercise, NBS together with other supervisory authorities put out a document proposing changes mainly in regard to Pillar 1 of Solvency II, in particular changes to the following: the calculation of technical provisions, the definition of the risk-free discount curve, the calculation of own funds, and the calculation of certain sub-modules of the solvency capital requirement. The document also put forward proposals extending into Pillar 2, specifically in regard to proportionality, group supervision, and insurers' conduct of business under the freedom to provide services in other EU Member States or by establishing a branch licensed in another EU Member State.

The extent of the proposed changes was reviewed on the basis of data collected from insurers

To make the case for some of the proposed changes to the regulatory framework, it was necessary for EIOPA, via national supervisory authorities, to collect from insurers data that are not directly available through standard reporting statements. The purpose was to determine the extent of the proposed changes more efficiently and precisely. For that same reason there was direct cooperation with insurers, while a sufficiently representative sample was ensured through the participation of smaller, medium-sized and larger insurers. For this purpose, EIOPA in 2019 produced stress scenarios for insurers. The cooperation took place in a standard way in accordance with national and EU regulations. In Slovakia, insurers sent the data to NBS, and NBS, after validating the data, sent them to EIOPA for further processing.

2.2.2 On-site and off-site supervision

Increase in number of AML-related on-site inspections

In the first half of 2019, NBS completed six thematic on-site inspections of insurers which it had initiated in the previous year. They included two inspections that focused on both own funds and remuneration policy, two that examined the performance of and compliance with obligations arising under the AML/CFT Act, one that centred solely on the institution's own funds, and one that examined the corporate governance system and outsourcing activities. Supervisory activities in the insurance sector in 2019 also included the initiation and completion of one thematic on-site inspection focused on AML and the initiation of two on-site inspections that were not completed by the end of the year. Each of the uncompleted inspections examined the respective institution's AML system, while one of them also reviewed the management of insurance contracts and the settlement of insurance claims, and the other looked at the accounting and reporting of unassigned payments and at the insurers implementation of measures to eliminate shortcomings identified during a previous on-site inspection (conducted in 2013-14 and focused on the area of motor third party liability insurance).

Off-site supervision focused on the adequacy of premiums in motor third party liability insurance and the amount of agent commissions in relation to product management, product oversight, and insurance distribution

Besides regularly reviewing statements and reports submitted by insurers, NBS conducts off-site supervision of all insurers in Slovakia. In 2019 this supervisory activity focused on ascertaining how insurers were implementing in their internal rules new legislation concerning product management, product supervision and insurance distribution, given that the EU's Insurance Distribution Directive had been enacted in Slovak law in 2018.

The off-site supervisory activities in 2019 included the supervision of all insurers, including branches of insurers from other EU Member States, which conduct business in the area of motor third party liability insurance (MTPL). The purpose of this activity was not only to review the state of compliance with requirements of the MTPL Act in regard to premium adequacy, but also to identify best practices among insurers in the area of MTPL insurance business.

Meetings with market participants

Several meetings took place in 2019 between members of the NBS supervisory staff and representatives of individual insurers and representatives of external audit firms. These meetings focused mainly on the activity of supervised entities under the Solvency II regime, on the principal risks in the insurance sector, and on the outlook for the insurance market.

2.3 Securities market, pension fund sector, and financial intermediation and financial advisory services

Among the Slovak financial market participants as at 31 December 2019 were 22 domestic investment firms and seven investment firms operating through a branch under MiFID 2, two of which operated through tied agents. There were also eight banks and four foreign bank branches authorised to provide investment services.

In the investment fund sector, nine domestic asset management companies and seven banking entities performing depository activities were operating as at 31 December 2019.

As for the pension fund sector,[8] there were five pension fund management companies (second pillar) and four supplementary pension management companies (third pillar) operating in Slovakia as at 31 December 2019. Two PFMCs merged in 2019 to form a single company. Five banking entities were acting as depositories for second-pillar and third-pillar entities.

In the sector of financial intermediation and financial advisory services, a total of 27,927 entities were listed in the register of financial agents and financial advisers (REGFAP) as at 31 December 2019. Of these entities, 479 were issued in 2019 with an authorisation to operate as an independent financial agent and 12 were issued with an authorisation to provide financial advisory services. In 2019 in Slovakia there were thirteen entities authorised to provide specialised financial education.

Off-site supervision also covered the Bratislava Stock Exchange (BSSE) and two central securities depositories (CSDs): 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). There were 76 such issuers registered as at 31 December 2019.

8 The second pillar of the Slovak pension system – the old-age pension scheme – is a largely compulsory defined-contribution scheme operated by pension fund management companies (PFMCs). The third pillar – the supplementary pension scheme – is a voluntary defined-contribution scheme operated by supplementary pension management companies (SPMCs).

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2.3.1 Investment services – further elaboration of certain issues

In 2019 NBS issued a methodological guideline, an opinion, and a set of questions and answers in order to provide further details on certain topics and issues in the area of investment services.

Significant impact of fund distribution on the capital market

At the start of 2019 NBS issued a methodological guideline on the issue of fund distribution by authorised entities (banks, investment firms, and financial agents). Given its significant implications for the capital market, the guideline, in particular its substantive aspects, was under discussion at the Bank for some time. It was produced in connection with a Securities Act amendment that enacted MiFID 2 in Slovak law. The guideline's purpose is to harmonise the interpretation of certain provisions regulating the distribution of funds by authorised entities and to establish transparent terms for the conduct of this business by all authorised entities. NBS sees the guideline as contributing to a convergence of views and to a proper understanding of fund distribution as a regulated activity.

NBS guidance provided to sector through questions and answers

In the first half of 2019 NBS also issued a set of frequently asked questions and answers regarding problems related to the practical application of MiFID 2 and MiFIR. The document was the result of cooperation between the Bank and Slovakia's Association of Securities Dealers in regard to the interpretation of Security Act provisions. The document answers questions put to the Bank, as the supervisory authority, by supervised entities and professional organisations and provides interpretations of national and EU law concerning matters within the Bank's competence.

The questions and answers concern mainly the organisation and governance of investment firms, market and reporting transparency, product management, record-keeping obligations, costs and fees, testing of suitability and adequacy, and testing of stimuli.

Streamlining of the scrutiny and approval process for prospectuses

Based on its obligations arising directly from the EU's Prospectus Regulation, the Bank in 2019 issued a methodological guideline on the scrutiny and approval process for prospectuses. Under the Regulation, competent authorities are required to provide on their websites guidance on the scrutiny and approval process in order to facilitate efficient and timely approval of prospectuses.

Even before the Prospectus Regulation entered into force, the Bank had in place a consultation and interim review process for prospectuses. Issuers offering securities and persons asking for admission to trading on a regulated market had the opportunity to consult NBS about the content of the prospectus even before submitting an official publication. The methodological guideline formalised this process and satisfied the requirements of directly applicable EU legislation.

NBS opinion on the provision of investment services under an exemption

In early autumn 2019 NBS issued an opinion on the application of an exemption under Section 54(3)(d) of the Securities Act. The provision of investment services and the performance of investment activities are regulated activities; unless the Securities Act or another act provides otherwise, an entity other than an investment firm may not perform these activities if NBS has not granted that entity authorisation to provide investment services or, as an ancillary service, safekeeping and administration of financial instruments for the accounts of clients, including custodianship. The respective provision of the Securities Act provides for an exemption from that rule.

The issuance of the opinion followed repeated requests to NBS for further clarification on the conditions under which the exemption applies. To that end, the Bank issued a single opinion providing details about the exemption conditions, which is available on the NBS website[9] and will simplify the processing of responses to questions on this issue.

2.3.2 Annual pension account statements sent to savers

Clear and comprehensible information in statements of personal pension accounts

Given that a growing number of SPMCs' customers (third pension pillar) were complaining about the statements of their personal pension accounts, and given other practical experience in this area, there was a clear need for a legislative amendment to address the issue. In this context, during 2019, NBS representatives were actively engaged in the drafting of the new Measure No 411/2019 of the Ministry of Labour, Social Affairs and Family laying down model statements of personal accounts and expected pension benefits in the supplementary pension scheme. The main purpose of the measure was to incorporate the implications of a constitutional law

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9 https://www.nbs.sk/sk/dohlad-nad-financnym-trhom/legislativa/detail-dokumentu/_76c785f8-45c8-4504-9b34-60e119ea386e

that set a single retirement age ceiling and to remedy shortcomings identified in practice. At the suggestion of NBS, made in response to consumer feedback, the model statements included an explanation of how pension fund performance fees are charged.

NBS participation in the preparation of an EU-wide model pension benefit statement

The issue of clear and comprehensible statements is not confined to Slovakia. In 2019 NBS representatives at EIOPA were participating in the drafting of model pension benefit statement for use throughout the European Union. A long-term objective of the Bank, in cooperation with the Ministry of Labour, Social Affairs and Family, is that EU standards and concepts become established in the Slovak environment and that pension savers are provided with comprehensive information in a clear and comprehensible way that is unified across the European Union.

2.3.3 On-site and off-site supervision

Survey of information assessment in the appropriateness regime

In 2019 NBS participated in an ESMA survey conducted as part of the European supervisory authority's common supervisory action (CSA) initiative. The survey focused on the process of providing and assessing information about the appropriateness of clients' knowledge and experience in the investment field relevant to the specific type of financial instrument. Conducted as part of off-site supervision, the survey was in the form of a questionnaire sent to a sample of nine investment firms. It assessed mainly compliance with the legal framework, the processes and procedures for obtaining information from clients, the content of clients' knowledge, and how the level of knowledge and experience that clients need to trade in financial instruments is evaluated.

On-site inspections centred on causes of an increasing number of consumer complaints

In the pension fund sector, thematic on-site inspections were conducted at all PFMCs and SPMCs in 2019. They focused on the structure and content of pension account statements sent to savers in the second pillar and participants in the third pillar. The thematic inspections were selected on the basis of the increased number of applications and complaints sent to the NBS, especially from third-pillar participants who thought the amount of performance fees charged by SPMCs was disproportionate to the amount of savings in their personal pension accounts. The inspections showed, however, that the companies had been acting in accordance with the law and that the figures given in pension account statements under both the second and third pillar simply reflected the adverse developments in financial markets towards the end of 2018, which weighed on the performance of both old-age pension funds and supplementary pension funds. The pension companies were charging fund performance fees only for the period of financial market growth.

First on-site inspection at a provider of specialised financial education

A Financial Intermediation Act amendment, in effect from 23 February 2018, introduced among other things changes in the form of specialised financial education and in the frequency of, and rules for, the provision of such education. The amendment clearly defined the entities authorised to provide specialised financial education for particular sectors and for different levels of professional competence. As a result, the remit of NBS supervision was extended to include supervision of specialised financial education providers. In this context, the Bank in 2019, for the first time, conducted an on-site inspection of a specialised financial education provider. The inspection examined mainly the quality of the specialised financial education – whether it was beneficial for the recipients and whether it provided a source of new information and knowledge.

Preparation of risk-oriented capital market supervision

Off-site supervision in 2019 included standard checks of investment firms, asset management companies, the Bratislava Stock Exchange, central securities depositories, pension fund management companies, and supplementary pension management companies. A sample of issuers of securities traded on the BSSE regulated market was also examined. In 2019 off-site supervision focused mainly on assessing the capital adequacy of investment firms. At the same time, the supervisory staff prepared a framework for risk-oriented supervision, mainly in regard to investment firms and asset management companies.

2.4 Cross-cutting themes

2.4.1 Macroprudential policy

The low interest rate environment has been contributing to the ongoing build-up of cyclical risks (mainly in lending to households) and to further interest margin compression. These two trends represented the main risks to Slovakia's financial stability in 2019. Despite these risks, however, the Slovak banking sector remained stable and sufficiently capitalised, with all risks adequately covered.

Significant risks persisted in the household credit market, and NBS responded to them

The second half of 2019 saw housing loan growth pick up again, owing mainly to the strength of market competition and a further drop in interest rates. In response to this situation, NBS tightened regulatory limits on retail lending. A reduction of the limit on the debt-service-to-income (DSTI) ratio, from 80% to 60%, started to be phased in from 1 January 2020. The main aim of this measure was to reduce the probability of borrowers being unable to service their debts during periods of stress. Lowering the DSTI ratio cap protects not only banks, but also households by making them more resilient to any potential financial crisis. The policy tightening is expected to result in a slower pace of household indebtedness growth and to ease pressures in the property market.

By raising the capital buffer, NBS increased the banking sector's resilience

In 2019 NBS responded to mounting risks by further increasing the countercyclical capital buffer (CCyB) rate. The buffer is usually built up during good times in order to make banks more resilient during periods of stress. NBS decided to raise the CCyB rate from 1.5% to 2% from 1 August 2020, mainly because credit growth was excessive and property prices were continuously rising, which in the low interest rate environment was supporting a build-up of imbalances. The increase in the CCyB rate needs to be seen in the context of banks diminishing capacity to absorb potential losses during periods of stress, a situation that is further exacerbated by decreasing risk weights.

Bank levy increase is problematic

The bank levy, under its current terms, is not only swallowing up a large part of banks' profits, but its indefinite duration is impairing the overall outlook for the banking sector. Besides reducing banks' ability to build-up capital buffers, the levy also may have a negative impact on the credit market or on the willingness of banks' owners to invest in this sector in Slovakia.

2.4.2 Fintech

Financial technology (fintech) can be summed up as a field of technological innovations used to support the provision of various financial services, including payment services, banking services, investment services and insurance services.

Launch of the Innovation Hub

In order to support the implementation of modern technologies in the Slovak financial sector and to improve the rules of its operation, Národná banka Slovenska in cooperation with the Slovak Finance Ministry launched an Innovation Hub on 1 April 2019. It is designed for entities that have a feasible business plan in the fintech field and comprises several components.

The Fintech section of the NBS website[10] provides an overview of innovative business models and a basic guide to the regulatory framework in this area. For entities that have a feasible fintech business plan but are not equipped to interpret the relevant legislation on matters within NBS's competence, the Fintech section provides an electronic contact form. This allows them to structure their inquiry in such a way that the appropriate NBS expert can provide them with a fast and informed response. At the same time, the Bank has put in place an internal process that ensures the identification and involvement of experts who are able to provide various points of view on a given inquiry. This is an internal horizontal function which reflects the multidisciplinary and cross-cutting nature of the inquiries.

In operating the Innovation Hub, NBS is acting in accordance with its mandate to contribute to the secure and sound functioning of the financial market, so as to ensure financial market credibility and the protection of financial consumers and other financial market customers. The Innovation Hub is fulfilling the purposes for which it was established. It has the potential to reduce risks related to financial innovations and to increase benefits for the economy and consumers.

2.4.3 Information support

In 2019 a number of new information systems (ISs) were established at NBS in compliance with regulatory requirements and in order to increase the financial awareness of financial consumers. At the same time, the Bank's other supervisory information systems continued to be operated and developed.

Register of Bank Loans and Guarantees replaced with a new version

For the NBS-maintained Register of Bank Loans and Guarantees (RBUZ), 2019 was significant year. A new version of the Register finally replaced the existing version after the end of a period of parallel operation. The upgrade was related to developments with the ECB's AnaCredit, a dataset

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10 https://www.nbs.sk/en/financial-market-supervision1/fintech

which contains detailed information on individual bank loans in the euro area and for which data collection began in September 2018. In order to improve the quality of data in the Register, the new version incorporates new outlier analyses and comparisons of data in other statements. The Register now meets the requirements laid down by the ECB (in regard to AnaCredit and the Register of Institutions and Affiliates Database), and in future it will also be a key component in the international exchange of credit data. The Register also maintains its function as a provider of information to banks about client credit exposure.

Changes in the Register of Entities

The Register of Entities, an integral part of the RBUZ, underwent several important changes in 2019. Processes and checks were introduced to ensure data quality is at the level required for the international exchange of data with the ECB's RIAD. As part of efforts to reduce the reporting burden on reporting entities, data from the Social Insurance Agency were integrated into the system, and the quality of data transmitted to the ECB was increased.

Expanded functionality in the register of financial agents and financial advisers (REGFAP)

In the register of financial agents and financial advisers (REGFAP), the scope of collected data and the manner of displaying data on financial agents were expanded in 2019. In line with the digitalisation trend, email replaced traditional postal mail as the means for giving notification about the assignment of company registration number (IČO) to a financial agent.

2.4.4 Resolution

In the area of resolution, NBS supervisory activities in 2019 included active involvement in the resolution planning process for banks that fall under the competence of the European Union's Single Resolution Board, for banks that fall under the competence of Slovakia's Resolution Council and which belong to a group whose parent undertaking is established in a non-banking union Member State, and for banks that do not fall under the competence of the Resolution Council.

The 2018/2019 resolution planning cycle culminated with the determination of the minimum requirement for own funds and eligible liabilities (MREL). The fulfilment of this requirement over a period of four years will ensure that the banks have sufficient eligible (and prescribed by law) own funds in the event that resolution is needed.

3 Financial consumer protection

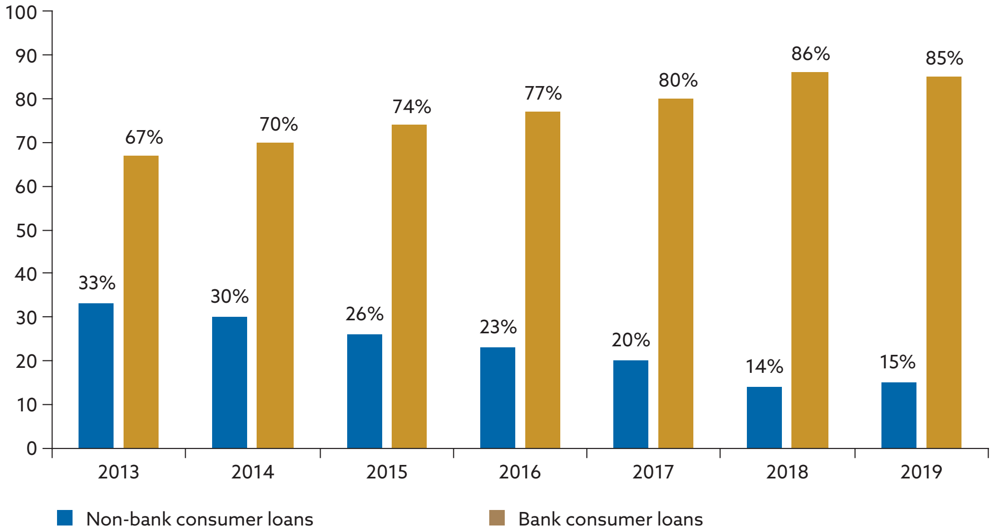
Národná banka Slovenska has since 2015 been the authority responsible for consumer protection in Slovakia's financial market. The Bank's activity in this area includes handling complaints made by consumers and other customers about financial services. It also involves on-site and off-site supervision, the main purpose of which is to determine whether consumers are victims of unfair commercial practices or unfair terms. If a breach of rules is established and rectification is required, sanctions are imposed.

3.1 Supervisory themes

3.1.1 From the supervision of consumer lending to the supervision of consumer debt recovery

When, in 2015, NBS assumed responsibility for the financial consumer protection in Slovakia, the number of non-bank lenders providing consumer loans was as high as 256. They were conducting this business without being authorised by NBS, since it was not until after 2015 that new legislation requiring an authorisation took effect. As at 31 December 2019 a total of 31 companies were authorised to provide consumer loans in unlimited scope and one was authorised to provide them in limited scope. Trends in consumer lending by banks and non-bank lenders are shown in Chart 24.

Chart 24
Consumer lending by banks and non-bank lenders



Source: NBS.

The period from 2015 to 2017 saw further restrictions on consumer lending as well as a tightening of regulatory policy. The provision of loans in cash was prohibited, as was the sale of ancillary services making a loan more expensive. In addition, a further price ceiling was introduced which affected mainly loans with a term of up to one year. Obligations to maintain a credit register and to verify borrowers' income with the Social Insurance Agency were also laid down. Detailed legal provisions on the ability of borrowers to repay loans were elaborated; limits were set on consumers' borrowing capacity and on loan terms.

Supervisory activities in the consumer protection field responded to these developments. From almost the moment they obtained their authorisation, non-bank lenders came under supervisory scrutiny. As regards cases of rule-breaking in area of consumer lending, Table 5 summarises the number of cases that NBS dealt with between 2016 and 2019.

Table 5 Consumer complaints about bank and non-bank lenders

Year	Complaints in total	Complaints about lending by			
		banks		non-bank lenders	
		Number of complaints	Percentage of total complaints	Number of complaints	Percentage of total complaints
2016	2,410	6	0.20	425	17.60
2017	2,371	31	1.30	356	15.00
2018	1,949	131	6.70	136	7.00
2019	2,171	123	5.70	124	5.70

Source: NBS.

In 2019 NBS supervisory activities continued to include ongoing monitoring of banks and non-bank lenders for compliance with consumer lending rules, as well as monitoring of housing loans. Supervision also examined debt recovery practices in relation to consumer lending, i.e. at the end of the credit relationship. Debt collection companies that purchase credit claims arising from consumer loans must by law be authorised by NBS to provide such loans. Thus, these companies fall into the category of supervised entities subject to the NBS supervisory regime. Their customers may send complaints about them to NBS and request protection of their consumer rights. The trend shift from complaints about consumer loan contracts to complaints about debt collection activities is evident from the figures in Table 6.

Table 6 Consumer complaints about lending and debt recovery

Year	Loan-related complaints in total	Complaints about loans provided by non-bank lenders		Complaints about debt recovery	
		Number	Percentage of total complaints	Number	Percentage of total complaints
2016	726	425	58.50	11	1.50
2017	655	356	54.40	28	4.30
2018	409	136	33.30	36	8.80
2019	408	124	30.40	66	16.20

Source: NBS.

In its supervision of debt collection companies, NBS analyses mainly the following risks related to consumers:

- Risk related to inadequate scrutiny of purchased claims arising from consumer loans. In this situation, the amounts recovered may not correspond to the contractual terms and conditions or the debt may be time-barred and therefore not recoverable through judicial proceedings.
- Where debt collection companies, in seeking to recover a debt, put pressure on the debtor – through how they choose to communicate, through the content of the communication, or through the number of times they make contact – to an extent that may constitute an illegal unfair practice.
- Where the debt recovery process includes offering the debtor a new repayment arrangement in return for consideration, that arrangement constitutes a new consumer loan. This will entail an obligation to comply with all statutory requirements, and material information may not be withheld from the consumer.

During on-site inspections conducted at debt collection companies in 2019, NBS examined all the above aspects. Where any shortcoming was found, the company was asked to rectify it. The Bank also issued a recommendation on how procedures should be modified so as to respect consumers' statutory rights. Where it found serious shortcomings, the Bank responded with sanction proceedings.

3.1.2 Unfair commercial practices in the sending of premium assessments in non-life insurance

A new insurance premium tax on non-life insurance business was introduced in 2019. In this connection, insurers were notifying customers of increases in the final price of non-life insurance products. Early in the year, consumers started to complain about insurers unilaterally raising the price of their insurance. NBS received dozens of such complaints.

The Bank examined all insurers that were offering non-life insurance products. As a result, it found that several insurers had breached their own insurance contracts by unilaterally increasing the final price of the insurance product. In May NBS imposed interim measures on insurers ordering them to stop sending deceptive premium assessments to other customers. By this step, the Bank prevented the sending of some 360 thousand deceptive premium assessments to consumers.

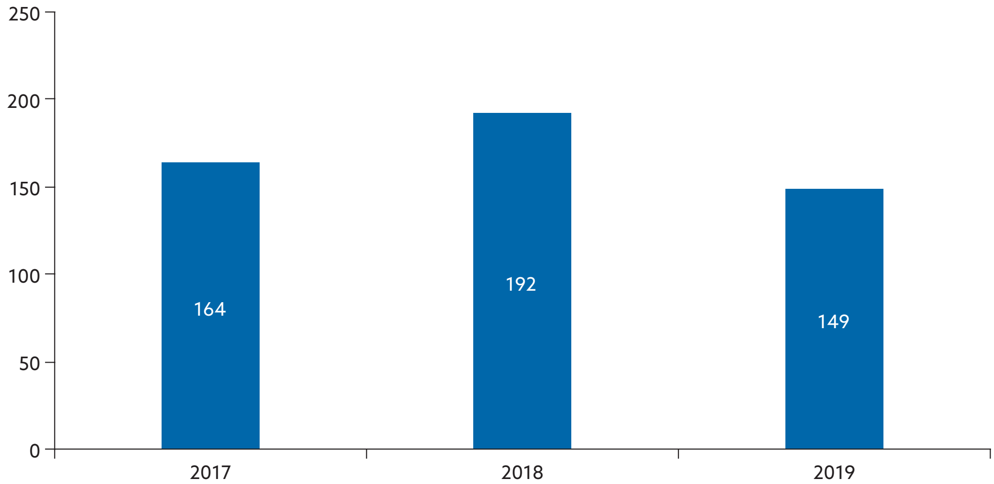
In the end, NBS initiated sanction proceedings against seven insurers for infringing consumer rights in this matter. In the Bank's judgment, they had committed an unfair commercial practice by unilaterally increasing the final price of insurance products without having any contractual or statutory basis for doing so. None of the sanction proceedings were completed in 2019; only the interim measures by which they were initiated took effect. It is therefore not yet possible to provide information on the amount of fines or the nature of sanctions imposed.

In the insurance sector, the Bank's consumer protection supervision in 2019 was focused mainly on non-life business. Towards the end of the year, preparations were being made for supervisory activities in the area of unit-linked insurance.

3.1.3 Monitoring the advertising and promotion of financial products

Marketing communication is an important part of the interaction between financial service providers and consumers, and to varying degrees it affects the purchasing decisions of those to whom it is directed. NBS monitors the financial campaigns run by financial institutions, and between the years from 2017 to 2019 it monitored a total of 505 campaigns (Chart 25).

Chart 25
Number of financial campaigns monitored from 2017 to 2019



Source: NBS.

The Bank monitors advertising campaigns in all their various forms: on the internet and social media, on radio and television, in print media, and through various forms of external advertising.

In response to some of the most serious advertising problems identified in practice, the Bank has in the past also issued guidance explaining to supervised entities some of their obligations in relation to the marketing of loans and insurance products.[11]

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[11] Methodological Guideline No 3/2015 of the Financial Market Supervision Unit of Národná banka Slovenska of 21 April 2015 on the naming and promotion of insurance products, and Opinion of the Financial Market Supervision Unit of Národná banka Slovenska of 24 April 2017 on certain questions concerning the promotion of credit product prices.

In 2019 the Bank's activity in this area centred on giving supervised entities swift feedback on their advertisements. The purpose was to warn the entities of any problems with their advertisements and to ask that they rectify them, in other words to "teach" them how to meet the advertising standards required by the Bank.

In its 2019 monitoring of the advertising of **consumer loans and housing loans** by banks, foreign bank branches, and non-bank lenders, NBS identified shortcomings in the provision of information about loan prices, about contractual terms and conditions, and about benefits offered along with the loan. In response, supervised entities promptly modified their advertisements to rectify the problems.

Also in 2019 the Bank examined **bank account** advertising campaigns run by banks and foreign bank branches. The most frequently identified shortcomings in this area were the inaccessibility of terms and conditions for student accounts and the fact that benefits linked to opening a payment account were promoted without stating the conditions for obtaining them.

At the beginning of 2019 NBS undertook a comprehensive review of the promotion of **travel insurance** on the websites of insurers and branches of foreign insurers. Three websites were found to contain shortcomings, which concerned mainly the following: deceptive information about the extent of the insurance coverage provided by the advertised products; insufficient information (when concluding polies online) about what is excluded from coverage; the presentation of the territorial validity of the insurance product to be broader than it actually was; and inadequate provision (when concluding policies online) of pre-contractual information.

In response to numerous consumer complaints that various websites were providing deceptive information about consumer loans, NBS conducted an ad hoc off-site review of the issue. The Bank analytically identified more than 500 webpages whose content was problematic. These pages were in various ways and degrees misleading or deceptive in their marketing of loan products. The webpages that needed rectifying were spread across 88 websites. The Bank requested the entities concerned both to rectify the shortcomings and not to repeat them.

3.1.4 Fight against unauthorised business

In its supervisory role, NBS is tasked among other things with ensuring that business requiring NBS authorisation is not conducted by unauthorised entities. Unauthorised business in the area of financial services takes various forms. Occurring in all segments of the financial market, unauthorised business may be conducted by entities established in Slovakia or, as is frequently the case, by entities established abroad which market their products and services in Slovakia. It is important that potential customers of any such entity first check whether it is included in the Financial Entities Register, published on the NBS website at https://subjekty.nbs.sk.

If NBS finds or suspects that anyone is conducting unauthorised or fraudulent business in the financial market, it will notify the law enforcement authorities of this fact. The Bank conducts its own monitoring in this area and issues warnings about possible cases of unauthorised or fraudulent business, published on the following page of the NBS website: www.nbs.sk/upozornenia. In 2019 NBS published eight warnings.

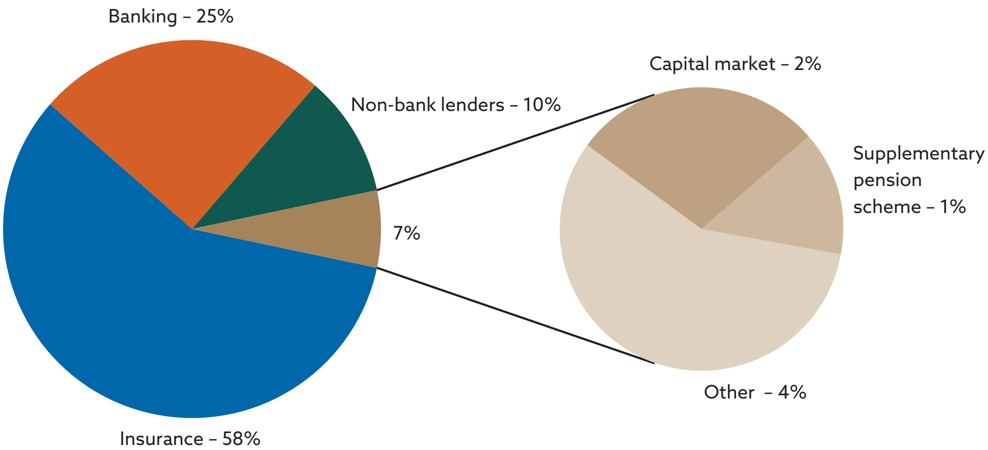
3.2 Consumer complaints

Handling consumer complaints is an important part of the Bank's supervisory role in the area of consumer protection. Complaints about supervised entities constitute an important source of information for monitoring of the market. In handling complaints, the objective is to resolve whatever it is the complaint is about. Although NBS is not an alternative dispute resolution body, each year it manages to resolve some 50% of the justified complaints in the customer's favour.

In 2019 the Bank received a total of 2,171 complaints about financial market participants, which was 11% more than it received in 2018. Of those complaints, 58.2% concerned insurance undertakings (Chart 26). This is to be expected, since the payout of insurance claims is a matter typically related to an adverse situation in the life of the policyholder. Policyholders who do not receive the payment they expect tend to take the matter further.

Chart 26

Breakdown of financial consumer complaints in 2019[1)]



Source: NBS.
Note: 1) Complaints about financial agents are not reported separately, since the complaints are not usually about just the agent, but about the financial product itself together with the way it is provided.

When handling a complaint, NBS first assesses whether the complaint is justified. In 2019 almost one-third (29.3%) of all complaints were justified. In 305 cases, the supervised entity rectified the shortcoming voluntarily after being asked by NBS to do so. In these cases, the entities concerned paid the customers almost €405 thousand in total.

The following table gives a more detailed overview of the justified complaints made in 2019 and of the related rectification in terms of the amount of payments to customers:

Table 7 Overview of complaints in regard to justification and voluntary rectification

Product	Number of complaints in total	Complaints under assessment	Justified complaints		Amount of rectification (EUR)
			without rectification	with rectification	
Banking sector	**539**	**77**	**45**	**75**	**64,111**
current accounts	232	33	12	43	60,290
consumer loans	124	20	9	13	2,629
other (banking sector)	105	12	15	11	1,192
housing loans	78	12	9	8	-
Insurance sector	**1,263**	**107**	**222**	**214**	**337,206**
non-life insurance – MTPL and windscreen	463	41	122	115	136,479
non-life insurance – civil liability	329	4	11	12	7,241
personal insurance	200	23	32	34	110,143
non-life insurance – comprehensive motor insurance	127	12	28	30	29,135
non-life insurance – property	104	22	21	14	17,599
non-life insurance – other	40	5	8	9	36,609
Non-bank lenders	**226**	**70**	**36**	**5**	**1,184**
consumer loans	124	46	26	4	1,184
debt collection companies	66	15	9	1	-
Other (outside the scope of NBS)	36	9	1	-	-
Other	**49**	**3**	**3**	**2**	**354**
Capital market	**34**	**2**	**4**	**1**	**24**
Supplementary pension scheme	**31**	**1**	**14**	**2**	**-**
Financial brokers	**29**	**2**	**6**	**6**	**1,464**
Total	**2,171**	**262**	**330**	**305**	**404,343**

Source: NBS.

3.2.1 Insurance

Regarding complaints related to **property insurance** made to NBS in 2019, the most frequent issue was that the payout was too low. In its investigation of these complaints, the Bank found that the value of the damage was not always calculated in accordance with the decree[12] that lays down rules for determining the value of property and of property damage. The Bank is pressing for increased transparency in this area, so that insurers provide injured parties with detailed information on how damage is calculated.

A large number of the complaints concerning **personal insurance** described a situation where the insurer refused to pay the claim on grounds that the insured person, before the insurance contract was concluded, was suffering from the illness that was the basis of the occurrence of the event insured against. In response to these complaints, NBS took the view that insurers that knowingly insured a sick person could refuse to pay the claim only if there was a direct causal relationship between the illness the insured had prior to the conclusion of the insurance contract and the occurrence of the event insured against. It does not suffice for illness to be a probable cause of the event or a risk factor behind it.

Compared with the previous year, 2019 saw an increase in the number of complaints about insurers refusing to pay claims under **civil liability insurance policies** related to the performance of an occupation or employment. The reason given for the refusals was a breach of obligation by the insured, typically involving their incorrect maintenance or handling of equipment. According to NBS, insurers may not refuse claims in such cases, but they may reduce the payout.

3.2.2 Consumer lending

Compared with the past, the complaints received in 2019 in relation to consumer loans indicated that lenders were offering customers higher quality contracts, free of terms that were substantially unfair. There was, however, an increase in the number of complaints about the recovery of consumer loan debts. Consumers felt debt collection companies were harassing them by contacting them excessively by telephone and SMS. In most cases, however, the consumers were unable to furnish proof of harassment. The Bank therefore advises consumers to save their SMS messages and to keep a record of their telephone call history. It also recommends them to warn the caller that the call is being recorded.

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12 Decree No 492/2004 of the Ministry of Justice of the Slovak Republic on determining the general value of property, as amended.

3.2.3 Financial intermediation

As regards complaints in the area of financial services intermediation, a lack of evidence continued to be a problem in 2019. Complaining customers stated to NBS that what the financial agent told them during the contractual discussions did not correspond to what was in the eventual contract. Customers were claiming that the agent promised them an advantageous offer without giving any warning of the risks associated with it. In the absence of any other evidence, NBS can do no more than check such claims against the record of the financial intermediation to see whether the customer has been given all the necessary information. The Bank recommends customers to send their financial agent an email stating their questions and requirements, so that they can later prove whether their requests and requirements were met.

3.2.4 Payment services

The Bank regularly receives complaints about misuse of payment instruments (internet banking, payment and credit cards). In some cases, the issue concerns "phishing", where a third party fraudulently obtains access data for a natural or legal person's internet banking. If customers disclose the access data for their accounts or cards so that, contrary to the applicable business terms and conditions, a third party is able to use the funds in their account, the bank in question is not required to reimburse the customer.

3.2.5 Investment

As for complaints concerning trading in financial instruments, in 2019 the Bank had several cases where customers recorded relatively large financial losses when trading on foreign platforms. Trading in currency pairs (FX or forex) and trading in derivatives are high risk. The markets are not intended for retail clients, and that is why some three-quarters of those who engage in such trading suffer losses, mostly on foreign trading platforms that are not subject to NBS supervision. On its website, NBS warns consumers not to conclude contracts with entities that are not subject to NBS supervision and to give thorough consideration to the risks associated with investing with such entities.

3.3 Sanctions in brief

A total of 16 NBS decisions in the field of financial consumer protection took effect in 2019. Decisions in this area are published on the NBS website only when they are final.

3.3.1 Banking sector – legislative accounts

In June 2019 five decisions took effect in which NBS imposed a sanction on a bank for engaging in unfair commercial practices in regard to the provision of information about so-called legislative accounts. The decisions were issued against Slovenská sporiteľňa, a.s., Všeobecná úverová banka, a.s., Tatra banka, a.s., Československá obchodná banka, a.s., and Prima banka Slovensko, a.s. In 2016 banks in Slovakia became obliged to provide customers with legislative accounts on request. These accounts comprise two types of current account whose maintenance fees are regulated by law; one is termed a 'basic bank product' and the other a 'payment account with basic features'. These accounts must fulfil the basic payment features associated with a current account. Under the decisions, the banks received fines ranging from €8 thousand to €28 thousand.

3.3.2 Insurance sector – windscreen coverage

A relatively large number of the complaints sent to NBS concern non-payment of claims for the repair/replacement of car windscreens damaged by stones or gravel thrown up by the wheels of another vehicle. The Bank handled 138 such complaints in 2019.

Under two NBS decisions that took effect in 2019, an insurer was sanctioned for engaging in an unfair commercial practice in regard to the refusal to pay windscreen damage claims. The decisions were issued against KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group and KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group. The practice in question was the refusal to pay the claim without properly determining the circumstances in which the damage arose. At the same time, the insurers did not give the injured party an appropriate reason for their procedure or for their refusal to pay the claim. Besides fining the insurers, the Bank prohibited them from continuing to engage in this practice.

3.3.3 Insurance sector – unfair commercial practices and unfair terms

The insurer Novis is one of the newest insurance undertakings operating in the Slovak market, and it is active in a number of other EU countries. Based on the exchange of information between national supervisory authorities in the EU, NBS learnt that some authorities were examining the compliance of Novis's products with regulatory rules. Although it had not received a significant number of consumer complaints about Novis, the Bank on its own initiative conducted off-site supervision of the company's marketing practices and its contractual documentation for consumers in

Slovakia. As a result, the Bank identified eight unfair commercial practices and eight unfair terms in the contractual documentation.

Given the extent of these infringements, NBS issued a decision imposing a fine of €175 thousand on NOVIS Insurance Company, NOVIS Versicherungsgesellschaft, NOVIS Compagnia di Assicurazioni, NOVIS Poisťovňa, a.s. and prohibiting the company from using unfair terms and from engaging in unfair commercial practices. The decision took effect in October 2019.

3.3.4 Insurance sector – interim measures

In 2019 NBS issued five interim measures requiring an insurer to refrain from actions that were subject to NBS prohibitions. The measures were issued against the following insurers: ČSOB Poisťovňa, a.s.; KOMUNÁLNA poisťovňa, a.s. Vienna Insurance Group; KOOPERATIVA poisťovňa, a.s. Vienna Insurance Group; Union poisťovňa, a.s.; and Uniqa poisťovňa, a.s. In regard to the products named in the measures, the insurers may not send consumers premium assessments where the insurer has unilaterally increased the premium price due to the introduction of the insurance tax. Insurers may, however, send the premium assessment as a new price proposal together with guidance on how the consumer may accept the proposal and on what the consequences of non-acceptance will be.

3.3.5 Consumer loans – debt recovery

In 2019 NBS issued a decision to sanction POHOTOVOSŤ, s.r.o. for engaging in an aggressive commercial practice in the course of debt recovery activity. According to the Bank, the company had harassed and pressured the so-called "contact persons" stated in the credit agreement. The company sent the contact persons a reminder which included a demand that they, in cooperation with the borrower, repay the debt, and it described the debt as a debt of one of the contact persons. In this way, POHOTOVOSŤ caused the contact person to be afraid that he or she had a debt obligation under the credit agreement and was required to proceed as stated in the reminder, even though no such obligation could be construed either from the agreement or any other source. Besides fining the company, NBS prohibited it from further engaging in this practice.

In September 2019 NBS issued a final decision prohibiting Intrum Slovakia, s.r.o. from engaging in an unfair commercial practice. In recovering a debt arising from consumer loans, the company engaged in an aggressive commercial practice through two types of letter. In the first it exerted pressure in a threatening way by saying that if the debt was not repaid voluntarily, a lawyer would visit the debtor's home to verify their assets. In the second letter, debtors were told that if the debt was not repaid, they would be ordered by the court to pay all the recovery, court and execution costs. Besides fining the company, NBS prohibited it from using such threatening communication in the debt recovery process.

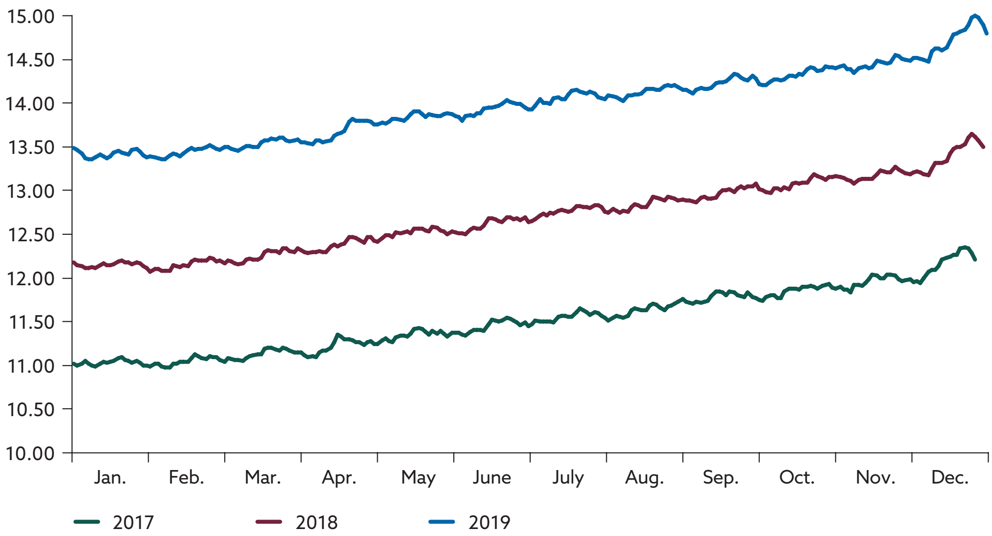
A December 2019 decision in the area of financial consumer protection did not impose a sanction, but rather lifted an interim measure issued on 30 May 2019 against KRUK Česká a Slovenská republika, s.r.o., a company operating in Slovakia through a branch. The measure was lifted after the company rectified the shortcoming before the sanction proceedings were concluded. The decision concerned consumer loan agreements originally concluded with Provident Financial, s.r.o. After purchasing the debts arising under these agreements, KRUK gave the debtors incorrect information about the amounts owed. The interim measure was issued to prohibit the company from doing this. In a 2018 decision NBS ruled that claims of Provident Financial in relation to these agreements were illegal.

4 Issuing activity and currency circulation

4.1 Continuing year-on-year growth in euro cash issuance

The cumulative net issuance (CNI)[13] of euro banknotes and coins in Slovakia had a total value of **€14.8 billion** as at 31 December 2019, with banknotes accounting for €14.6 billion of that amount. In year-on-year terms, the CNI increased in 2019 by 9.5% (or €1.3 billion), which was slightly lower that its rate of increase in the previous year. Compared with the value of Slovak koruna cash in circulation just before Slovakia adopted the euro (on 1 January 2009), the CNI had almost tripled by the end of 2019.

Chart 27
Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

[13] 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 that of euro banknotes and euro coins which NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2018 refers to the difference, in value or volume terms, of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009, when Slovakia joined the euro area, and 31 December 2019.

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 €13.7 billion[14] as at 31 December 2019. The value of euro banknotes issued in Slovakia was higher than the 'allocated' value by €918.3 million.

The CNI's daily trend showed the usual seasonal fluctuations in 2019, with the year-on-year difference ranging approximately between €1.2 billion and €1.4 billion (Chart 27). The daily CNI peaked on 23 December (at €15.0 billion).

Euro banknotes accounted for almost the entire value (98.6%) of the CNI as at 31 December 2019, but only for 20.0% of the CNI in terms of volume (representing 214.1 million banknotes). Euro coins, including euro collector coins, made up the remaining 80.0% (853.9 million coins), as Table 8 shows.

Table 8 Composition of the cumulative net issuance of euro banknotes and coins

Denomination	Cumulative net issuance				Percentage share of the CNI as at 31 December 2019	
	CNI as at 31 December 2019		Annual net issuance in 2019			
	number	value (€)	number	value (€)	volume	value (€)
€500	7,750,983	3,875,491,500.00	-953,940	-476,970,000.00	0.73	26.20
€200	2,288,039	457,607,800.00	1,940,425	388,085,000.00	0.21	3.09
€100	68,527,407	6,852,740,700.00	11,515,092	1,151,509,200.00	6.42	46.33
€50	42,977,126	2,148,856,300.00	2,673,091	133,654,550.00	4.02	14.53
€20	37,461,960	749,239,200.00	2,020,151	40,403,020.00	3.51	5.07
€10	45,922,785	459,227,850.00	4,000,180	40,001,800.00	4.30	3.10
€5	9,179,741	45,898,705.00	-77,432	-387,160.00	0.86	0.31
Total banknotes	**214,108,041**	**14,589,062,055.00**	**21,117,567**	**1,276,296,410.00**	**20.05**	**98.63**
€2	64,353,908	128,707,816.00	4,746,857	9,493,714.00,	6.03	0.87
€1	21,691,183	21,691,183.00	54,071	54,071.00,	2.03	0.15
50 cent	30,132,441	15,066,220.50	561,093	280,546.50,	2.82	0.10
20 cent	33,186,627	6,637,325.40	-32,067	-6,413.40,	3.11	0.05
10 cent	71,300,545	7,130,054.50	5,629,431	562,943.10,	6.67	0.05
5 cent	97,770,079	4,888,503.95	7,875,434	393,771.70,	9.15	0.03
2 cent	212,234,262	4,244,685.24	17,332,153	346,643.06,	19.87	0.03
1 cent	322,742,017	3,227,420.17	38,488,034	384,880.34,	30.22	0.02
Total coins	**853,411,062**	**191,593,208.76**	**74,655,006**	**11,510,156.30**	**79.90**	**1.30**
Collector coins	535,535	10,674,980.00	56,735	922,090.00	0.05	0.07
Total banknotes and coins	**1,068,054,638**	**14,791,330,243.76**	**95,829,308**	**1,288,728,656.30**	**100.00**	**100.00**

Source: NBS.

[14] The value of euro banknotes in circulation throughout the euro area as at 31 December 2019 was €1,292.7 billion, and the share of that amount issued by NBS according to the banknote allocation key was 1.0575% (€13.67 billion).

Looking at the denominational breakdown of the total number of banknotes included in the CNI, the €100 banknote had the largest share (32.0%).[15] From 2009 to 2015 the €50 banknote had the largest share, but in subsequent years its share declined, down to 20.1% in 2019 (below the share of the €10 banknote – 21.4%).

As for the coin component of the CNI, it was largely unchanged from the previous year in terms of its volume breakdown. The two lowest denominations (1 and 2 cent) had the largest shares, together accounting for 62.7% of all coins in the CNI as at 31 December 2019. But while their volume share is increasing year by year (in 2018 it was 62%), their share in the total value of coins in the CNI was only 3.9% at the end of 2019.

Looking at euro banknotes in Slovakia in average per capita[16] terms, their number and value in 2019 were 36.6 and €2,532. For coins (including collector coins), the corresponding figures were 149 and €36. For banknotes and coins together, their average per capita value was €2,568.

4.2 The last two banknotes in the new Europa series started circulating in May 2019

The new €100 and €200 banknotes, the last notes in the Europa (ES2) series, started circulating on 28 May 2019. The €500 banknote, which stopped being issued as of 27 April 2019, is not included in the Europa series.

Chart 28 shows the shares of €100 and €200 banknotes of the Europa series in the total volume of the given denomination in the cumulative net issuance and in the volume of these denominations processed as at 31 December. The high share of the new banknotes in the total number of processed banknotes of these denominations (from both the first and second series) indicates that high denomination banknotes are widely used in circulation as well as being a store of value.

Older €5, €10 and €20 banknotes of the new Europa series are already being replaced in circulation. As for the new €50 banknote, its share in the CNI's €50 banknote component was 86% at the end of December 2019 (represent-

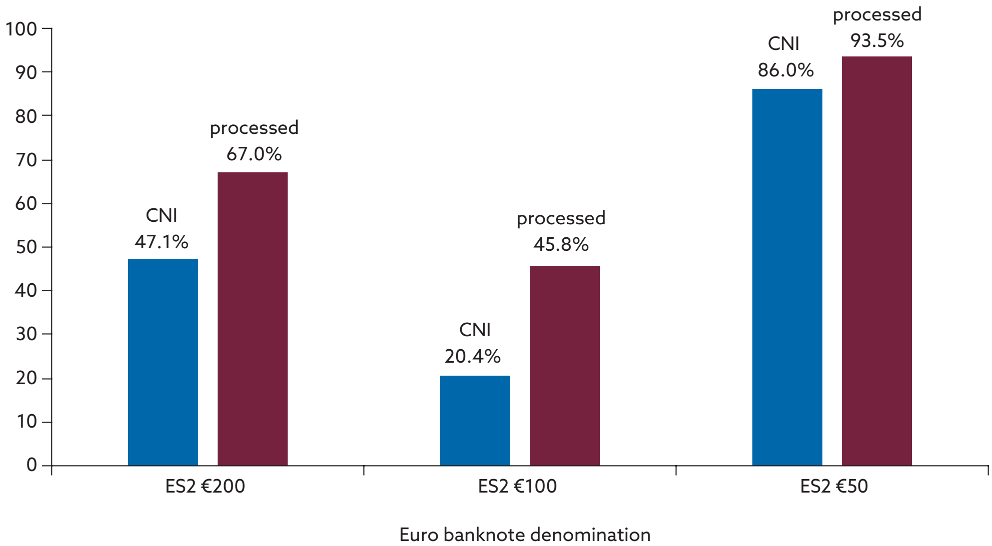
15 The fact that it had the largest share in the CNI does not mean the €100 banknote was the most used banknote during the period under review Due to unregistered banknote migration, the CNI of a euro area country is not identical to the volume of cash in circulation in that country.

16 The population of Slovakia was 5,457,318 as at 30 November 2019, according to the Statistical Office of the Slovak Republic. The calculations used the average number and average value of euro banknotes and euro coins in the CNI in 2019.

ing around 37 million banknotes) and its share in the processed €50 banknotes stood at 93.5%.[17]

Chart 28

ES2 banknotes as a share of all banknotes of the given denomination included in the CNI and in the total number processed as at 31 December 2019 (percentage share)



Source: NBS.

4.3 Sharp rise in net issuance of 1 and 2 cent euro coins

In 2019, compared with the previous year, NBS recorded a significantly higher net issuance of 1 and 2 cent coins, owing mainly to a drop in their return from circulation coupled with an increase in their gross issuance (volume put into circulation). When NBS looked deeper into the increased net issuance of 1 and 2 cent coins, it found that one of the main causes was the ending of free-of-charge acceptance of these coins at certain self-service coin machines, along with the high fees charged by commercial banks for taking deposits in the form of these coins or otherwise handling them. Going forward, the number of 1 and 2 cent coins returned from circulation is expected to remain lower than in previous years.

4.4 Unredeemed Slovak koruna banknotes and coins

As at 31 December 2019, i.e. eleven years after Slovakia adopted the euro, unredeemed Slovak koruna banknotes totalled 18.72 million (including

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[17] The rate of saturation of Europa banknotes in banknotes in active circulation is higher than the saturation calculated on the basis of the CNI of euro banknotes. This is because euro banknotes fall out of active circulation due to being lost, being held as collector items, or leaving the euro area.

10.03 million 20 koruna banknotes). Their combined face value was around SKK 2.13 billion (€70.8 million). The face value of unredeemed Slovak koruna banknotes was only around 1.40% of the total value of koruna banknotes issued (by 31 December 2007). The number of unredeemed Slovak koruna commemorative coins stood at 0.9 million by the end of 2019, and their total face value was SKK 0.7 billion (€23.2 million).

In per capita terms, koruna banknotes unredeemed by the end of 2019 numbered 3.4 and had a face value of SKK 391.0. The SKK 20 denomination was the most numerous of these banknotes, at almost 1.8 per capita. Around 47 thousand koruna banknotes were redeemed in 2019, and their combined face value was SKK 27.2 million (€0.90 million). Compared with 2018, the number and value of Slovak banknotes redeemed in 2019 were lower by, respectively, 3.3% (1.6 thousand banknotes) and 1.2% (SKK 344.5 thousand).

4.5 Production of euro banknotes and coins

In accordance with the ECB's Guideline on the production of euro banknotes, NBS was allocated the production of 56.39 million €20 banknotes of the new Europa series (ES2) in 2019. This volume included a proportion of the Eurosystem's outstanding allocation of first series (ES1) €100 banknotes, reallocated as ES2 €20 banknotes. This part of NBS's 2019 allocation amounted to 27.4 million banknotes. The Bank contracted out the production of the banknotes to Oberthur Fiduciaire SAS, a French printing works based in Rennes. The company delivered the banknotes on schedule.

In 2019 the Bank also commissioned the production of euro coins intended for circulation (Table 9).

Table 9 Circulation euro coins delivered to NBS logistical stocks in 2019

Denomination	Number of coins delivered
10 cent	3,000,000,
5 cent[1)]	4,025,000
2 cent[1)]	14,450,500
1 cent	32,000,000
Total	**53,475,500**

Source: NBS.
Note: 1)The number delivered includes a contractual tolerance of +5%.

All the Slovak euro coins commissioned by NBS are produced by the state-owned Kremnica Mint (Mincovňa Kremnica). Those minted in 2019 included 20,100 coins of each denomination that were used in six annual collector sets of Slovak euro coins.

In 2019, in accordance with its issuance schedule for commemorative and collector euro coins, NBS also issued:

- six collector euro coins, include five struck in silver and one in gold (Table 10);
- one million €2 commemorative coins marking the 100th anniversary of the death of Milan Rastislav Štefánik; the coins started circulating on 25 April 2019.

The Bank outsources the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

Table 10 Collector coins issued by Národná banka Slovenska in 2019

Denomi-nation	Feature	Number of coins issued		NBS Notification of coin issuance
		Total	of which proof	
€10[1)]	10th anniversary of the introduction of the euro in Slovakia	10,600	7,300	No 297/2018
€10[1)]	100th anniversary of the death of Milan Rastislav Štefánik	13,650	10,000	No 69/2019
€10[1)]	100th anniversary of Comenius University in Bratislava	10,400	7,300	No 97/2019
€10[1)]	150th anniversary of the birth of Michal Bosák	9,150	6,150	No 260/2019
€10[1)]	200th anniversary of the appointment of Alexander Rudnay as Archbishop of Esztergom	9,600	6,600	No 285/2019
€100[2)]	Mojmir I, ruler of Great Moravia	4,100	4,100	No 284/2019

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

4.6 Processing of euro banknotes and coins

In 2019 Národná banka Slovenska put 332.9 million euro banknotes into circulation, and a total of 311.7 million euro banknotes were returned to the Bank from circulation. During the year the Bank processed 313.8 million euro banknotes (after processing 348.1 million in 2018). The approximately 10% year-on-year drop in the number of banknotes processed was caused by declines in the rates at which €50 and €10 banknotes were returned to NBS for processing (they fell by 16% and 14% respectively). This decline was partly offset by an increase in the number of returned euro banknotes put back into circulation by commercial banks and other cash handlers.

The total number of euro banknotes returned to NBS was approximately 1.6 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 seven months on average.[18] In this way, NBS checks the authenticity and

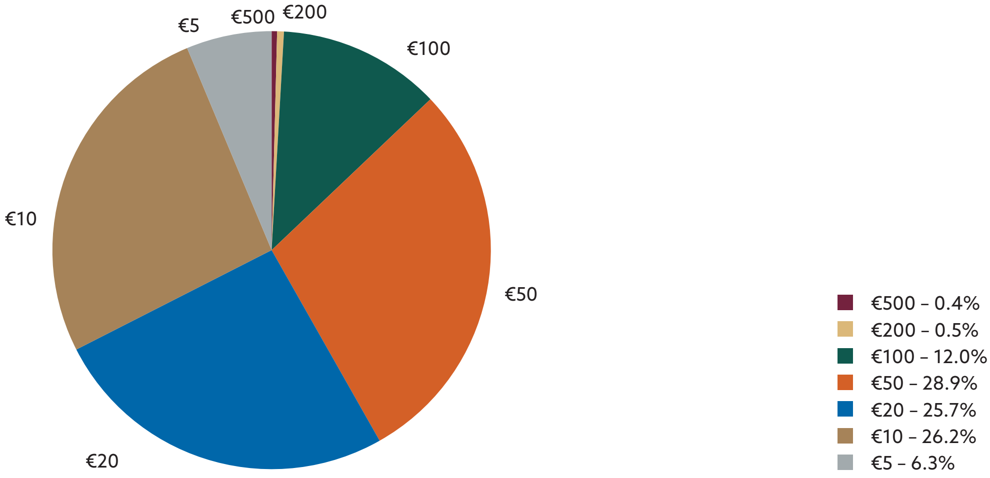
[18] Some cash is kept out of circulation and is therefore not returned to NBS for processing.

fitness for circulation of returned banknotes, with the aim of maintaining the integrity of the currency and public confidence in euro banknotes.

The €50 banknote, among the most used euro banknotes in circulation, was again the most frequently processed denomination in 2019 (Chart 29).

Chart 29

Denominational breakdown of euro banknotes processed by NBS in 2019



Source: NBS.

In its processing of euro banknotes during 2019, NBS identified 49.3 million banknotes as unfit for circulation and subsequently destroyed them. Compared with 2018, the number of unfit banknotes destroyed by NBS fell by 11,7%, owing mainly to the lower number of first series (ES1) €50 banknotes returned from circulation. The returned ES1 banknotes, after being replaced with ES2 banknotes, are destroyed.

The lower volume of banknotes sorted as unfit was reflected in the average unfit rate for euro banknotes, which dropped to 15.7% (from 16.0% in the previous year). This was lower than the average for the euro area (16.7%).

The Slovak public's satisfaction with the quality of euro banknotes was confirmed in an online poll conducted by the ECB across the euro area in 2019. In the Slovak component of the survey, 86% of the respondents expressed satisfaction with the quality of euro banknotes in circulation (the corresponding figures in the 2018 and 2017 surveys were 89% and 88% respectively).

In 2018 a total of 329.1 million euro coins were put into circulation by NBS, and 254.4 million euro coins were returned to NBS from circulation.

Since coins have a longer lifespan than banknotes, only 177,200 of the 255.2 million euro coins processed in 2019 were sorted as unfit (the number of coins processed in 2018 was 266.8 million). Looking at each euro coin denomination in terms of the share sorted by NBS in 2019, the figures were very similar, ranging from 10.1% to 15.7%. Compared with the previous year, a fewer number of 1 and 2 cent coins were processed, given the drop in the number of these coins returned from circulation for NBS processing.

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.

4.7 Year-on-year increase in the number of counterfeit banknotes and coins recovered in Slovakia

A total of 3,438 counterfeit banknotes and coins were recovered in Slovakia in 2019, approximately one-fifth more than were recovered in 2018 (Table 11).

Table 11 Number of counterfeit banknotes and coins recovered in Slovakia

Year	EUR	SKK	Other currency	Total
2017	4,045	3	781	**4,829**
2018	2,720	5	82	**2,807**
2019	3,391	1	46	**3,438**

Source: NBS.

Of the total number of counterfeits recovered, 10.5% were seized by police before entering circulation. The rest (89.5%) were recovered by banks and cash-handling companies.

In the breakdown of recovered counterfeits by region, Bratislava Region had the highest share (25.9%) and Košice region the second highest (19.3%), while Trenčín Region had the lowest share (2.7%).

4.8 Euro counterfeits

A total of 3,391 counterfeit euro banknotes and coins were recovered in Slovakia in 2019 (1,970 banknotes and 1,421 coins), which was around one-quarter more than the number recovered in the previous year. Their overall face value was €229,652.50 (Table 12).

Table 12 Number of euro counterfeits recovered in Slovakia

	Denomination										Total
Year	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	
2017	201	109	771	37	44	340	1,853	290	66	334	4,045
2018	179	97	973	32	51	141	704	393	54	96	2,720
2019	153	120	1148	20	156	265	898	283	90	258	3,391

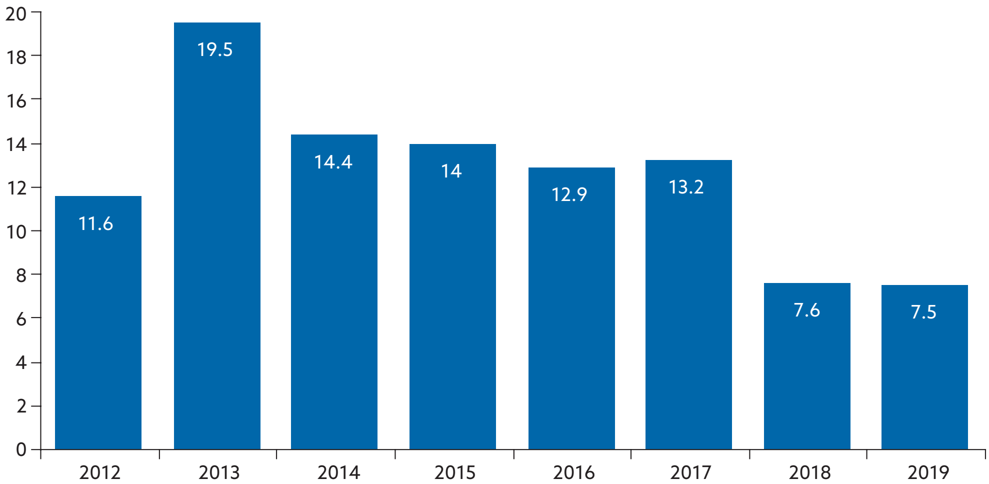
Source: NBS.

Despite their increase in 2019, the number of euro counterfeits recovered in Slovakia has been low for a long period of time.

Of the total number of counterfeit euro banknotes recovered in the euro area in 2019, only 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 means Slovakia is among the countries with the lowest incidence of euro counterfeits. For every million euro banknotes in circulation in Slovakia in 2019 there were only around 7.5 counterfeit banknotes, while the corresponding figure for euro coins was less than two. The chances of individuals coming across a counterfeit euro banknote or coin are low.

Chart 30

Recovered euro banknote counterfeits per million euro banknotes in circulation



Source: NBS.

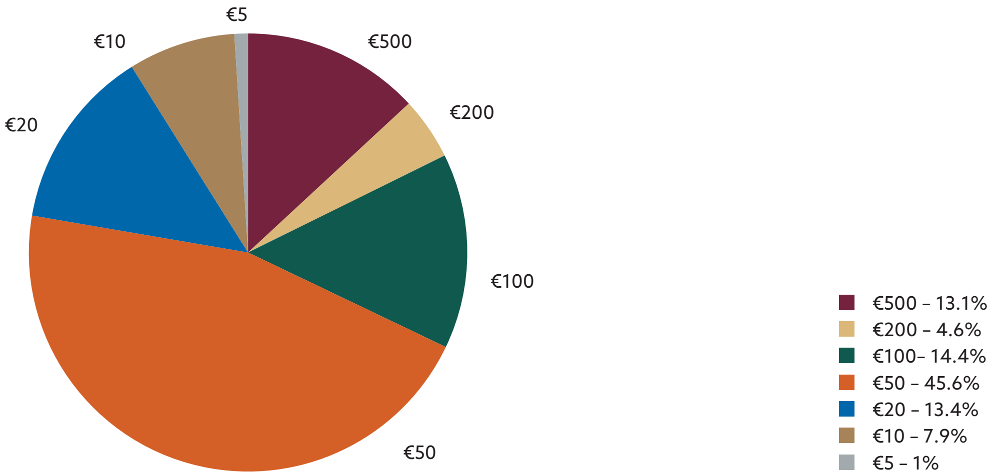
The low number of counterfeits recovered in Slovakia in recent years is due to a combination of several factors, in particular the following: the introduction of the new series of euro banknotes with their improved security features; close cooperation between law enforcement authorities dealing with the currency protection aspect of economic crime; the well-established system of cash-authentication training in place in the banking and financial sector; and the fact that Slovakia is probably seen as just a transit country by significant producers and distributors of counterfeits.

The number of counterfeit euro banknotes recovered from circulation in Slovakia has been stable for a long period of time, at around 150 per month. The overall number of banknotes recovered has reflected the impact of particular cases (one or two per year) in which sizeable quantities of counterfeits were seized by police before they entered circulation. All euro counterfeits can be detected without technical equipment as long as sufficient attention is paid to euro cash when receiving it.

Compared with 2018, the number of euro banknote counterfeits recovered in Slovakia was 33.9% higher in 2019, at 1,970. The denominational breakdown of euro banknote counterfeits in Slovakia has remained similar in recent years. In 2019 counterfeit €50 and €100 banknotes accounted for, respectively, 45.6% and 14.4% of the total. In the euro area as a whole, the €50 denomination was the most counterfeited (36.8%), followed by the €20 denomination (26.5%).

Chart 31

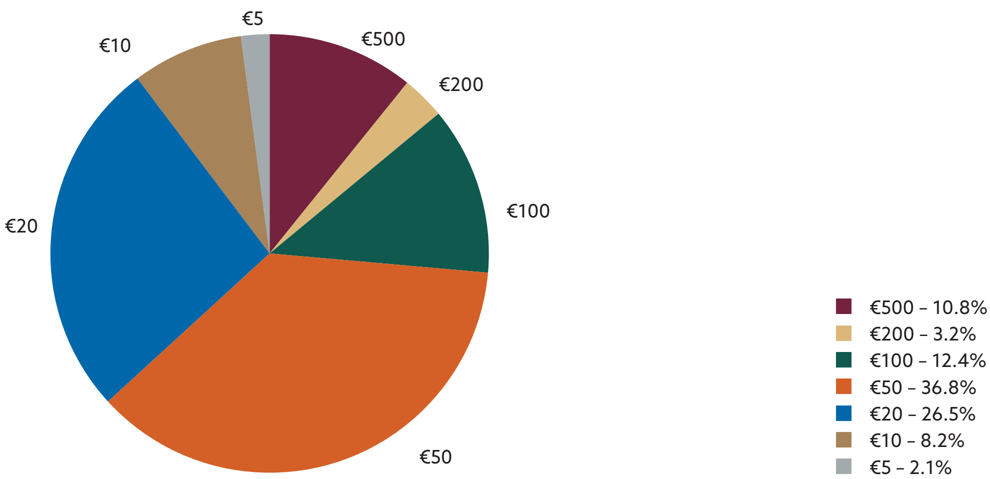
Denominational breakdown of counterfeit euro banknotes recovered in Slovakia in 2019 (percentages)



Source: NBS.

Chart 32

Denominational breakdown of counterfeit euro banknotes recovered in the euro area in 2019 (percentages)

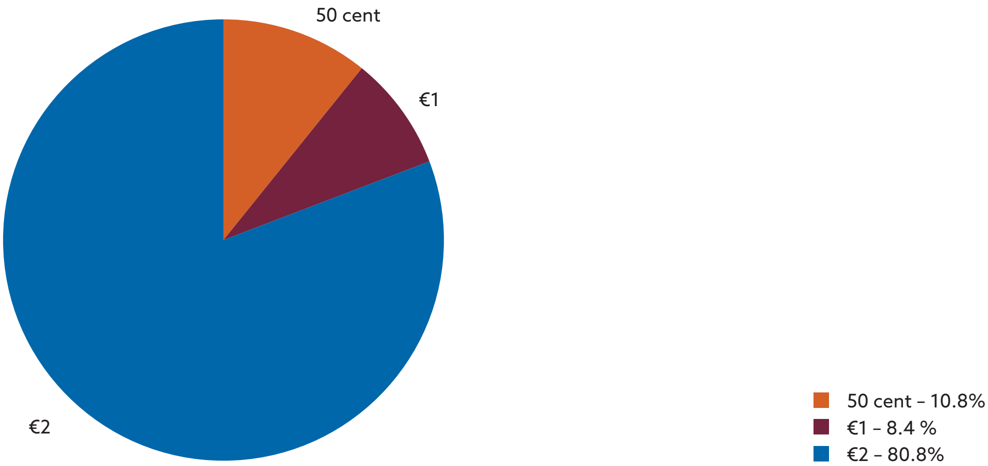


Source: NBS.

A total of 1,421 euro coin counterfeits were recovered in Slovakia in 2019, which represented a year-on-year increase of 14%. All the coins were recovered from circulation. The technical quality of euro coin counterfeits is generally very high. Counterfeit €2 coins made up 80.8% of the total. The denominational breakdown of counterfeit euro coins recovered in Slovakia and in the euro area in 2019 is shown in Charts 33 and 34.

Chart 33

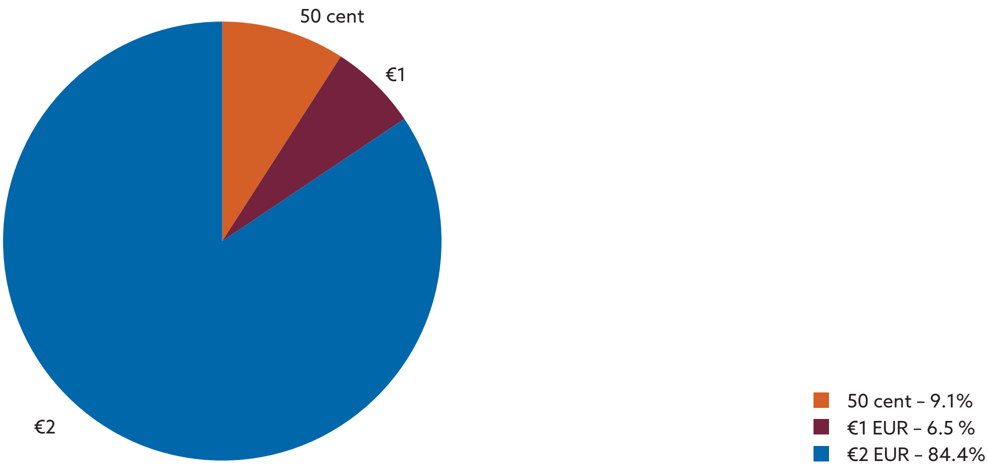
Denominational breakdown of counterfeit euro coins recovered in Slovakia in 2019 (percentages)



Source: NBS.

Chart 34

Denominational breakdown of counterfeit euro coins recovered in the euro area in 2019 (percentages)



Source: NBS.

4.9 Slovak koruna counterfeits and foreign currency counterfeits

Compared with 2018, the total number of Slovak koruna and foreign currency counterfeits recovered in Slovakia was significantly lower in 2019. Only one of the counterfeits was a koruna counterfeit. The number of US dollar counterfeits was almost two-thirds lower, at 17. As in previous years, $100 banknote counterfeits accounted for 95% of the US dollar counterfeits. The other foreign currency counterfeits included 19 British pound counterfeits, one Polish zloty counterfeit and nine Hungarian forint counterfeits.

5 Payment services and payment systems

5.1 Payment services

The principal legislation governing payment services and payment systems in Slovakia is the Payment Services Act (No 492/2009), which transposes into Slovak law the European Union's Second Payment Services Directive (PSD 2).

EU regulations

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

- Regulation (EU) 2019/518 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges;
- 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;
- Regulation (EU) No 2015/751 on interchange fees for card-based transactions; and
- delegated and implementing regulations pursuant to PSD2.

Further components of the legal framework include two decrees of Národná banka Slovenska: Decree No 8/2009 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 on direct debit creditor identifiers and the register of direct debit creditor identifiers.

Alternative dispute resolution

Consumer disputes related to the provision of payment services under the Payment Services Act may be resolved through the alternative dispute resolution (ADR) body run by the Slovak Banking Association (SBA). This body has been operating since the abolition of the SBA's Permanent Court of Arbitration. It is the consumer that decides which ADR body will be venue for out-of-court dispute resolution. Consumers that are legal persons may have recourse to arbitration or another alternative dispute resolution mechanism for the resolution of disputes related to the provision of payment services.

5.2 Payment systems in Slovakia

5.2.1 TARGET2 and TARGET2-SK

Since 2009 Národná banka Slovenska has been operating the TARGET2 component system known as TARGET2-SK (T2-SK). In 2019 T2-SK did not experience any operational incidents that would have been serious enough to jeopardise the system and its participants, nor any other incidents that would have disrupted the smooth processing of payments.

Besides ensuring the day-to-day operation of T2-SK, Národná banka Slovenska provides advice and support to the system's participants and performs regular testing of recovery procedures. The central bank 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.

Apart from TARGET2, there are two other components of the Eurosystem's Target Services: TARGET2 -Securities (T2S) and TARGET Instant Payment Settlement (TIPS). T2S is a technical platform that enables the smooth cross-border settlement of securities transactions. To use T2S, a market participant needs to have a securities account with one of the central securities depositories (CSDs) connected to T2S and a dedicated cash account (DCA) with one of the central banks connected to the platform. DCAs are used solely for the settlement in central bank money of the cash leg of the securities transactions. TIPS is a pan-European platform that enables the safe settlement of instant payments in euro, around the clock, every day of the year.

In June 2019 NBS organised a working meeting with T2-SK participants, mainly in order to inform them about the following:

- changes concerning SSP Release 13.0, including the migration from SWIFT Browse to SWIFT WebAccess and the activation of the expanded

Enhanced Contingency Solution (ECONS I), a new solution for dealing with unforeseen events in T2-SK; the new software release went live on 18 November 2019;
- the ongoing T2/T2S Consolidation project focused mainly on developing new services for participants – in the areas of liquidity management and real-time gross settlement (RTGS) services – as well as on adapting existing services to participants' changing needs; this project is due to go live on 22 November 2021.

NBS adopted and published the following decisions on 12 November 2019:
- Decision 20/2019 amending Decision No 4/2010 on settlement procedures for TARGET2-SK ancillary systems, as amended;
- Decision No 21/2019 amending Decision No 7/2015 on conditions for opening and administering PM accounts in TARGET2-SK, as amended;
- Decision No 22/2019 amending Decision No 9/2018 on conditions for opening and administering TIPS dedicated cash accounts (TIPS DCAs) in TARGET2-SK;
- Decision No 23/2019 amending Decision No 10/2018 on conditions for opening and administering T2S dedicated cash accounts (DCAs) in TARGET2-SK.

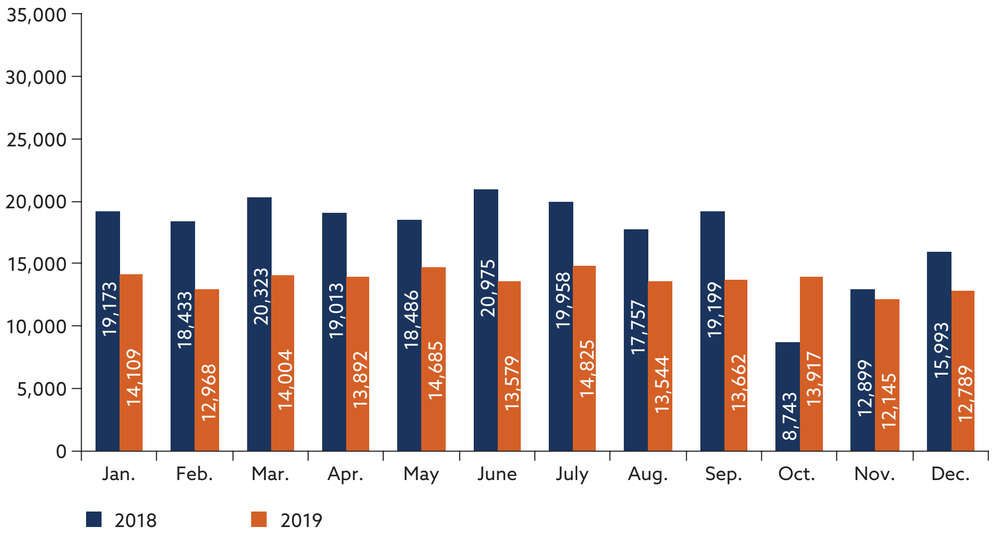
5.2.2 Payments processed by TARGET2-SK

In 2019 T2-SK had 36 participants, including 32 direct participants and the following four ancillary systems: the Slovak Interbank Payment System; SIA Slovakia, a.s., and two central securities depositories — Centrálny depozitár cenných papierov SR, a.s. (CDCP) and Národný centrálny depozitár cenných papierov (NCDCP). No new participants joined T2-SK in 2019.

As Charts 35 and 36 show, in 2019 T2-SK processed more than 160 thousand transactions with a total value of over €600 billion. Compared with 2018, T2-SK traffic fell in number by more than 20% (almost 47 thousand transactions) but increased in value by 14% (over €76 billion).

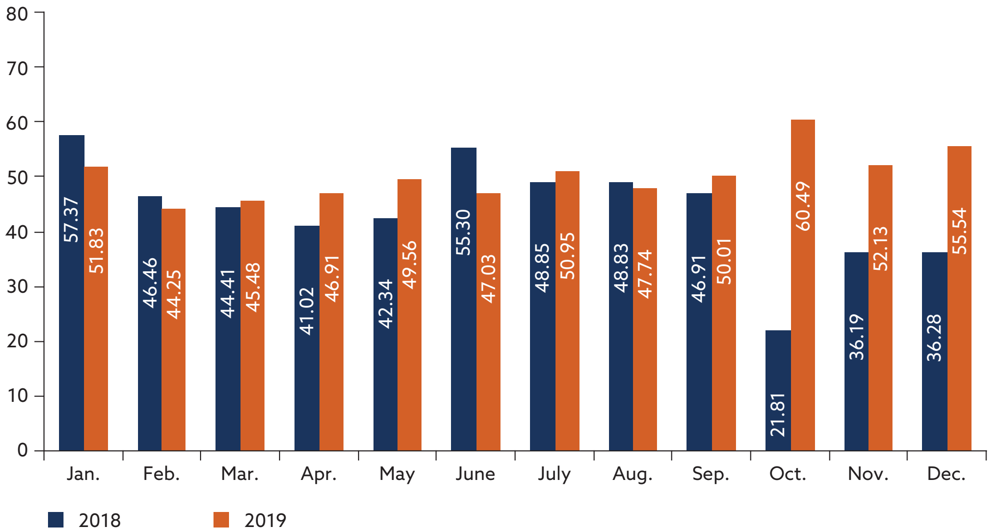
T2-SK had 255 operating days in 2019, and its average daily traffic by number and value was 644 transactions and more than €2.3 billion.

Chart 35
Number of transactions processed by T2-SK in 2018 and 2019



Source: NBS.

Chart 36
Value of transactions processed by T2-SK in 2018 and 2019 (EUR billions)



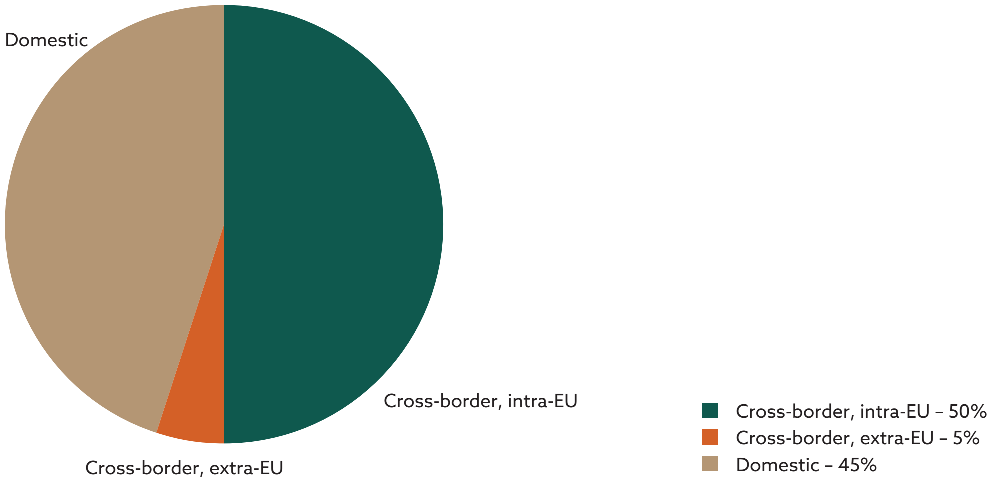
Source: NBS.

The breakdown of payment traffic between customer and interbank transactions followed the same pattern in 2019 as in previous years: customer payments had the higher share by number (62:38) and interbank payments predominated in terms of value (6.5:93.5).

The number OF EU national central banks connected to TARGET2 remained unchanged in 2019, at twenty-four. Of the total number of payments sent by T2-SK participants in 2019, 45% were domestic and 55% were cross-border. Domestic payments accounted for 55% of the total value of payments, and cross-border payments for 45% (see Charts 37 and 38).

Chart 37

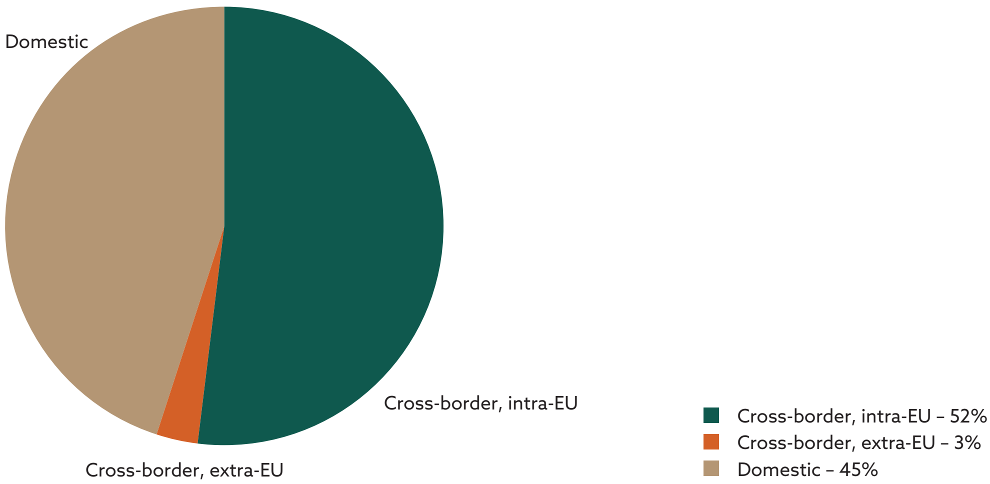
Number of payments sent by T2-SK participants in 2019 broken down by destination



Source: NBS.

Chart 38

Value of payments sent by T2-SK participants in 2019 broken down by destination



Source: NBS.

5.2.3 The Slovak Interbank Payment System (SIPS)

Ongoing SIPS modernisation

The Slovak Interbank Payment System is a retail payment system used for the processing and clearing of payments in euro. Operated by Národná banka Slovenska, SIPS processes domestic SEPA credit transfers (SCTs) and SEPA direct debits (SDDs), as well as cross-border SCTs and SDDs. As regards SCTs and SDDs sent to payment service providers that are not participants in SIPS, Národná banka Slovenska ensures their processing through STEP2, a pan-European automated clearing house in which it is a direct participant.

SIPS processes and clears the payments of its participants over four clearing cycles on each business day. Since SIPS is a T2-SK ancillary system, the final cash positions after each cycle undergo final settlement in T2-SK.

During 2019 SIPS functionalities were brought into closer alignment with STEP2 functionalities and with the rulebooks issued by the European Payments Council for SCTs and SDDs. In 2019 NBS continued the modernisation of the SIPS clearing centre. The modernised clearing centre module, equipped with upgraded information technology, is due to be launched in May 2020.

Another task of NBS is to issue creditor identifiers to creditors wishing to collect SEPA direct debits. Such creditors may be natural or legal persons. All the creditor identifiers are recorded in a register that NBS has been maintaining since 2013. A total of 502 creditor identifiers were issued in the years from 2013 to 2019.

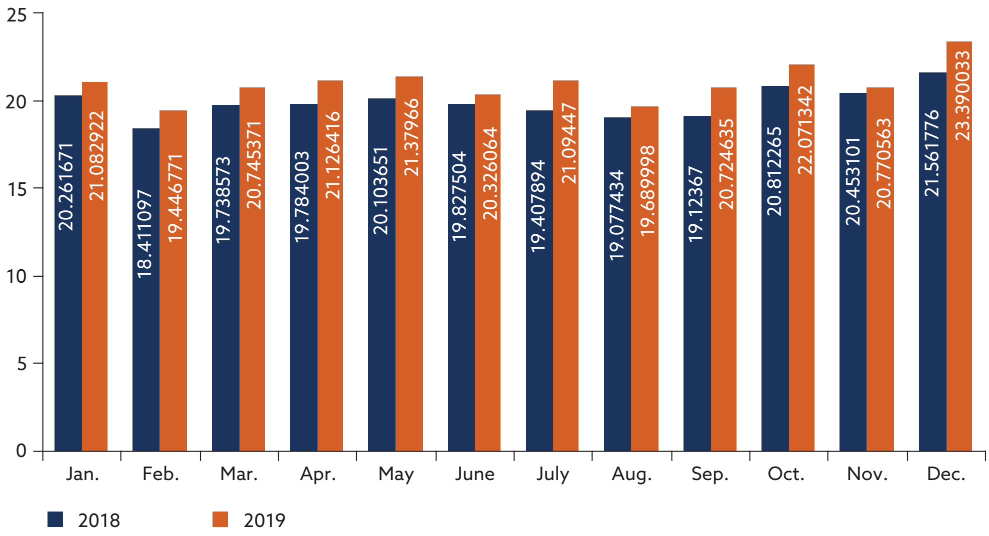
5.2.4 Payments processed by SIPS

SIPS statistics

The number of SIPS participants remained unchanged in 2019. Of the 25 payment service providers participating in SIPS, 22 were domestic and three were foreign.

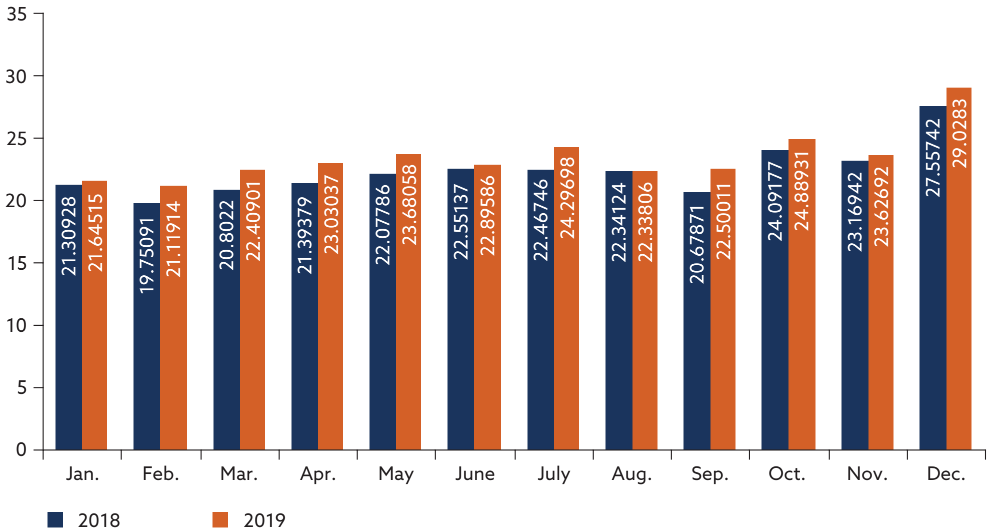
In 2019 SIPS processed more than 251.6 million transactions with a total value of almost €281.4598 billion (the monthly breakdowns of these figures are shown in Charts 39 and 40). Compared with the previous year, the number of transactions increased by more than 5.5% and the value of transactions maintained its uptrend with a rise of almost 5%.

Chart 39
Number of transactions processed by SIPS in 2018 and 2019 (millions)



Source: NBS.

Chart 40
Value of transactions processed by SIPS in 2018 and 2019 (EUR billions)

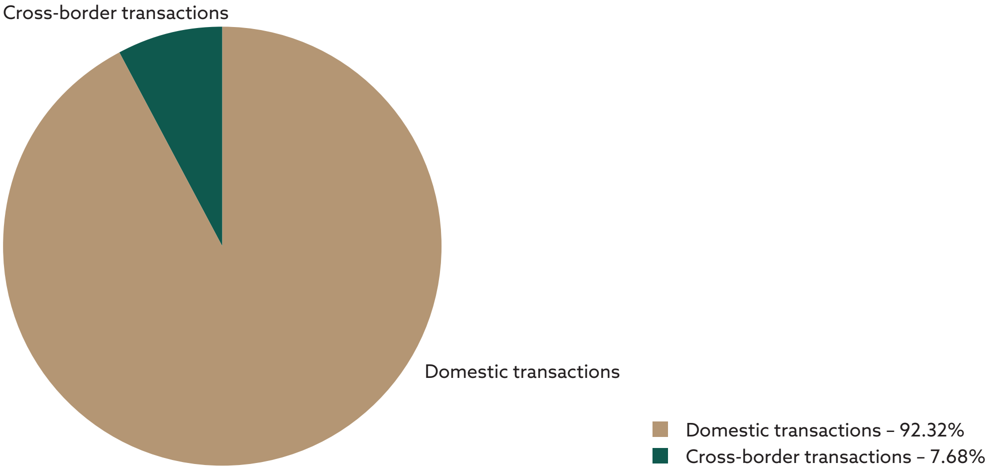


Source: NBS.

Following the full implementation of the Single European Payments Area (SEPA) in the euro area in 2014, the total number of transactions processed by SIPS has included an increasing share of cross-border SEPA transactions. This share rose to 7.7% in 2019 (up from 7.16% in 2018), while the share of cross-border SEPA transactions in the total value of SIPS transactions was 1.1% lower in 2019 than in the previous year, at 26.8% (see Charts 41 and 42).

Chart 41

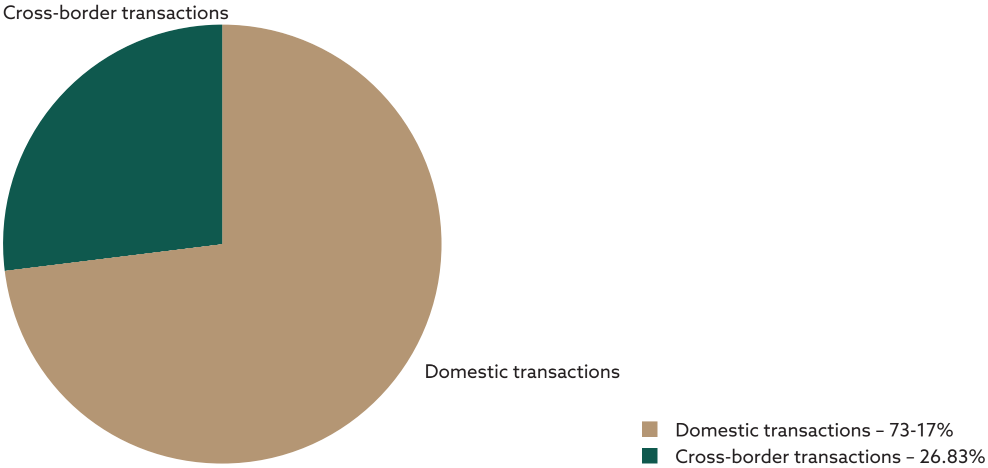
Number of SIPS transactions in 2019 broken down by domestic transactions and cross-border transactions



Source: NBS.

Chart 42

Value of SIPS transactions in 2019 broken down by domestic transactions and cross-border transactions



Source: NBS.

As regards the breakdown of cross-border SEPA transactions between credit transfers and direct debits, credit transfers predominate in terms of both number (93% versus 7% in 2019) and value (99.4% versus 0.6%).

5.2.5 Payment cards

Valid payment cards issued by banks in Slovakia numbered 5,323,720 at the end of 2019, representing a year-on-year increase of almost 2%. The vast majority of these cards were either VISA or MasterCard cards, and virtually all (99%) of them featured contactless technology.

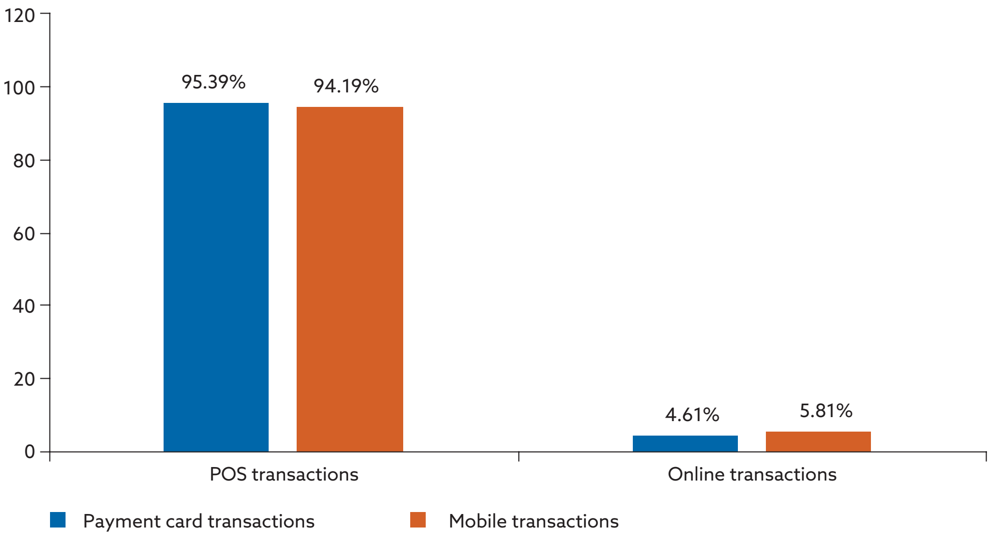
The number of transactions conducted by domestically issued payment cards in 2019 was almost 629 million, of which close to 64% were contactless payments. The total value of payment card transactions was more than €28.4 billion. Compared with the previous year, the number and value of transactions increased by 11.8% and 5.3% respectively. Almost 85% of the transactions were carried out in Slovakia, and these transactions accounted for more than 87% of the total value of card transactions. Most of the card payments in 2019 were payments at point-of-sale (POS) terminals.

The number of automated teller machines in Slovakia (ATMs) at the end of 2019 was unchanged year on year, at 2,778. Compared with 2018, the number of ATM withdrawals dropped by 1.2%, but the total value of money withdrawn increased by 3%, to almost 15.5 billion. The average withdrawal amounted to €165. The total value of ATM deposits in 2019 was €1.9 billion.

By the end of 2019 there were 57,845 POS terminals operating in Slovakia and a total of 3,643 domestically based merchants that accepted online card payments – 746 more than did so at the end of 2018. The total number of online card payments in Slovakia in 2019 was almost 19 million, and their total value was almost €0.77 billion. The total number and total value of card payments to brick-and-mortar and online merchants were 412 million and €9.4 billion, representing respective increases of 33.69% and 32.97%. Looking at the combined payment card usage for POS/online payments and ATM withdrawals in 2019, POS/online payments accounted for 85% of the total number of transactions while ATM withdrawals continued to account for more than 50% of the total value (see Charts 43 and 44).

Chart 43

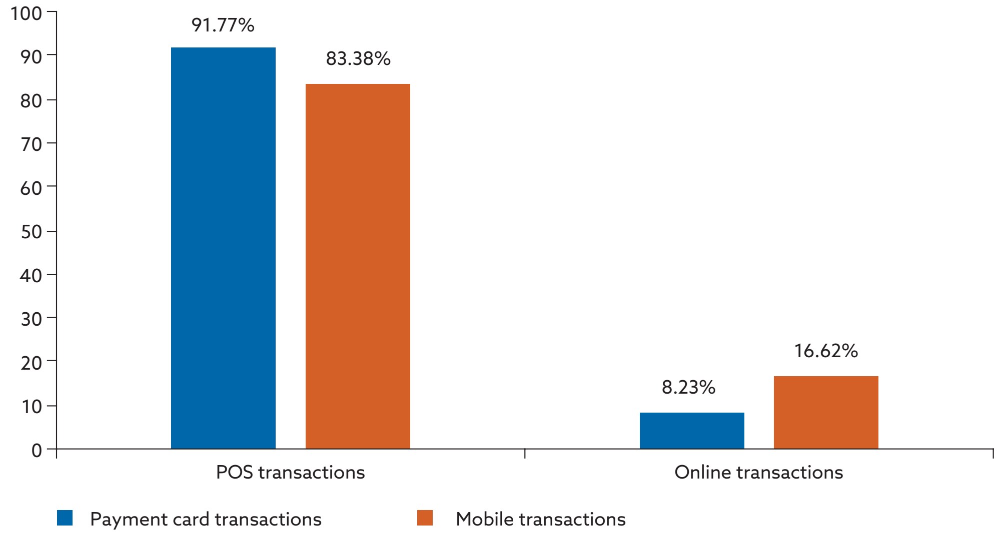
Shares of payment card and mobile transactions in the number of POS and online transactions in 2019



Sources: banks and foreign bank branches.

Chart 44

Shares of payment card and mobile transactions in the value of POS and online transactions in 2019



Sources: banks and foreign bank branches.

In 2019 the majority of banks in Slovakia made the digital wallet platforms Google Pay and Apple Pay available to their MasterCard and VISA cardholders. Some banks also started supporting the smartwatch apps Garmin Pay and Fitbit Pay. The gradual introduction of these services during the year was reflected in the sharply increasing number of transactions made using these apps, from 0.8 million in the first quarter of 2019 to more than 6.6 million in the fourth quarter. Overall in 2019, domestically issued payment cards were used for more than 13.6 million mobile payments, and the total value of these transactions was almost €262 million. The tendency to use mobile payments for low-value transactions was evident in 2019, with the average value of mobile payments amounting to €19.25 and the average value of physical card payments amounting to €45.80.

5.3 Cooperation with international financial institutions

Assessment of SSSs and links between SSSs

In order to settle its credit operations based on adequate eligible collateral, the Eurosystem assesses the eligibility of securities settlement systems (SSSs) and links between SSSs for use in Eurosystem credit operations. A CSD-operated SSS or link that receives a positive assessment is considered eligible for use in Eurosystem credit operations.

Under their new assessment regime, SSSs and links undergo a two-stage assessment based on:

a) the EU's Central Securities Depository Regulation (Regulation (EU) No 909/2014), which lays down uniform requirements for the settlement of financial instruments in the EU; and
b) additional Eurosystem requirements, compliance with which should be ensured by regulatory or contractual arrangements.

6 Statistics

Národná banka Slovenska 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, various other tasks of the European System of Central Banks (ESCB), and the tasks of the European Systemic Risk Board (ESRB), Eurostat, the Bank for International Settlements (BIS) and other international institutions. Based on data reported by financial and non-financial agents, the statistics are used not only by internal users at the Bank, but also by financial market participants, public sector entities, the media, and the general public.

6.1 Statistical developments

In 2019 monetary and financial statistics for the sectors of banking, investment funds and other financial intermediaries provided stable data to users without additional requirements from the users themselves, in particular the ECB. Through mutual cooperation, the quality of data provided by banks for interest rate statistics on new business was improved by revisions of data on renegotiated loans.

During the year, the Slovak banking sector surveyed benefits and costs related to the ECB's proposed new requirements for euro area balance sheet statistics. The survey results were reflected in a draft Regulation and draft Guideline published by the ECB. Cooperation was stepped up in regard to the use of counterparty micro data reported by banks from the national credit register for the compilation of aggregated statistical data. As regards the compiling and analysing of data and statistical outputs, further progress was made in 2019 on the interlinking of the metadata description and source data. One key step was a change to statements submitted for Národná banka Slovenska, which involved switching from static collection to dynamic data collection.

Data quality in the ESCB's two securities databases underwent further improvement in 2019. These databases, to which the Bank contributes data on a regular basis, are the Centralised Securities Database (CSDB) and Securities Holdings Statistics Database (SHSDB). In 2019 the ECB launched an improved version of its interactive data quality management tool for the CSDB, which supports the compilation of national aggregates of securities statistics. Projects and tests aimed at interconnecting the CSDB and SHSDB with the ECB's Register of Institutions and Affiliates Database (RIAD) and its analytical credit database (AnaCredit) continued in 2019. Consistency between the data contained in the ECB databases is important for the production of detailed analyses of the financial market and financial stability.

In September 2019 Slovakia became the 19th country to adhere to the Special Data Dissemination Standard (SDDS) Plus, the highest tier of the IMF's three-tier Data Standards Initiatives aimed at supporting the dissemination of economic and financial data. Národná banka Slovenska is one of Slovakia's three data disseminating agencies under SDDS Plus, along with the country's Finance Ministry and Statistical Office. The move from the second-tier SDDS initiative to SDDS Plus included an increase in the prescribed data categories from 21 to 30, with seven of the nine new categories falling within the Bank's competence. These categories include *financial soundness indicators*, *other financial corporations survey*, and *debt securities*, as well as categories covering the scope and structure of foreign direct investment in Slovakia and the quarterly financial accounts.

In the field of quarterly financial accounts statistics work continued in 2019 on harmonising these statistics with balance of payments (b.o.p.) and international investment position (i.i.p.) data, against the backdrop of the Statistical Office-led benchmark revision of selected data. In 2019 government bonds included in financial accounts statistics started to be reported at fair value.

In February 2019 Národná banka Slovenska and the Slovak Statistical Office signed Addendum No 4 to their *Framework agreement on cooperation in the provision of statistical data and statistical information* of 21 May 2013 ('the Framework Agreement'). This amended Articles 4 and 6 of the Framework Agreement in accordance with an amendment to Act No 18/2018 on the protection of personal data. The signing of the Addendum also resulted in the updating of the following addenda to the Framework Agreement: Addendum No 1 – List of statistical data and statistical information provided to Národná banka Slovenska by the Statistical Office of the Slovak Republic; and Addendum No 2 – List of statistical data and statistical information provided to the Statistical Office of the Slovak Republic by Národná banka Slovenska.

On 2 August 2019 Eurostat published an expanded and amended edition of the Manual on Government Deficit and Debt, which, as a supplement to Regulation (EU) No 549/2013 on the European system of national and regional accounts in the European Union (referred to as ESA 2010), provides guidance on the appropriate treatment of government finance statistics, in particular the appropriate calculation of national budget revenue and expenditure and the resulting deficit and debt. The changes having a significant impact on Slovakia's Excessive Deficit Procedure (EDP) data were incorporated in the data provided by Slovakia to Eurostat for publication in the October 2019 notification table for the period from 2015 to 2018. This resulted in the deficits for individual years, as a percentage of GDP, increasing by between 0.1 and 0.3 percentage points. Alongside implementation of the new manual, a benchmark revision was also undertaken. There is approximately one such revision every five years, the purpose being to improve the quality of statistical data by using new source data and new approaches and estimates. The review was reflected in all areas of government finance statistics (annual and quarterly financial and non-financial accounts for general government).

An ECB Guideline that entered into force in 2019[19] amended the 2018 ECB Guideline on the Register of Institutions and Affiliates Data. The most significant change concerned the obligation to report reference data for pension funds. Since one of priority purposes of RIAD is to regularly publish an official list of financial institutions, a new list of pension funds was produced. In 2019 the ECB was placing particular emphasis on the management of the quality of RIAD data. In cooperation with a working group called the RIAD Hub Network, a new report was produced which summarises all RIAD data on a country-by-country basis. This improved the navigability of the reported data and the process of removing inconsistences or errors. Work also continued on interconnecting RIAD and the ECB's Centralised Securities Database. Specific steps were defined for each country, with objective of implementing them gradually over each phase of the project. By the end of 2019 the harmonisation rate for Slovak issuers was almost 100%. The RIAD dataset currently includes more than 60 thousand Slovak entities (including 28 monetary financial institutions, 94 investment funds, 42 payment statistics relevant institutions, 36 insurance corporations, and 36 pension funds, with the rest comprising AnaCredit-relevant entities).

As regards insurance market statistics, the focus of attention in 2019 was on the timely collection of required data in the context of the new Solvency II taxonomy defined by the European Insurance and Occupation Pensions Authority (EIOPA). The new taxonomy necessitated changes in the Bank's Statistics Collection Portal in regard to the planning of reporting obligations, as well as intensive communication with the entities concerned. Further progress was made on improving the quality of reported data. In addition to the Solvency II taxonomy, a new system of internal intra-report

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19 Guideline (EU) 2019/1335 of the European Central Bank of 7 June 2019 amending Guideline (EU) 2018/876 on the Register of Institutions and Affiliates Data (ECB/2019/17).

and inter-report checks was drawn up in 2019. The checks relevant to quarterly reporting underwent testing.

In order to improve the quality and international comparability of data, in 2019 the ECB began a programme of active communication with countries reporting quarterly and annual statistical data. This included several questionnaire surveys and public consultations on documents, on the basis of which the ECB defined four principle methodological groups. These started to be addressed by dedicated working groups. One of the areas addressed is the uniform coverage of reporting entities for annual statistics. In this regard, the ECB has opted for the principle of reporting for all entities established in the territory of the reporting country (the so-called 'home' principle) and has designed Solvency II reports as a priority data source. In line with this requirement, revisions were made to annual data for the reference years from 2016 to 2018.

In the area of capital market statistics, it became necessary in 2019 to incorporate in the Statistics Collection Portal a new Report on Internalised Settlement – Ocp (IVT) 21-04. This concerns an obligation arising under Article 9 of Regulation (EU) No 909/2014.[20] In these reports, entities authorised to provide services defined in Article 6(2) of the Securities Act (No 566/2001), report information about transactions that they settle outside securities settlement systems operated by central securities depositories. After processing this information, NBS transmits it to the European Securities and Markets Authority (ESMA) and informs ESMA of any potential risk resulting from that settlement activity.

As for pension fund statistics, 2019 saw the completion of legislative and software processes to ensure compliance with requirements for the collection and processing of pension fund data. In 2019, for the first time, the Bank submitted to EIOPA occupational pension scheme data, for the third quarter, which it had collected through the Statistics Collection Portal on the basis of the Decision on EIOPA's regular information requests towards NCAs regarding provision of occupational pensions information (EIOPA-BoS/18-114). Along with the data in its original structure, the Bank also for the first time transmitted the data to the ECB in a version which was expanded to include geographical breakdown data related to the requirements of Regulation (EU) 2018/231 of the European Central Bank.[21]

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[20] Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

[21] Regulation (EU) 2018/231 of the European Central Bank of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2)

In the area of balance of payments statistics, significant revisions of data for selected areas of the balance of payments current account were undertaken in 2019. The main reason for the changes was the major benchmark revision of national accounts data and methodological revision of foreign trade statistical data carried out by the Slovak Statistical Office. The revisions were made in accordance with the Harmonised European Revision Policy for Macroeconomic Statistics and the national revision policy. The balance of payments data revisions concerned mainly goods and services items. As regards foreign trade in goods, a change was made to the methodology for reporting exports and imports of energy (natural gas and electricity) and selected commodities. There was also a change to the reference period for statistics on trade with non-EU countries. As for services, the main change in 2019 was the incorporation of the mini One Stop Shop (MOSS), a special tax relief scheme for persons supplying cross-border telecommunication and electronic services.

In cooperation with the Slovak Statistical Office, in 2019 the Bank was engaged in preparatory work for the implementation of the EU's new Framework Regulation Implementing Business Statistics (FRIBS), including consultations on the methodology and scope of data collected in the area of international trade in services statistics. The scope will be significantly expanded, with the additional breakdown of services according to mode of supply and to Service Trade by Enterprise Characteristics (STEC).

In October 2019 data on b.o.p./i.i.p. statistics and foreign debt statistics were released in the format required under SDDS Plus for the first time. As regards b.o.p./i.i.p. statistics, the process of harmonising their data with quarterly financial accounts data continued in 2019, with further significant progress made in aligning data between these two statistical domains.

For entities reporting through the Statistics Collection Portal which are subject to a reporting obligation under the Foreign Exchange Act, the scope of their reporting was expanded in 2019 to include new requirements of international institutions, mainly the ECB, concerning the compilation of b.o.p./i.i.p. statistics. The statistical reporting obligation for non-bank entities is governed by the Foreign Exchange Act (including amendments to Act No 372/1990 on non-indictable offences, as amended), as amended by Act No 602/2003. 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 280/2015 of 25 September 2018 on reporting in accordance with the Foreign Exchange Act.

6.2 Information systems

Národná banka Slovenska uses its Statistics Collection Portal (IS SCP) for the collection, processing and storage of data received from reporting agents for statistical and supervisory purposes. In 2019 a new taxonomy was implemented in the IS SCP for the reporting of supervisory data required by the European Banking Authority (EBA), EIOPA and the ECB. In addition, certain functionality components related to ESMA reporting were upgraded.

By the end of 2019 around 4,089 reporting agents were registered in the IS SCP, including 28 from the banking sector, 47 engaged in other financial intermediation, 38 from the insurance sector, 116 from the capital market (investment firms, investment funds, asset management companies, the stock exchange, and central securities depositories), 52 from the pension fund sector, 3,356 entities reporting to NBS under the NBS Decree on reporting in accordance with the Foreign Exchange Act, and 452 other agents.

In 2019 a total of 655 reporting templates were designed for data collection requirements under national law, 306 as required by the EBA, 110 as required by EIOPA, and two in accordance with the EU's Alternative Investment Fund Managers Directive.

Work continued in 2019 on transforming historical data from all reporting statements collected in the years from 2012 to 2015 and migrating them to the IS SCP. As part of this data migration, the system was changed to enable the performance of so-called 'technical migration'.

The transition from the QlikView business intelligence tool to the Qlik Sense server solution was completed in 2019. From an infrastructure perspective, the transition involved expanding the architecture to include a stand-alone development server. The number of Qlik licences purchased by the Bank increased to 64. The number of modules was further increased to support the performance of consulting, training and internal work; the new modules were from the areas of securities statistics, balance sheet statistics, interest rate statistics, other financial intermediaries statistics, balance of payments statistics, government statistics, financial accounts statistics, foreign direct investment statistics, and services statistics. Qlik Sense was also used for the data aggregation output for the Bank for the Accounts of Companies Harmonized (BACH) database.

7 Economic research

The priority areas of economic research at Národná banka Slovenska are based on the Bank's medium-term research strategy. Research at the Bank is focused on thematic areas, such as monetary policy and inflation, financial stability, the European single currency, and Slovakia's convergence within the European Union. Some projects produce methodological innovations in the area of economic modelling; others address issues relating to such areas as the labour market, real economy, and fiscal policy.

The volume and quality of research publications published by the Bank in 2019 maintained the standards set in previous years. In terms of their visibility in foreign indexed journals, NBS research outputs continued their positive trend. This success was supported by cooperation with other experts from the European System of Central Banks (ESCB) and from domestic and foreign academic institutions. As for the number of working papers and analytical commentaries published on the NBS website, 2019 was also a productive year.

In 2019 five articles by NBS staff were published in journals indexed in foreign databases, including the *Journal of Corporate Finance*, *The European Journal of Finance*, the *Open Economies Review,* and the *Journal of Statistical Computation and Simulation*. One NBS working paper was published in *Ekonomický časopis,* an indexed journal of the Slovak Academy of Sciences.

The outputs of NBS research projects usually take the form of papers published on the Bank's website which are aimed at further publication in scientific journals. A total of nine working papers were published on the NBS website in 2019. Some of those co-authored with individuals from foreign institutions, including universities and central banks,[22] were also published on the websites of those institutions. In addition, NBS researchers published two occasional papers and seven analytical commentaries in 2019 – papers of a descriptive nature which contain partial results relevant for Slovakia.

One 2019 study in the field of monetary policy examined the impact of ad hoc verbal communication of members of the ECB's Governing Council between meetings of that body. By applying textual analysis to such com-

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22 The Halle Institute for Economic Research, Charles University in Prague, the Vienna University of Economics and Business, the Magyar Nemzeti Bank (the Hungarian central bank), and the Federal Reserve Board of Washington, D.C.

munication, the authors created an indicator that measures whether ECB communication is leaning towards tightening, easing or not changing monetary policy. The study found that the indicator is a good predictor of future monetary policy decisions. The results confirm the importance of monetary authorities engaging in transparent communication.

Research studies in more broadly defined areas of the labour market and real economy addressed output gap estimation, firms' demand for digital skills, and the results of the third wave of the Household Finance and Consumption Survey (HFCS). A 2019 working paper on the Slovak economy's output gap used, in addition to GDP data, 37 selected indicators that are published with a shorter lag than GDP data and are not subject to significant revisions. Compared with estimations using standard methods, this method produces a more stable estimate of the output gap at the end of the period under review.

A 2019 NBS working paper on digital skills analysed a large number of advertisements published on Slovakia's leading job portal, profesia.sk. The authors found that domestically owned firms in Slovakia are more likely to seek digitally skilled workers than are foreign-owned firms. This applies to all occupations apart from some blue-collar occupations in manufacturing industry. The results suggest that the potential for technology transfer from foreign-owned to domestic firms may be relatively limited.

The latest HFCS results were analysed in an occasional paper, which pointed out that household net wealth in Slovakia increased by around 40% between 2014 and 2017. Since the bulk of Slovak households' wealth comprises owner-occupied residential property, this uptrend stemmed from strong growth in property prices. At the same time, the debt-financing of residential properties has caused an increase in household indebtedness.

In the area of economic modelling, three working papers were published by the Bank in 2019. The first of them builds on literature showing that changes in trend inflation largely account for movements in US Treasury bond risk premia. The authors propose several modelling solutions to explain this relationship. The other two studies estimate a statistical model of firm survival based on firm-level data. The model was used to test various firm-specific and institutional factors that affect the probability of firm survival. The paper on institutional factors, using a broad dataset of firms from 15 emerging-market economies in central and eastern Europe, confirmed that institutional quality increases the probability of firm survival.

A 2019 NBS working paper on fiscal policy examined the impact of government spending shocks on the US Treasury yield curve. The authors differentiate between information about the anticipated fiscal expansion and the actual unbudgeted increases in government spending. There were also papers on the topics of the European single currency and convergence: one working paper used firm-level data from Slovakia and Estonia to estimate how adopting the euro affects exports, and another paper contained the Research Department's regular analysis of Slovakia's economic convergence. The convergence analysis showed that in terms of its economic growth and productivity in 2018, Slovakia made a relative improvement in its position vis-à-vis the EU average. Following a period of stagnation in real convergence since 2014, this result was positive news. In several rankings of institutional quality or the business environment, however, Slovakia continues to experience a decline in its relative position.

As regards their involvement in international projects in 2019, NBS staff continued to contribute to two ESCB research networks – the Household Finance and Consumption Network (HFCN) and the PRISMA (price-setting micro data analysis) Research Network – and to the independent Competitiveness Research Network (CompNet). Furthermore, several of the Bank's 2019 working papers were co-authored with individuals from foreign institutions.[23] In 2019 NBS members of the HFCN focused on preparing datasets from the third wave of the Household Finance and Consumption Survey. After being validated at the ECB, the Slovak data were made available to professionals for research purposes. The latest results, set out in an occasional paper, are supporting the estimation of risks related to household indebtedness and the analysis of the impact on household budgets of macroprudential policy measures and monetary policy measures.

The PRISMA Research Network applies microeconomic analysis to the price-setting behaviour of firms. NBS staff contributed to the network's activity in several areas in 2019, for example in measuring the effects of VAT rate changes on the price level.

CompNet is an independent ESCB-related network dedicated to researching competitiveness on the basis of firm-level data. In 2019 NBS staff members were involved in the task of expanding of CompNet's firm-level-based database and supported the network's development through their presence on its steering committee.

[23] These included the following: Birkbeck, University of London; Hitotsubashi University; Charles University in Prague; Middlesex University London; Paris Nanterre University; the Vienna University of Economics and Business; Česká národní banka (the Czech central bank); the Federal Reserve Board of Washington, D.C.; the Magyar Nemzeti Bank; the Österreichische Nationalbank (the Austrian central bank); the European Trade Union Institute; and the LIS Cross-National Data Center in Luxembourg.

In 2019 NBS researchers gave presentations abroad at events hosted by academic institutions, central banks, and international organisations.[24] As part of the technical assistance provided to Bulgaria in preparation for euro adoption, NBS staff members gave presentations in that country.

Through its visiting researcher programme, the Bank cooperates with academic institutions. Under this programme, two external researchers completed a short internship at the Bank in 2019. The same year also saw the Bank host 17 research-related seminars. More than one-third of these seminars provided an opportunity to acquire professional feedback on the Bank's own research projects. The NBS headquarters was also the venue for a further three seminars addressing current issues of economic policy.

[24] The events were hosted by the following: Carlton University in Ottawa; the Banque Centrale du Luxembourg; the Banque de France; the journal Economic Modelling; Mendel University in Brno; the Organisation for Economic Co-operation and Development; the Österreichische Nationalbank; the Vienna University of Economics and Business; the University of Economics in Bratislava; and the Slovak Academy of Sciences.

8 European affairs and international cooperation

8.1 European affairs

European Union (EU)

From the perspective of Národná banka Slovenska, the main EU event in the first half of 2019 was April's informal meeting of the ECOFIN Council, which took place in Bucharest and was attended by NBS representatives. The discussions focused on priorities for the next institutional cycle and the way forward for the capital markets union.

NBS representatives were also present at the next ECOFIN gathering of finance ministers, held in Helsinki in September. The main issues under discussion included the resilience of financial market infrastructure, the role of the financial sector in countering hybrid threats, and the rebooting of the capital markets union.

8.2 Cooperation with international institutions

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

The most important events of the Bretton Woods Institutions in 2019 were the Spring and Annual Meetings of the IMF/WGB, held in Washington DC. The Spring Meetings in April included the presentation of the latest editions of the IMF's multilateral surveillance documents: the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). Delegates discussed the need for renewal of the multilateral system, for development of more resilient and inclusive economies, and for cooperation in facing global challenges such as climate change, demographic changes, and migration.

At the Annual Meetings in October, the IMF's Board of Governors discussed the IMF's Annual Report and financial statements, as well as the autumn editions of the WEO and GFSR. There were also discussions on how multilateral cooperation could be used to bridge economic disparities between member countries, as well as on fintech and digital transformation.

Meeting of the International Monetary and Financial Committee (IMFC) held during the IMF-WBG Annual Meetings in Washington DC in October 2019.

In May 2019 an IMF staff team visited NBS as part of the bilateral discussions that the IMF holds with Slovakia under Article IV of the IMF's Articles of Agreement. The staff team spoke with NBS representatives about Slovakia's macroeconomic developments and outlook, about its balance of payments performance, about the state of Slovakia's financial sector, and about the current situation regarding domestic macroprudential policy. According to the IMF experts, the Slovak banking sector remains adequately capitalised, but its profitability is under pressure in the environment of very low interest rates. They also pointed out that a decade of robust loan growth has resulted in a significant increase in household indebtedness.

Organisation for Economic Co-operation and Development (OECD)

In February 2019 the OECD Secretary-General Ángel Gurría made an official visit to Slovakia . At the Slovak Ministry of Foreign and European Affairs, Mr Gurría presented the 2019 OECD Economic Survey of the Slovak Republic.

NBS staff members participated in the drafting of the 2019 Survey and were also actively involved in the work of OECD committees.

In 2019, for the first time, Slovakia chaired the Meeting of the OECD Council at Ministerial Level, which took place on 22-23 May.

In December 2019 NBS staff met with OECD representatives as part of the preparatory work for the OECD Regulatory Policy Review of the Slovak Republic.

NÁRODNÁ BANKA SLOVENSKA EUROSYSTÉM

European Bank for Reconstruction and Development (EBRD)

In January 2019 a meeting took place between NBS and EBRD representatives in regard to the preparation of the EBRD's assessment report on the capital market situation in Slovakia.

In May 2019, in Sarajevo, the 28th Annual Meeting of the EBRD's Board of Governors was held under the theme "Connecting Economies for Stronger Growth". The participants discussed the integration of Western Balkan countries into the European Union and opportunities for investment in the Western Balkan region.

Bank for International Settlements (BIS)

The NBS Governor attends the BIS's bimonthly All Governors' Meeting. The issues discussed at the meetings in 2019 included innovation and the role of central banks in the area of financial inclusion, the macroeconomic implications of weak bank profitability, and central banking. The governors also discussed strategies in the area of human resources management at central banks.

The BIS's 89th Annual General Meeting (AGM) took place in Basel in June 2019, with NBS represented by Deputy Governor Ľudovít Ódor. Besides approving the BIS's 2018/19 Annual Report and 2019 Annual Economic Report, the participating central bank representatives discussed regulatory convergence and also how to regulate banks in the era of fintech shadow banks.

Deputy Governor Ódor also attended the 18th BIS Annual Conference, held in Zürich in June. The theme of the event was "The digital economy and financial innovation".

8.3 Technical cooperation with external institutions

As regards its activities in the area of technical cooperation in 2019, NBS was involved not only in bilateral projects, but also in multilateral EU projects.

As part of its bilateral cooperation with the central banks of Belarus and Ukraine, NBS organised study and working visits in the areas of operational risk, public procurement, and payment systems.

In 2019 NBS provided technical assistance to the Central Bank of Mongolia in the area of central bank auditing.

A meeting of the Programme Steering Committee of an EU training programme for staff of Western Balkan central banks (held at NBS on 12 December 2019).

As part of an EU-funded project, staff members of NBS's Financial Consumer Protection Department were engaged in technical cooperation with the National Bank of Serbia in 2019. In the context of an EU project to support the National Bank of Belarus, a staff member of NBS's Macroprudential Policy Department took part in two expert missions to the Belarusian central bank.

In 2019 NBS was actively involved in an EU education and training programme focusing on Western Balkan central banks. In April NBS organised a three-day seminar in the field of statistics, and in December it hosted a meeting of the Programme Steering Committee.

9 Communication

Národná banka Slovenska strives to be a modern and open central bank which raises awareness about key issues and focuses on bringing up-to-date information about the Slovak and European economies to both the professional and general public. The Bank's communication priorities include strengthening its reputation and the way it is perceived both at home and abroad. The Bank must not only inform the public about its activities in innovative, direct and easy-to-understand ways, but also provide current information about the European Central Bank (ECB), monetary policy, finance, and consumer protection, as well as information about financial education and how to increase financial literacy. The Bank's outward communication efforts were stepped up in 2019 – both visually, through light displays projected on the NBS building to mark significant occasions, and in terms of the Bank's presence on social media platforms, which are particularly suited to increasing the frequency of the Bank's messages and to expanding overall communication about other areas of its activities.

Featuring prominently in the Bank's communication activity in 2019 were the 10th anniversary of the introduction of the euro in Slovakia and, concerning the Bank itself, the updating of the NBS logo. A major communication topic throughout the euro area, including Slovakia, was the entry into circulation of the new €100 and €200 banknotes. These banknotes, the last in the Europa (E2) series, started circulating on 28 May 2019. The Slovak public were given a preview of the new banknotes' designs at the NBS Open Day in 2018.

On the last weekend in September 2019, NBS took part for the first time in Biela noc / White Night, a popular multi-genre contemporary art festival in Slovakia. An artistic installation of light beams, entitled "Play of light", made the NBS headquarters building appear like a lighthouse.

Financial literacy was a key focus of the Bank's communication activity in 2019, especially in the second half of the year with the publication of "The Financial Literacy Support Strategy of Národná banka Slovenska". As regards an issue that attracted extensive media coverage in 2019 – the 30th anniversary of the Velvet Revolution – the Bank produced a webpage for the occasion (www.nbs.sk/november89) which featured historical data, photographs, document scans, statistics, and calculations. The page provided information about the Czechoslovak banking system in that tumultuous year, the exchange rate of the Czechoslovak koruna, banknote issuance, and the day-to-day life of bank employees. The celebrations of the occasion included a light display on the NBS headquarters building.

Among the important economic issues that attracted broad media attention were NBS measures to change lending volumes and the Bank's commentaries on the Slovak Government's proposal to increase the bank levy.

9.1 External communication

The Bank may be contacted by email at the addresses provided on its website. In 2019 it received 3,734 emails, including requests for information, suggestions, and complaints (about supervised entities). A total of 3,164 emails were received at the addresses dedicated to communication with the public: info@nbs.sk and webmaster@nbs.sk. Another 38 were requests for information under the Freedom of Information Act (No 211/2000), received at infozakon@nbs.sk. The rest, 532, 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.

Professional events and exhibitions

In 2019 the Bank marked the 10th anniversary of the introduction of the euro in Slovakia. In January it hosted an international conference entitled "10 years of the €uro in Slovakia", which evaluated the Slovak experience of ten years of euro area membership and the future direction of the euro area.

A conference focusing on the challenges facing the insurance sector took place in Bratislava in April 2019. The "Joint Conference on Synergies between Insurance and Pensions" was hosted by Národná banka Slovenska in cooperation with the Organisation for Economic Co-operation and Development (OECD), the International Association of Insurance Supervisors (IAIS), and the International Organisation of Pension Supervisors (IOPS).

In May 2019 the Bank, together with the company Humusoft, s.r.o., held an expert conference whose purpose was to inform the professional public about the possibilities for using computational tools in the financial sector and in macroeconomic modelling.

In November the NBS headquarters was the venue for a seminar entitled "Sporiteľ na prvom mieste: Ako zreformovať druhý dôchodkový pilier na Slovensku?" (Putting savers first: How to reform the second pension pillar in Slovakia?). The event was attended by NBS Deputy Governor Ľudovít Ódor and by Pavol Povala from Norges Bank Investment Management.

In December 2019 the Bank joined with the Slovak Finance Ministry's Institute for Financial Policy (IFP), the Council for Budget Responsibility

(CBR), and the Ministry's Value for Money Unit to hold a discussion event called "Rozpočet 2.0: Ako posunúť Slovensko do prvej ligy vo verejných financiách" (Budget 2.0: How to move Slovakia into the top league of public finances). The purpose of the event, attended by economic experts, politicians and analysts, was to initiate a constructive dialogue on public finances. Among the speakers were NBS Governor Peter Kažimír, NBS Deputy Governor Ľudovít Ódor, Slovak Finance Minister Ladislav Kamenický, Value for Money Unit Director Štefan Kišš, IFP Director Eduard Hagara, CBR Chairman Ivan Šramko and CBR member Juraj Kotian. The afternoon session was devoted to discussions between political parties' representatives, including Caroline Lišková, Miroslav Beblavý, Ivan Švejna, Eduard Heger, Tomáš Meravý, Štefan Holý, Ján Remeta, Radomír Šalitroš and Marián Viskupič.

To mark the 75th anniversary of the Slovak National Uprising (SNP), the Bank held an exhibition entitled "Slovak National Uprising Heroes from Slovenská národná banka". The exhibition included original documents showing the extent to which employees and senior officials of the first Slovak central bank – Governor Imrich Karvaš prominent among them – participated in the Uprising, including their role in financing and organising the insurgents. Also on display were photographs from the TASR domestic news agency and from the SNP Museum in Banská Bystrica (from the Museum's exhibition entitled "Vstali z popola" (They rose from the ashes)).

9.2 Internal communication

Internal communication activities focus on keeping NBS employees informed about what is happening in the Bank. In 2019 these activities included information campaigns for environmental initiatives, for the Bank's new design manual and logo, and for IT-related changes. A new channel of communication was introduced in the form of the Governor speaking to the staff via videos shown on the Bank's intranet. In this way the Governor informed the staff about issues important for the running of the Bank and for its role as an employer.

In 2019 the Bank held a Charity Christmas Market at its headquarters for the second year running. The event offered both NBS staff and members of the public a chance to buy products from sheltered workshops. All the proceeds went to people with disabilities.

During the year NBS staff took part in several internal events aimed at strengthening team spirit by combining work and leisure activities. These included, for example, social dinners, hikes for staff and their family members, and the Bank's annual Sport and Leisure Day.

9.3 Publications and website

Národná banka Slovenska publishes its own official publications at monthly, quarterly and annual intervals. In addition, it participates in the drafting of Slovak language versions of the ECB's Economic Bulletin, Annual Report, and Annual Report on supervisory activities. As regards information and promotional materials for the general public, in 2019 the Bank published a leaflet entitled "Národná banka Slovenska – Eurosystem" in both Slovak and English versions, a set of leaflets on euro banknotes called "Poznaj svoje peniaze" (Know your money), a jigsaw puzzle and activity book related to the new €100 and €200 banknotes, and a user guide for the Generation €uro Students' Award. In the same year, the Bank also published nine working papers, 12 analytical commentaries, and 127 flash commentaries. All of the Bank's official and specialist publications are available on the NBS website in PDF format. Following a review of its communication activities vis-à-vis the public, the Bank decided in 2019 to discontinue the publication of Biatec, a bimonthly banking journal, with effect from the end of the year.

Work on revamping several sections of the NBS website continued in 2019, with the aim of improving the clarity and navigability of webpages. The Bank also commissioned an in-depth analysis of the website's content, which then served as the basis for a public procurement procedure for a future new NBS website. In 2019 the website had more than 2.8 million visitors, representing a year-on-year increase of around 7%. The number of page views stood at around 15.7 million, similar to the figure for 2018.

9.4 Museum of coins and medals in Kremnica

Established in 1890 and today administered by Národná banka Slovenska, the Museum of Coins and Medals in Kremnica maintains collections which altogether include almost one hundred thousand items. The most interesting items are on public display at the Townhouse (Meštiansky dom) and at the Town Castle (a complex of buildings with St Catherine's Church at the centre). The Townhouse exhibition is entitled "Two Faces of Money: Money and Medal-Making in the History of Slovakia". Until 30 September 2019 the Townhouse also had an exhibition entitled "The Charm of Stoneware Gardens: The Kremnica Stoneware Factory between 1815 and 1956", which ran from 3 April 2013 and attracted almost thirty thousand visitors in total.

In September the Museum organised an international numismatic conference called "NUMISMATICA CENTROEUROPAEA IV", which, compared with the previous editions of this event, drew a record number of participants: more than 80 people from 11 countries. The main theme of the 2019 conference was "War and Peace in the History of Money". In 2019 the Museum Gallery hosted six art exhibitions: "Cesta kremnickej čipky" (The Journey of Kremnica Lace); "Pavol Hammel – Melódia farieb"(A Melody of Colours); "Sebastian Mikołajczak – AVERZ / REVERZ" (OBVERSE / REVERSE); "Kremnické gagy 2019 – Karikaturisti" (Kremnica Gags 2019 – Caricaturists); "Stanislav Lubina a Jozef Vydrnák – Dialóg s linkou" (Dialogue with a Line); and "Textilná tvorba 2019" (Textile Creations 2019). The Two Faces of Money exhibition also included an exhibition of jewellery artworks created at the 25th International Symposium of Jewellery Art held in Kremnica in 2019.

The Museum's exhibition events are also accompanied by educational programmes and creative workshops. One such programme introduced in 2019 was Music Hour at the Museum, which took place at St Catherine's Church and focused on a presentation of the organ and on the interpretation of various pieces of organ music.

In 2019 the Museum participated in the 15th edition of the collectors fair Bratislava Collector Days, and it contributed items from its collections to three exhibitions abroad: one in Prague entitled "Český a římský král Václav IV. – Gotické umění krásného slohu kolem roku 1400" (Wenceslas IV, King of Bohemia and King of the Romans – Gothic Art of the Beautiful Style circa 1400); one in Vienna entitled "Johanna Kandl Materiál: Čím sa maľuje a prečo" (Johanna Kandl – Material: What We Paint With and Why); and one in Magdeburg, Germany, entitled "Fascinácia mestom – urbanizácia Európy v stredoveku a Magdeburské právo" (City Fascination – Urbanisation in Medieval Europe and the Magdeburg Rights).

Spring Concert at St Catherine's Church

August's Museum Stories event

In 2019 the Museum as usual participated in the annual Slovak-wide Night of Museums and Galleries event. Among the other events that it put on for the public in 2019 were a Spring Concert and a series of family events: The Charm of Ceramics; Picnic at the Castle; Museum Stories; and Summer

Christmas at the Castle

Advent Concert – Christmas Janais

Night of the Muses – Spectres at the Castle. The Museum's summer programme also included an annual concert held as part of the Capalest festival of poetry, theatre and music. As its contribution to European Heritage Days – a Europe-wide event which in 2019 was held under the theme "Art and Entertainment" – the Museum hosted an art history lecture ("The Beauty of Medieval Statues") and a concert.

In cooperation with the Banská Bystrica Self-Government Region and the Ján Kollár Library in Kremnica, the Museum in 2019 organised an event called Kremnica zrakom a slovom Mateja Bela, rozprávanie o histórii Kremnice v 18. storočí (Kremnica through the Eyes and Words of Matej Bel – Recounting the History of Kremnica in the 18th Century). In autumn, the Museum held an event for children called Children's Halloween and one for pensioners called Autumn at the Museum. Towards the end of the year, the Museum's events included Meeting St Nicholas, Christmas Mini-Market with Advent Concert, and Christmas at the Castle.

During 2019 more than sixty thousand people from Slovakia and abroad visited the Museum's various exhibitions and events.

10 Institutional developments

10.1 Institutional framework

Národná banka Slovenska was established as the independent central bank of Slovakia on 1 January 1993. When Slovakia adopted the euro, on 1 January 2009, the Bank simultaneously joined the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks of euro area countries. The NBS Governor is a member of the ECB's Governing Council, the Eurosystem's highest decision-making body.

Among the ways in which the Bank contributes to the activities of the Eurosystem and the European System of Central Banks (ESCB) is through its involvement in committees and working groups, including the following:

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

10.2 Organisation and management

The Bank Board of Národná banka Slovenska

The Bank Board is the highest governing body of Národná banka Slovenska. Its authority and powers are specified in the NBS Act, in other legislation of general application, and in the NBS Organisational Rules.

In 2019 the Bank Board consisted of five members.

The Governor and Deputy Governor(s) 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.

Under the NBS Act, the maximum number of Bank Board members has been set at six since 1 January 2015. 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.

At its 20th meeting of 2019, held on 21-22 October, the Bank Board decided to publish the net income of its members, which includes, in addition to their net salary, all the allowances, benefits, bonuses and other emoluments that they receive from Národná banka Slovenska. As at 31 December 2019 there were no outstanding loans from NBS to a Bank Board member, as was also the case at the end of 2018.

The Bank Board members as at 31 December 2019:
- Peter Kažimír, Governor (from 1 June 2019)
- Ľudovít Ódor, Deputy Governor
- Vladimír Dvořáček, Executive Director of the Prudential Supervision Division
- Karol Mrva, Executive Director of the Risk Management, Settlement, Payment Systems and Cash Management Division;
- Ľuboš Pástor, external member.

Jozef Makúch, in his then capacity as NBS Governor, was a member of the Bank Board until 1 June 2019.

Table 13 Net income of Bank Board members

Name	Position	Net income for 2019
Peter Kažimír	Governor	98,271
Ľudovít Ódor	Deputy Governor	146,359
Karol Mrva	Executive Director	116,310
Vladimír Dvořáček	Executive Director	116,462
Ľuboš Pástor	External member	36,171

The Executive Board of Národná banka Slovenska

The Executive Board of Národná banka Slovenska was established by the 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 Bank Board members as at 31 December 2019

Front row (from the left): Ľudovít Ódor (Deputy Governor), Peter Kažimír (Governor). Back row (from the left): Vladimír Dvořáček (Executive Director of the Prudential Supervision Division), Karol Mrva (Executive Director of the Risk Management, Settlement, Payment Systems and Cash Management Division), Ľuboš Pástor (external member).

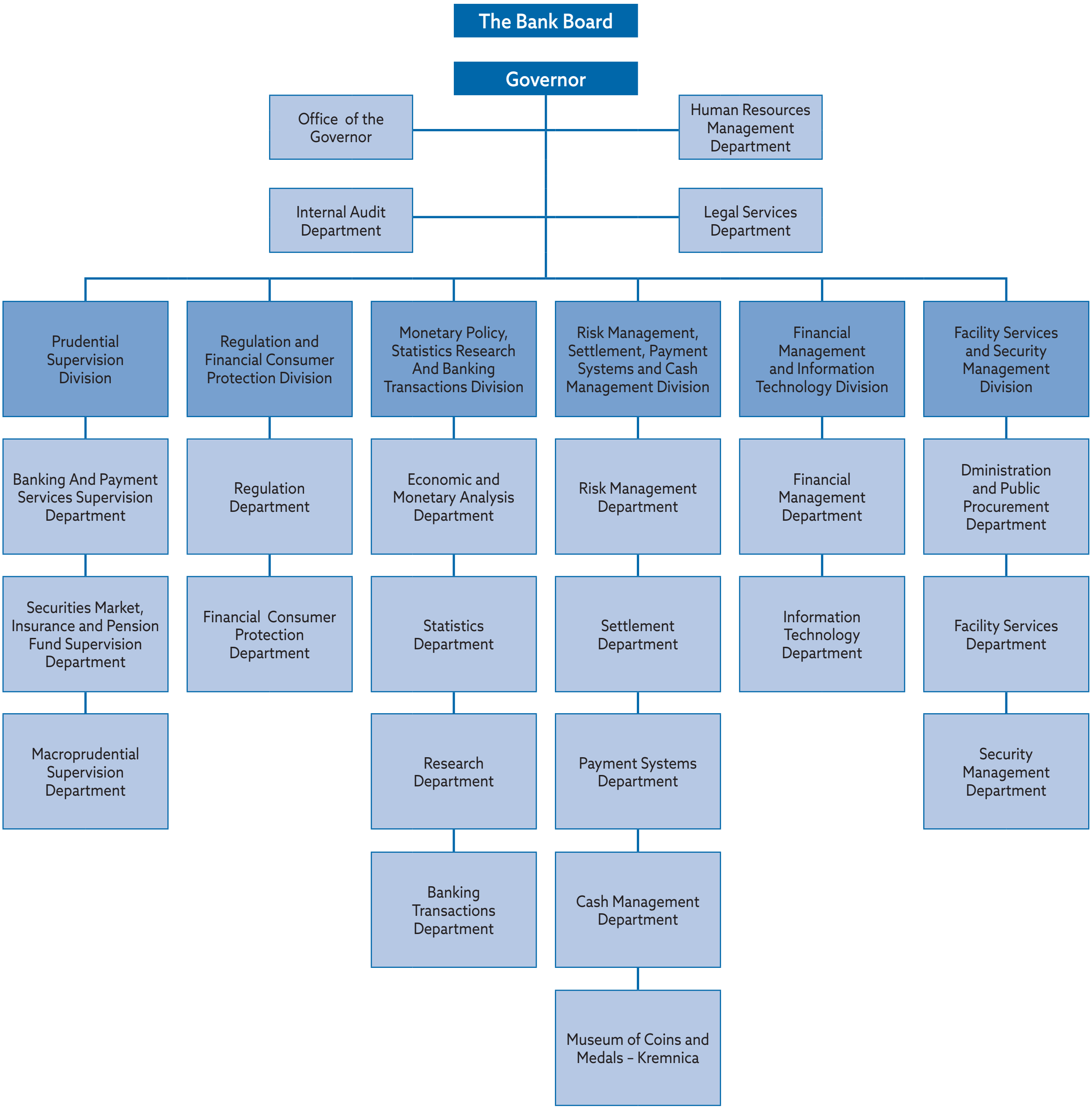
The Executive Board is composed of the NBS Governor, Executive Directors, and other senior managers appointed by the Governor.
The Executive Board members as at 31 December 2019:

- Peter Kažimír, Governor (from 1 June 2019)
- Karol Mrva, Executive Director of the Risk Management, Settlement, Payment Systems and Cash Management Division
- Vladimír Dvořáček, Executive Director of the Prudential Supervision Division
- Júlia Čillíková, Executive Director of the Regulation and Financial Consumer Protection Division
- Renáta Konečná, General Director of the Economic and Monetary Analysis Department
- Jaroslav Mikla, Executive Director of the Financial Management and Information Technology Division

The Executive Board membership of the following individuals ended in 2019:

- Jozef Makúch, Governor (until 1 June 2019)
- Viliam Ostrožlík, Executive Director of the Facility Services and Security Management Division (until 31 May 2019)

NBS organisational structure as at 31 December 2019



- Miroslav Uhrin, Executive Director of the Financial Management, Banking Transactions and Information Technology Division (until 6 June 2019)
- Janette Šamová, Executive Director of the Legal Services and Human Resources Division (until 30 September 2019)

Three amendments to the NBS Organisational Rules were approved in 2019, one of which took effect on 1 January 2020. The amendments resulted in changes to the NBS organisational structure and to the remits and names of certain organisational units.

10.3 Human resources

Národná banka Slovenska had 1,109 employees as at 31 December 2019. A total of 73 employees ended their employment with the Bank in 2019 and 79 were hired. There were 105 recruitment procedures for 108 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 18 NBS employees were on secondment during the whole or part of 2019, either at the ECB, the European Insurance and Occupational Pensions Authority (EIOPA) or the Cross-National Data Center in Luxembourg.

The conditions and forms of staff remuneration at the Bank are laid down in an internal work regulation. The average monthly salary in 2019 was €2,563.98, representing a year-on-year increase of 8.3%.

In 2019 severance payments were made to 28 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 929 as at 31 December 2019.

10.4 Ethical principles at národná banka Slovenska

In performing its duties and tasks, NBS strives to maintain the highest standards of ethical behaviour. In 2019 the Bank added a section on ethical principles to its website, with the aim of strengthening public confidence that its staff members act with independence, impartiality, professionalism and transparency.

On 1 January a single Code of Conduct for high-level European Central Bank Officials entered into force, replacing the separate codes of conduct for the ECB's Governing Council, Executive Board and Supervisory Board which had been in force up to that date. Like all other high-level ECB officials, NBS representatives on the Governing Council and Supervisory Board are bound by the Code of Conduct to ensure the highest standards of integrity.

10.5 Operational risk management

Operational risk management is an integral part of the management of NBS activities. The main role of operational risk management is to support the fulfilment of the Bank's strategic tasks and activities by protecting its reputation and assets from damage, loss or misuse.

The operational risk management process in the Bank continued in 2019 with the identification of operational risks or incidents in the Bank's processes, with the assessment, monitoring and resolution of such risks or incidents, with the submission of reports to NBS managers, and with the day-to-day management of risks that could have an adverse effect on the Bank's processes, systems, staff members or financial assets. In 2019 the NBS Bank Board approved the Annual Report on Operational Risk Management, on the basis of which operational risks were accepted or plans for their mitigation were proposed.

10.6 Training and public education activities

Professional training

Národná banka Slovenska provides for the training and development of its employees in accordance with their training and development plans for the current calendar year and with the current work situation of their respective unit.

A total of 1,043 NBS employees attended training courses laid on by the Bank in 2019. These courses were divided into six areas: professional training; management training and development; IT training; social skills training; language training; and general training.

In 2019 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 and the Financial Stability Institute.

In 2019 the Bank also supported the training and development of staff from other central banks by hosting seminars entitled "Credit Review File – Path of Analysis" and "English in Legal and Contractual Central Banking Practice" and a training activity entitled "Eurosystem Accounting and Reporting Framework".

Undergraduates from universities both in and outside the European Union completed internships at the Bank in 2019. The internship programme gives students the opportunity to develop their knowledge and gain valuable experience.

Every year a number of NBS employees support staff training and development by lecturing and performing consulting activities in their specialist fields.

Public education

In late 2019 NBS unveiled "The Financial Literacy Support Strategy of Národná banka Slovenska", presenting it on the NBS website, in media, at regional events, and in social media. This stepping-up of the Bank's communication effort was a response to the low financial literacy among the public in Slovakia, which results in people being dissatisfied with financial services and contributes to their financial difficulties. The Bank is firmly of the view that regulation, no matter how strict, cannot be sufficiently effective without financial education. We are therefore cooperating with several institutions and organisations to create a network of professionals to support education in this area. In this context, the Bank last year launched the pilot phase of an ambitious project that gives additional training to Slovak labour office field workers who come into contact with the poorest members of society (the project is entitled "Vzdelávanie terénnych pracovníkov Úradov práce, sociálnych vecí a rodiny").

In promoting financial literacy, the Bank also focuses on **formal education**, with regard to primary and secondary school students, and on non-formal education strategies for the adult population (education campaigns on practical and topical issues in the area of personal finance). For students, it organises talks on the main tasks of the central bank and on such topics as the euro currency, banknote and coin security features, Eurosystem monetary policy and the Slovak banking system, and financial consumer protection. In 2019 a total of 2,671 primary and secondary school students from 104 schools attended these talks and workshops. Also in 2019, NBS staff visited a symbolic ten selected schools to give a presentation entitled "Financial Literacy and the 10th anniversary of the euro". Both at its headquarters building and at schools in various towns and cities across Slovakia, the Bank organises workshops focused on financial literacy, personal finance, and helping students better understand the financial market. A total of 1,254 primary and secondary school students attended these workshops in 2019.

In 2019 the Bank also ran an online quiz aimed at supporting the general public's financial literacy, entitled "Máte finančnú gramotnosť v malíčku?" (Do you have financial literacy at your fingertips?). A total of 5,107 secondary school students took part in the quiz. Further information on financial literacy issues and financial consumer behaviour may be found in the Financial Consumer Protection section of the NBS website, at https://www.nbs.sk/sk/ofs.

Generation €uro Students' Award

The eighth edition of the ECB's annual Generation €uro Students' Award, held in 12 countries including Slovakia, was completed in 2019. Slovakia regularly ranks among the countries with the highest number of participating teams relative to national population, and in 2019 it ranked third by this measure.

A total of 96 teams from Slovakia entered the 2019 competition, and of the 39 teams that proceeded to the second round, 26 took part by sending a short video assignment entitled "Explain how and why the European Central Bank ensures price stability". The national final was won by a team from the Milan Hodža Bilingual Gymnasium in Sučany, and they joined the winning teams from the other participating countries at an award ceremony at the ECB in Frankfurt.

The NBS Governor's Award

The NBS Governor's Award is a regular competition for dissertations or doctoral theses in economics produced at universities in Slovakia or by Slovak citizens studying abroad. In January 2019 the then NBS Governor, Jozef Makúch, presented the award to the authors of three dissertations completed in 2018. In November NBS Governor Peter Kažimír presented the seventh NBS Governor's Award to three individuals for work produced in 2019, in this case two dissertations and one doctoral thesis.

Financial Consumer Days at NBS

On 23-24 October 2019 the Bank held its second ever Financial Consumer Days (FCD) event, with the topic this time being "*How should a responsible*

Financial Consumer Days 2019

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Interactive education at the NBS Convention Hall during the 2019 Financial Consumer Days event

consumer behave?". The purpose of the event was to broaden the financial literacy education of primary and secondary school students, working adults, and pensioners. Prior to the FCD, almost 10 thousand primary and secondary school students took part in FCD-related competitions, and the winning teams subsequently participated in the event itself. There were several activities prepared for the attending participants, including themed talks, interactive training, a 'financial consumer trail', a computer game, a moderated interactive game, and a magnetic table. Visitors to the event could also learn about banknote security features and how to identify counterfeit notes, and obtain advice for financial consumers.

Registry and archives

The Archives and Registry Section ensures the management of registry records created by and delivered to the Bank, managing them throughout their life cycle until they are either disposed of or permanently stored in the NBS Archives. The Bank's Registry Centre received 9,400 files in 2019, which was 80% more than it did in 2018.

At the end of 2019 NBS representatives participated in a meeting of archive staff from ESCB central banks in Frankfurt am Main, where they presented a novel solution for using QR codes and bar code readers for recording, storing, locating and scanning archival documents and for making such documents available for research.

In 2019, on the occasion of the issuance of a €10 silver collector coin commemorating the 150th anniversary of the birth of Michal Bosák, the NBS Archives staff prepared a presentation related to an exhibition of original archival documents about the life and work of Michal Bosák.

In 2019, for the first time ever, original documents from the NBS Archives were loaned abroad – for an exhibition at Špilberk Castle in the Czech Republic. The loaned documents comprised technical plans that the architect Friedrich Weinwurm produced between 1930 and 1932 for the Nová doba and Unitas residential complexes in Bratislava.

On 8 October 2019 NBS launched its Research Archive Portal. Users can find there a curated summary of information about the majority of the financial institutions whose fonds are stored in the NBS Archives, biographical information about key figures in the history of the Slovak financial sector, and information about the NBS Archives, including its activities and the services it provides to the public. The portal is unusual in that it is targeted at both the general public and NBS employees. It is a means to obtain information about archival documents and to make online reservations for visits to the Archives reading room and for documents retrieved through electronic finding aids.

In 2019 the NBS Archives received 37 research visits, while the Registry and Archives Section handled more than 400 external and internal requests. The external requests were mostly for documents concerning property rights in former financial institutions. As regards the archival fonds, there was significant interest from abroad in the extensive Collection of Securities , which so far contains 1,903 share and bond certificates issued by various domestic and foreign legal entities between 1843 and 1996.

Library

The NBS Documentation Centre, otherwise known as the NBS library, provides library and information services, including research, consultation and lending services. It serves NBS employees as well as external professionals and students studying economics and related subjects. The Bank's employees can request the library to provide specialist books, periodicals and daily press as well as access to databases.

In 2019 users of the library's online catalogue made 5,426 searches and downloaded 1,200 electronic documents. The terms most frequently searched in 2019 were in the areas of payment services, financial markets, central banking history, indirect taxation, and financial consumer protection. Work continued in 2019 on building up the library's collection of publications from domestic and foreign sources. During the year the library staff processed more than 4,875 new records, made 1,914 loans, and handled 64 research queries.

As for its involvement in the 2019 Week of Slovak Libraries event, the NBS library prepared a programme for NBS employees which included a presentation of the library's services and recent innovations and of suppliers of specialist knowledge databases.

With the aim of building relations and professional cooperation, NBS in 2019 participated in the *10th ESCB/SSM Information management network meeting: Digital, the new typical*, held in Frankfurt am Main. The NBS representatives at the meeting presented some of the knowledge they had gained from practice.

10.7 Enviromental policy

Národná banka Slovenska takes a responsible approach to environmental issues and is fully compliant with legislation concerning environmental matters. At the same time, the Bank participates in environmental protection and addresses challenges presented by climate change. Environmental protection is a facet of the Bank's day-to-day operations and processes.

In 2019 the Bank engaged in numerous activities aimed at raising environmental awareness. For a start, it became a member of the Network for Greening the Financial System (NGFS), a coalition of the willing that currently comprises 46 central banks and supervisory authorities. The coalition promotes investment in the low-carbon economy and the use of funding to mitigate the impact of climate change. The Bank also supported several initiatives at both the international level (*Earth Hour* and *Earth Day*) and across Slovakia (*Bike to Work*). A campaign to get NBS staff to reduce their use of disposable plastic cups proved a big success – each employee was given a ceramic mug and the result was an immediate drop in plastic cup consumption. As part of this initiative, the plastic cups in the Bank's coffee vending machines were replaced with recyclable paper cups. Furthermore, the provision of drinks in PET bottles at discussions and meetings in the Bank was reduced and the provision of drinks in glass bottles was increased.

The Bank also helped improve the working environment of its employees by increasing the greenery, which included planting trees in terrace areas and plants in front of the building.

The regular servicing and inspections of the Bank's technological equipment are compliant with preventive measures aimed at ensuring their safe, economical, and environmentally friendly operation. In procuring and purchasing IT and office equipment and other goods, work and services, the Bank ensures that environmental specifications and requirements are included in contract notices and that they are taken into account in the offer evaluation criteria and in the contractual terms and conditions. In this way, NBS demonstrates its preference for energy-saving and environmentally sustainable products and services. In 2019 the bank further reduced its electricity consumption by continuing the installation of a new lighting system in its regional offices, replacing their old lighting with eco-friendly LED lights. In 2019 the Bank also made improvements to the comfort and safety of its workplaces.

At the NBS Regional Office in Nové Zámky, the replacing of gas boilers with new condensing boilers in 2019 resulted in a reduction in gas consumption and a 20% cut in CO2 emissions. At the Bank's headquarters, the car wash's wastewater treatment system was replaced with a system that features sand filtration and does not involve damaging chemical substances. The four new cars purchased for Bank's car pool in 2019 all fulfilled the new Euro 6d emission standard. At all its premises, the Bank prefers to use toilet paper and paper towels made with recycled paper, eco-friendly cleaning products, and, to an increasing extent, mechanical cleaning procedures. All the Bank's waste is disposed of in compliance with the requirements of municipal waste separation, mainly in regard to the separation of paper, glass and plastic waste. All the Bank's waste is disposed of by contracted waste disposal companies that meet legislative criteria for waste disposal.

Independent auditor's report and Financial Statements of NBS as at 31 December 2019

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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 2019, 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 2019, 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 as amended (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.

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.

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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.

We communicate with those charged with governance about, inter alia, the planned scope and time schedule of the audit and significant audit findings, including all material deficiencies of internal control identified during our audit.

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 2019 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, 3 March 2020

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

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

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

(in thousands of EUR)

BALANCE SHEET

of Národná banka Slovenska

ASSETS	Note	31 Dec 2019 EUR '000	31 Dec 2018 EUR '000
A1 Gold and gold receivables	1	1,379,644	1,142,102
A2 Claims on non-euro area residents denominated in foreign currency	2	9,103,406	7,093,274
A3 Claims on euro area residents denominated in foreign currency	3	874,462	877,053
A4 Claims on non-euro area residents denominated in euro	4	2,766,448	2,025,916
A5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	533,540	1,166,540
A6 Other claims on euro area credit institutions denominated in euro	6	15,070	16,529
A7 Securities of euro area residents denominated in euro	7	22,406,480	22,276,945
A8 General government debt denominated in euro		0	0
A9 Intra-Eurosystem claims	8	10,157,079	10,492,010
A10 Items in course of settlement		0	0
A11 Other assets	9	5,047,053	5,068,450
A12 Loss for the year		0	0
TOTAL ASSETS		**52,283,182**	**50,158,819**
LIABILITIES			
L1 Banknotes in circulation	10	13,670,747	12,428,298
L2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	3,012,873	2,282,672
L3 Other liabilities to euro area credit institutions denominated in euro	12	1,532,155	2,371,382
L4 Debt certificates issued		0	0
L5 Liabilities to other euro area residents denominated in euro	13	967,858	973,855
L6 Liabilities to non-euro area residents denominated in euro	14	25,249,177	25,113,626
L7 Liabilities to euro area residents denominated in foreign currency	15	1,063,593	1,557,192
L8 Liabilities to non-euro area residents denominated in foreign currency	16	2,892,800	1,912,559
L9 Counterpart of special drawing rights allocated by the IMF	17	420,114	413,818
L10 Intra-Eurosystem liabilities	18	918,315	884,468
L11 Items in course of settlement		0	0
L12 Other liabilities	19	453,213	463,235
L13 Provisions	20	675,931	675,559
L14 Revaluation accounts	21	856,544	552,022
L15 Capital and reserves	22	357,797	357,797
L16 Profit for the year	35	212,065	172,336
TOTAL LIABILITIES		**52,283,182**	**50,158,819**

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)

PROFIT AND LOSS ACCOUNT
of Národná banka Slovenska

	Note	31 Dec 2019 EUR '000	31 Dec 2018 EUR '000
1.1 Interest income		399,746	320,899
1.2 Interest expense		(169,116)	(114,720)
1 Net interest income	24	**230,630**	**206,179**
2.1 Realised gains/(losses) arising from financial operations		16,444	16,328
2.2 Write-downs on financial assets and positions		(45,471)	(38,314)
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	**(29,027)**	**(51,986)**
3.1 Fee and commission income		2,464	2,752
3.2 Fee and commission expense		(1,353)	(1,111)
3 Net income/(expense) from fees and commissions	26	**1,111**	**1,641**
4 Income from equity shares and participating interests	27	**24,668**	**17,603**
5 Net result of pooling of monetary income	28	**91,995**	**99,658**
6 Other income	29	**22,828**	**16,044**
Total net income		**342,205**	**289,139**
7 Staff costs	30	**(53,455)**	**(47,456)**
8 Administrative expenses	31	**(25,124)**	**(23,369)**
9 Depreciation of tangible and intangible fixed assets	32	**(9,243)**	**(9,022)**
10 Banknote production services	33	**(3,383)**	**(4,911)**
11 Other expenses	29	**(3,859)**	**(3,161)**
12 Income tax and other government charges on income	34	**(35,076)**	**(28,884)**
PROFIT	35	**212,065**	**172,336**

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NOTES

to the Financial Statements as at 31 December 2019

Bratislava, 3 March 2020

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 2019, the Bank Board had the following structure:

Name	Term of Office in the Bank Board		Current Position
	From	Until	
Ing. Peter Kažimír	01/06/2019	01/06/2025	Governor
Mgr. Ľudovít Ódor	20/02/2018	20/02/2024	Deputy Governor
RNDr. Karol Mrva	01/06/2012	02/06/2023	Member
Ing. Vladimír Dvořáček	02/04/2014	03/04/2025	Member
prof. Mgr. Ľuboš Pástor, M.A. PhD.	15/03/2015	15/03/2021	Member

The term of doc. Ing. Jozef Makúch ceased as at 1 June 2019.

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 as amended (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. 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 or a method defined for the relevant financial instrument 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 and cross-currency 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"), the corporate sector purchase programme ("CSPP") 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 equity fund denominated in CNY ("BISIP") and Exchange Traded Funds denominated in USD ("ETF"), 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 equity fund is valued at the net asset value of the fund provided by the Bank for International Settlements ("BIS") in Basel, Switzerland on a monthly basis. The ETF funds are valued at mid-market prices on a monthly basis for each security (ISIN) separately.

(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 2019, were as follows:

Currency	31 Dec 2019	31 Dec 2018	Change
GBP	0.85080	0.89453	(0.04373)
USD	1.12340	1.14500	(0.02160)
JPY	121.94000	125.85000	(3.91000)
XDR	0.81044	0.82277	(0.01233)
CNY	7.82050	7.87510	(0.05460)
EUR/ozs*	1,354.104	1,120.961	233.14300

* 1 ozs (troy ounce) = 31.1034807 g

(c) Accounting and recognition of income

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 mid-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 and cross-currency 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 and 14). 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

Foreign exchange 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 paid or received interest that is accrued.

The forward position of foreign exchange 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 individually for each transaction based on generally accepted valuation models using corresponding yield curves derived from quoted interest rates.

For cross-currency swaps, the provisions are applied separately to the foreign exchange and interest rate legs of the swap. Forward and spot purchases and sales of cross-currency swaps are recognised in balance-sheet accounts at the respective settlement date at the spot rate of the transactions. They are included in the net currency position to calculate the average cost of the currency position and foreign exchange gains and losses. Interest payments are agreed upon in regular instalments in two different currencies. Interests paid and received are accrued on a daily basis. The same rules as for interest rate swaps apply to the valuation of the interest rate leg.

For interest rate, foreign exchange or cross-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 contractually agreed with selected counterparties. The interest is settled monthly (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. Income 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 1.0575% (1.0095% until 31 December 2018). 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. They are disclosed under "Intra-Eurosystem claims or liabilities".

Interest income or interest expense from these claims/liabilities is disclosed net in the Bank's profit and loss account under "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.

(in thousands of EUR)

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.

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 a 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 financial risks to hedge against foreign exchange rate, interest rate, credit, equity risks and gold price risks (see Notes 20 and 25), which is presented in the Bank's equity.

The level of the provision is reassessed at year-end and is based on the estimated potential loss using the Expected Shortfall at the confidence level of 99% in a one-year horizon, taking into account the simulation of potential scenarios of financial markets developments in relation to the positions of the financial instruments held by the NBS.

The provision also reflects the NBS's share of credit risks resulting from monetary policy operations and the Eurosystem intervention purchase programmes, and when compared to the previous period, the Bank adjusted the methodology for calculating the estimated level of the provision to cover potential losses from credit risks. The share of the NBS on the ECB's risks and monetary policy portfolios credit risks, of which gains and losses are shared by the Eurosystem central banks, are derived from the outputs generated by the ECB as part of the regular analysis of financial risks and buffers of the Eurosystem national central banks. The estimated provision to cover a potential loss from the credit risks of other monetary policy portfolios and investment portfolio of the Bank is calculated at the NBS level.

For the risk assessment calculations, the financial positions are considered at market prices except for monetary policy portfolios, which are taken at amortised cost from accounting books. In accordance with the approved approach, the Bank Board may reflect on additional factors that are expected to have an impact on the risk value when making a decision on the final level of the provision.

(in thousands of EUR)

The rationale and the level of this provision is reassessed on an annual basis and is subject to the approval of the Bank Board. Based on the Bank Board's decision, the provision is used to cover future losses from financial activities.

(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.

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

1. Gold and gold receivables

	31 Dec 2019	31 Dec 2018	Change
Gold in repo transactions	1,373,718	1,137,196	236,522
Gold stored in banks	3,795	3,142	653
Gold in stock	2,131	1,764	367
	1,379,644	**1,142,102**	**237,542**

As at 31 December 2019, gold totalled 1,019 thousand t oz. (1,019 thousand t oz. as at 31 December 2018), 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 2019, the market price of gold was EUR 1,354.104 per t oz. (EUR 1,120.961 per t oz. as at 31 December 2018). 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 2019	31 Dec 2018	Change
Receivables from/Payables to the IMF	632,674	585,016	47,658
Balances with banks and security investments, external loans and other external assets	8,470,732	6,508,258	1,962,474
	9,103,406	**7,093,274**	**2,010,132**

(in thousands of EUR)

Receivables from / Payables to the International Monetary Fund

	31 Dec 2019		31 Dec 2018		
	Equivalent XDR million	EUR '000	Equivalent XDR million	EUR '000	Change EUR '000
Receivables from the IMF:	**1,315**	**1,624,628**	**1,301**	**1,580,244**	**44,384**
1) Member's quota	1,001	1,236,729	1,001	1,215,672	21,057
a) Member's contribution	803	991,954	820	995,228	(3,274)
b) Reserve position	198	244,775	181	220,444	24,331
- Foreign exchange part of Member's quota	138	170,247	138	167,695	2,552
- Reserve position of FTP	60	74,528	43	52,749	21,779
2) Nostro account in the IMF	314	387,899	300	364,572	23,327
Payables to the IMF:	**803**	**991,954**	**820**	**995,228**	(3,274)
1) Loro accounts in the IMF	803	991,557	803	974,636	16,921
2) Currency valuation adjustment account	0	397	17	20,592	(20,195)
Total reported amount (net)	**512**	**632,674**	**481**	**585,016**	**47,658**

Within the Financial Transaction Plan (hereinafter the "FTP"), the NBS received two instalments totalling XDR 13 million and provided a loan in the amount of XDR 30 million in 2019, thus, increasing the FTP reserve position. As a result of the above transactions, the structure of the Member's quota changed, although its level remained unchanged.

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 851,935 thousand (EUR 813,935 thousand as at 31 December 2018).

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

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

	31 Dec 2019	31 Dec 2018	Change
Debt securities	4,185,500	2,827,791	1,357,709
Other	4,285,232	3,680,467	604,765
	8,470,732	**6,508,258**	**1,962,474**

The caption "Debt securities" mainly consists of securities denominated in USD, GBP, CHF, CNY and JPY. As at 31 December 2019, the Bank mainly recorded securities issued by monetary financial institutions. An increase in the volume is related to the purchase of securities.

The caption "Other" mainly includes cash on nostro accounts in foreign currency. An increase in the caption "Other" is related to foreign exchange swaps.

(in thousands of EUR)

3. Claims on euro area residents denominated in foreign currency

	31 Dec 2019	31 Dec 2018	Change
Debt securities	873,564	875,675	(2,111)
Current accounts	898	1,378	(480)
	874,462	**877,053**	**(2,591)**

The caption "Debt securities" consists of securities denominated in GBP, USD, CHF and JPY. As at 31 December 2019, the Bank mainly recorded securities issued by monetary financial institutions.

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

	31 Dec 2019	31 Dec 2018	Change
Debt securities	2,763,993	2,025,434	738,559
Current accounts	2,455	482	1,973
	2,766,448	**2,025,916**	**740,532**

As at 31 December 2019, the Bank mainly recorded securities issued by monetary financial institutions.

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

	31 Dec 2019	31 Dec 2018	Change
Main refinancing operations	0	101,000	(101,000)
Longer-term refinancing operations (LTRO)	8,000	0	8,000
Targeted longer-term refinancing operations (TLTRO II)	525,540	1,065,540	(540,000)
	533,540	**1,166,540**	**(633,000)**

As at 31 December 2019, the Bank recognised longer-term refinancing operations (LTRO) conducted through standard tenders with a maturity of 3 months.

Within longer-term operations, the Bank recognised targeted longer-term refinancing operations (TLTRO II) with a maturity in 2020 and 2021. A decrease in the caption is related to a partial early repayment of loans in 2019. Targeted longer-term refinancing operations are intended to support bank lending to the non-financial private sector, excluding loans to households for purchases of residential real estate. The agreed final interest rate for these operations is a negative interest rate of -0.40% p.a.

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 2019	31 Dec 2018	Change
Redistribution loan	13,195	15,828	(2,633)
Current accounts	697	701	(4)
Deposits provided for repo transactions	1,178	0	1,178
	15,070	**16,529**	**(1,459)**

(in thousands of EUR)

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 2019, the interest rate for the redistribution loan remained at 0.50% p.a. (0.50% p.a. as at 31 December 2018).

As at 31 December 2019, the NBS recorded a state guarantee for the provided redistribution loan in the amount of EUR 13,600 thousand on the off-balance sheet (EUR 16,350 thousand as at 31 December 2018). 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 2019	31 Dec 2018	Change
Securities held for monetary policy purposes	21,986,683	21,573,530	413,153
Other securities	419,797	703,415	(283,618)
	22,406,480	**22,276,945**	**129,535**

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 within the CBPP1 programme and the SMP programme was terminated in June 2010 and in September 2012, respectively. The CBPP3 programme was announced by the Governing Council of the ECB in October 2014. The PSPP programme was announced by the Governing Council of the ECB in January 2015. On 1 November 2019 the Eurosystem restarted its net purchases of securities under the APP, which includes CBPP3, PSPP, ABSPP and CSPP, at a monthly pace of €20 billion on average. This followed a period of ten months since end-2018 during which the Eurosystem only reinvested, in full, the principal payments from maturing securities purchased under these programmes. For the PSPP government bonds, the allocation of reinvested securities was adjusted on a regular basis in order to achieve compliance with the share on the ECB's paid-up capital. The Governing Council expects net purchases to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council also intends to continue the reinvestments for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Income on securities with a source in the Slovak Republic is net of withholding tax (see Note 34).

Securities purchased 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 provided for comparison purposes only):

(in thousands of EUR)

	31 Dec 2019		31 Dec 2018		Change	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
CBPP1	10,000	10,017	9,994	10,444	6	(427)
CBPP3	2,051,919	2,108,527	2,085,143	2,113,588	(33,224)	(5,061)
SMP	88,358	105,344	183,288	203,662	(94,930)	(98,318)
PSPP gov.	9,523,063	10,158,723	8,898,258	9,133,327	624,805	1,025,396
PSPP supr.	10,313,343	10,627,116	10,396,847	10,354,207	(83,504)	272,909
	21,986,683	**23,009,727**	**21,573,530**	**21,815,228**	**413,153**	**1,194,499**

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities held 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. Based on the results of the impairment test on securities held for monetary policy purposes performed as at 31 December 2019 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 losses from monetary policy operations (see Note 20).

Other securities

Under this caption, as at 31 December 2019, the Bank recognised securities held for trading issued by the euro area monetary financial institutions.

8. Intra-Eurosystem claims

	31 Dec 2019	31 Dec 2018	Change
Participating interest in ECB	282,754	262,722	20,032
Claims equivalent to the transfer of foreign reserves	463,840	447,672	16,168
Other Intra-Eurosystem claims (net)	9,410,486	9,781,616	(371,130)
	10,157,080	**10,492,010**	**(334,930)**

Participating interest in the ECB

As at 31 December 2019, the Bank recorded a participating interest in the ECB's subscribed capital of EUR 86,643 thousand (31 December 2018: EUR 83,623 thousand) and a claim of EUR 41,897 thousand from the changes of its participating interest in the ECB's net equity (31 December 2018: EUR 24,885 thousand). The change resulted from the regular five-year revision of participating interests of the Eurosystem national central banks as at 1 January 2019 in accordance with Article 29 (3) of the Statute. The NBS's capital key was adjusted from 0.7725% to 0.8004%.

In accordance with Article 48 (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.

Claims equivalent to the transfer of foreign reserves

Under the five-year revision of participating interests of the national central banks, the NBS records a claim from the transfer of foreign reserves to the ECB of EUR 463,840 thousand as at 31 December 2019 (EUR 447,672 thousand as at 31 December 2018), in accordance with Article 30 (1) of the Statute. The claim bears interest at 85% of the rate for the main refinancing operations. As at 31

(in thousands of EUR)

December 2019, the Bank recorded no interest income from the claim from the transfer of foreign reserves due to the interest rate of 0% p.a. As at 1 January 2019, the NBS's Eurosystem key was adjusted from 1.0974% to 1.1497%.

As at 31 December 2019, 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 Capital (EUR)	Paid-up Capital (EUR)	Eurosystem Key (%) - Share on the ECB's Paid-up Capital
Banque National de Belgique	2.5280	273,656,178.72	273,656,178.72	3.6313
Eesti Pank	0.1968	21,303,613.91	21,303,613.91	0.2827
Deutsche Bundesbank	18.3670	1,988,229,048.48	1,988,229,048.48	26.3827
Central Bank and Financial Services Authority of Ireland	1.1754	127,237,133.10	127,237,133.10	1.6884
Bank of Greece	1.7292	187,186,022.25	187,186,022.25	2.4839
Banco de España	8.3391	902,708,164.54	902,708,164.54	11.9784
Banque de France	14.2061	1,537,811,329.32	1,537,811,329.32	20.4059
Banca d'Italia	11.8023	1,277,599,809.38	1,277,599,809.38	16.9530
Central Bank of Cyprus	0.1503	16,269,985.63	16,269,985.63	0.2159
Latvijas Banka	0.2731	29,563,094.31	29,563,094.31	0.3923
Lietuvos bankas	0.4059	43,938,703.70	43,938,703.70	0.5830
Banque centrale du Luxembourg	0.2270	24,572,766.05	24,572,766.05	0.3261
Central Bank of Malta	0.0732	7,923,905.17	7,923,905.17	0.1051
De Nederlandsche Bank	4.0677	440,328,812.57	440,328,812.57	5.8429
Oesterreichische Nationalbank	2.0325	220,018,268.69	220,018,268.69	2.9195
Banco de Portugal	1.6367	177,172,890.71	177,172,890.71	2.3510
Banka Slovenije	0.3361	36,382,848.76	36,382,848.76	0.4828
Národná banka Slovenska	**0.8004**	**86,643,356.59**	**86,643,356.59**	**1.1497**
Suomen Pankki – Finlands Bank	1.2708	137,564,189.84	137,564,189.84	1.8254
*Subtotal euro area NCBs**	*69.6176*	*7,536,110,121.72*	*7,536,110,121.72*	*99.9960*
Българска народна банка (Bulgarian National Bank)	0.8511	92,131,635.17	3,454,936.32	
Česká národní banka	1.6172	175,062,014.33	6,564,825.54	
Danmarks Nationalbank	1.4986	162,223,555.95	6,083,383.35	
Magyar Nemzeti Bank	1.3348	144,492,194.37	5,418,457.29	
Narodowy Bank Polski	5.2068	563,636,468.10	21,136,367.55	
Banca Naţională a României	2.4470	264,887,922.99	9,933,297.11	
Sveriges Riksbank	2.5222	273,028,328.31	10,238,562.31	
Bank of England	14.3374	1,552,024,563.60	58,200,921.14	
Hrvatska narodna banka	0.5673	61,410,265.11	2,302,884.94	
*Subtotal non-euro area NCBs**	*30.3824*	*3,288,896,947.93*	*123,333,635.55*	
Total*	**100.00**	**10,825,007,069.64**	**7,659,443,757.27**	

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

(in thousands of EUR)

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 9,302,825 thousand as at 31 December 2019 (claim of EUR 9,667,872 thousand as at 31 December 2018). The position bears an interest rate for the main refinancing operations. The Bank recorded no interest as at 31 December 2019 due to the interest rate of 0% p.a.

The caption also comprises a receivable from monetary income of EUR 91,208 thousand (EUR 100,670 thousand as at 31 December 2018, see Note 28) and a receivable from the NBS's share in the ECB's profit for 2019 of EUR 16,452 thousand (EUR 13,074 thousand as at 31 December 2018, see Note 27).

9. Other assets

	31 Dec 2019	31 Dec 2018	Change
Tangible and intangible fixed assets	109,339	115,399	(6,060)
Other financial assets	210,684	99,247	111,437
Off-balance sheet instruments revaluation differences	17,189	0	17,189
Accruals and prepaid expenses	278,853	281,469	(2,616)
Accumulated losses from previous years	4,361,932	4,534,268	(172,336)
Sundry	69,056	38,067	30,989
	5,047,053	**5,068,450**	**(21,397)**

Tangible and intangible fixed assets

This caption comprises fixed assets of the NBS as at 31 December 2019:

	Tangible Assets, Advances and Assets under Construction	Intangible Assets, Advances and Assets under Construction	TOTAL
Acquisition cost as at 1 January 2019	**247,722**	**40,464**	**288,186**
Additions	7,717	5,144	12,861
Disposals	7,049	3,600	10,649
Acquisition cost as at 31 December 2019	**248,390**	**42,008**	**290,398**
Accumulated depreciation as at 1 January 2019	**143,512**	**32,505**	**176,017**
Additions	6,799	2,444	9,243
Disposals	4,190	10	4,200
Accumulated depreciation and provisions as at 31 December 2019	**146,121**	**34,939**	**181,060**
Carrying amount of tangible and intangible assets as at 1 January 2019	**104,210**	**7,959**	**112,169**
Carrying amount of tangible and intangible assets as at 31 December 2019	**102,269**	**7,069**	**109,338**

As at 31 December 2019, the NBS recognised fixed assets held for sale in the amount of EUR 1 thousand (EUR 3,230 thousand as at 31 December 2018).

(in thousands of EUR)

Other financial assets

	31 Dec 2019	31 Dec 2018	Change
Equity shares in ETF funds	156,550	47,123	109,427
Equity shares in BISIP fund	46,727	44,826	1,901
Shares of BIS	7,282	7,173	109
Shares of SWIFT	92	92	0
Inštitút bankového vzdelávania, n.o.	33	33	0
	210,684	99,247	111,437

Since June 2019, the Bank has purchased shares in ETF denominated in USD, which are in the form of marketable securities and are traded as common shares on a stock exchange.

As at 31 December 2019, the Bank recognised shares within the BISIP programme which represents an indirect form of investing in the on-shore Chinese government bonds' market. The bank's share represents 0.70% of the fund's total value (1.35% share of the fund's total value as at 31 December 2018, see Section B, Note b).

The Bank's share in the BIS capital represents 0.51% (0.51% as at 31 December 2018). 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).

The Bank holds shares of SWIFT, representing a 0.0246% capital share (0.0245% capital share as at 31 December 2018).

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.

Off-balance sheet instruments revaluation differences

As at 31 December 2019, the caption comprises a foreign exchange gain from the valuation of open foreign exchange and cross currency swaps in the amount of EUR 17,189 thousand.

Accruals and prepaid expenses

This caption mainly includes accrued bond coupons in the amount of EUR 254,080 thousand (EUR 241,170 thousand as at 31 December 2018).

Sundry

	31 Dec 2019	31 Dec 2018	Change
Deposits - collateral to derivatives	51,425	13,830	37,595
Fair value of interest rate swaps - gains	6,239	12,737	(6,498)
Investment loans granted to employees	4,020	4,545	(525)
Cross currency swap	509	0	509
Interest rate futures	370	2,671	(2,301)
Other	6,493	4,284	2,209
	69,056	38,067	30,989

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

(in thousands of EUR)

10. Banknotes in circulation

	31 Dec 2019	31 Dec 2018	Change
Euro banknotes in circulation issued by the NBS	14,589,062	13,312,766	1,276,296
Adjustment to euro banknotes in circulation	(918,315)	(884,468)	(33,847)
Total volume of euro banknotes in line with the NBS Banknote Allocation Key	**13,670,747**	**12,428,298**	**1,242,449**

As at 31 December 2019, the Bank issued banknotes amounting to EUR 14,589,062 thousand, which is an increase of EUR 918,315 thousand (increase of EUR 884,468 thousand as at 31 December 2018) 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).

In connection with the five-year revision of capital keys as at 1 January 2019, the euro banknote allocation key was adjusted from 1.0095% to 1.0575%.

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

	31 Dec 2019	31 Dec 2018	Change
Current accounts covering the minimum reserve system	3,012,873	2,191,672	821,201
Deposit facilities	0	91,000	(91,000)
	3,012,873	**2,282,672**	**730,201**

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 at the average rate of the Eurosystem's main refinancing operations valid over the given maintenance period. Since June 2014, reserves exceeding the minimum reserve system (hereinafter "Excess Reserves") bear interest at zero percent or at the deposit facility rate, whichever is lower. Starting on 30 October 2019, the Governing Council introduced a two-tier system for reserve remuneration, which exempts part of credit institutions' excess liquidity holdings (i.e. reserve holdings in excess of minimum reserve requirements) from negative remuneration at the rate applicable on the deposit facility. This exempt tier is remunerated at the annual rate of 0% and its volume is determined by a multiplier approved by the Governing Council (multiplier valid for 2019 is 6). The non-exempt tier of excess liquidity holdings continues to be remunerated at the lower of either zero percent or the deposit facility rate. With effect from 18 September 2019, the ECB applies a negative interest rate of -0.50% p.a. to deposit facilities.

As at 31 December 2019, the net interest income from the MRS amounts to EUR 4,783 thousand (EUR 4,025 thousand as at 31 December 2018, see Note 24).

(in thousands of EUR)

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

	31 Dec 2019	31 Dec 2018	Change
Liabilities from repo transactions	1,532,099	2,259,118	(727,019)
Deposits received to repo transactions	0	8,877	(8,877)
Interbank clearing in Slovakia (SIPS)	56	87	(31)
Liabilities from repo transactions with gold	0	103,300	(103,300)
Tri-party repo transactions	0	0	0
	1,532,155	**2,371,382**	**(839,227)**

The interest rate applicable to repo transactions denominated in EUR ranges from -0.44 to - 0.47% p.a. (from -0.10 to -0.43% p.a. as at 31 December 2018).

13. Liabilities to other euro area residents denominated in euro

	31 Dec 2019	31 Dec 2018	Change
General government	876,296	889,453	(13,157)
Other liabilities	91,562	84,402	7,160
	967,858	**973,855**	**(5,997)**

General government

Under this caption, the Bank recognised current accounts of the general government. The bulk of this caption includes current accounts of the State Treasury.

Other liabilities

	31 Dec 2019	31 Dec 2018	Change
Client current accounts	47,302	36,912	10,390
Client term deposits	44,259	41,157	3,102
Current accounts of auxiliary financial institutions	1	6,333	(6,332)
	91,562	**84,402**	**7,160**

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

	31 Dec 2019	31 Dec 2018	Change
Client current accounts	20,016,306	20,038,566	(22,260)
Liabilities from received term deposits	3,472,987	3,688,275	(215,288)
Liabilities from repo transactions with gold	1,342,387	964,630	377,757
Liabilities from repo transactions	417,407	419,973	(2,566)
Deposits received to repo transactions	90	2,182	(2,092)
	25,249,177	**25,113,626**	**135,551**

“Client current accounts” are mainly funds in the TARGET2 accounts of clients who are not subject to MRS. The interest rate for client current accounts is -0.50% p.a. (see Note 24).

“Liabilities from received term deposits” represent national central banks’ deposits with a maturity of 1-3 months at an interest rate ranging from -0.50% to -0.51% p.a. (-0.40% to -0.41% as at 31 December 2018).

(in thousands of EUR)

The interest rate applicable to repo transactions ranges from -0.35 to -0.41 p.a. (-0.35 to -0.38% p.a. as at 31 December 2018)

15. Liabilities to euro area residents denominated in foreign currency

	31 Dec 2019	31 Dec 2018	Change
Liabilities from repo transactions	1,063,589	1,526,606	(463,017)
Liabilities from received deposits	0	30,568	(30,568)
State Treasury current accounts in foreign currency	4	18	(14)
	1,063,593	**1,557,192**	**(493,599)**

The interest rate applicable to repo transactions in USD ranges from 2.10% to 2.52% p.a. (3.00% to 3.30% p.a. as at 31 December 2018).

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

	31 Dec 2019	31 Dec 2018	Change
Liabilities from repo transactions	2,884,789	1,581,555	1,303,234
Liabilities from received deposits	8,011	331,004	(322,993)
	2,892,800	**1,912,559**	**980,241**

The interest rate applicable to repo transactions in GBP ranges from 0.83% to 0.98% p.a. (from 0.90% to 1.25% p.a. as at 31 December 2018), the interest rate applicable to repo transactions in USD ranges from 2.45% to 2.70% p.a. (from 2.59% to 3.60% p.a. as at 31 December 2018).

The interest rate applicable to received deposits denominated in USD is 1.85% p.a. (from 2.80% to 3.86% p.a. as at 31 December 2018).

17. Counterpart of special drawing rights allocated by the IMF

As at 31 December 2019, the Bank recorded a liability to the IMF from the allocation of EUR 420,114 thousand (EUR 413,818 thousand as at 31 December 2018). 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.

18. Intra-Eurosystem liabilities

This position is a net liability of the NBS from the allocation of euro banknotes within the Eurosystem, which amounted to EUR 918,315 thousand (EUR 884,468 thousand as at 31 December 2018). The position bears interest rate at the rate for the main refinancing operations. As at 31 December 2019, 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.

19. Other liabilities

	31 Dec 2019	31 Dec 2018	Change
Off-balance sheet instruments revaluation differences	15,968	39,146	(23,178)
Accruals and income collected in advance	28,950	34,759	(5,809)
Sundry	408,295	389,330	18,965
	453,213	**463,235**	**(10,022)**

(in thousands of EUR)

Off-balance sheet instruments revaluation differences

As at 31 December 2019, the caption comprises a foreign exchange loss mainly from the valuation of open foreign exchange and cross currency swaps in the amount of EUR 15,968 thousand (EUR 39,146 thousand as at 31 December 2018).

Accruals and income collected in advance

As at 31 December 2019, the bulk of accruals was represented by interest expense from -interest rate swaps of EUR 16,412 thousand (EUR 18,578 thousand as at 31 December 2018).

Sundry

	31 Dec 2019	31 Dec 2018	Change
Euro coins in circulation	202,268	189,836	12,432
SKK banknotes in circulation	70,835	71,737	(902)
Deposits - collateral to derivatives	16,250	50,000	(33,750)
Fair value of interest rate swaps - losses	54,178	20,403	33,775
SKK coins in circulation	23,184	23,185	(1)
Cross currency swap	918	0	918
Other	40,662	34,169	6,493
	408,295	**389,330**	**18,965**

The value of interest rate swaps as at 31 December 2019 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 value of swap transactions on the part of the counterparty. The year-on-year decrease in the volume of deposits is related to the increase in the market price of swaps on the part of the counterparty.

(in thousands of EUR)

20. Provisions

	31 Dec 2019	31 Dec 2018	Change
General provision for financial risks	660,000	660,000	0
Provision for losses from monetary policy operations	981	1,768	(787)
Other	14,950	13,791	1,159
	675,931	**675,559**	**372**

In accordance with the Bank Board's decision, the amount of the general provision for financial risks remained unchanged as at 31 December 2019 (see Note 25 and section B, letter l).

Based on the result of the impairment test for securities purchased under the CSPP programme, the Governing Council reassessed the level of the buffer for credit risks created in 2018 and decided to decrease it from EUR 161,075 thousand to EUR 89,388 thousand. In accordance with Article 32 (4) of the Statute, any losses related to the holding of securities purchased within the CSPP programme, if they were to materialise, are shared by the Eurosystem national central banks in proportion to their prevailing share in the ECB's paid-up capital valid at the time of the initial impairment. Concerning this, the NBS created a provision amounting to its percentage share of the ECB's paid-up capital valid for 2018 in the amount of EUR 981 thousand (see section B, letter b and Note 28).

As at 31 December 2019, the Bank's "Other provisions" represented mainly provisions for payables to employees of EUR 10,141 thousand (EUR 9,566 thousand as at 31 December 2018).

21. Revaluation accounts

	31 Dec 2019	31 Dec 2018	Change
Revaluation accounts of gold	746,410	508,868	237,542
Revaluation accounts of securities	69,518	18,272	51,246
Revaluation accounts of derivatives	6,749	12,737	(5,988)
Revaluation accounts of foreign currency	7,593	6,377	1,216
Revaluation accounts of equity shares (BISIP, ETF)	26,274	5,768	20,506
	856,544	**552,022**	**304,522**

(in thousands of EUR)

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.

As at 31 December 2019, the closing balance of the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2018). 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 2019, the closing balance of the NBS's capital reserves was EUR 882 thousand (EUR 882 thousand as at 31 December 2018).

Summary of changes in equity and accumulated losses

	Statutory Fund	Capital Reserves	General Reserves	General Provision for Financial Risks	Revaluation Accounts Gain/(Loss)	Accumulated (Loss) from Previous Years	Profit/(Loss) for the Current Year	Equity
1. **Balance as at 31 Dec 2018**	**16,041**	**882**	**340,874**	**660,000**	**552,022**	**(4,534,268)**	**172,336**	**(2,792,113)**
2. Transfer of profit for 2018 to accumulated loss from previous years						172,336	(172,336)	**0**
3. Transfer to statutory fund								**0**
4. Transfer to general reserves								**0**
5. Change in the general provision for financial risks								**0**
6. Change in revaluation accounts of securities					51,246			**51,246**
7. Change in revaluation accounts of derivatives					(5,988)			**(5,988)**
8. Change in revaluation accounts of gold					237,542			**237,542**
9. Change in revaluation accounts of foreign currencies					1,216			**1,216**
10. Change in revaluation accounts of equity shares in BISIP and ETF funds					20,506			**20,506**
11. Profit for the current reporting period							212,065	**212,065**
12. Change for the reporting period					**304,522**	**172,336**	**39,729**	**516,587**
13. **Balance as at 31 Dec 2019**	**16,041**	**882**	**340,874**	**660,000**	**856,544**	**(4,361,932)**	**212,065**	**(2,275,526)**

(in thousands of EUR)

23. Off-balance sheet instruments

	31 Dec 2019	31 Dec 2018	Change
Interest rate swaps in EUR	2,707,000	2,284,300	422,700
Interest rate swaps in USD	1,708,563	1,562,271	146,293
Interest rate swaps in GBP	1,193,604	681,587	512,017
	5,609,167	**4,528,158**	**1,081,009**

	31 Dec 2019		31 Dec 2018		Change	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Foreign exchange swaps in EUR	4,860,120	6,200	4,328,593	535,703	531,527	(529,503)
Foreign exchange swaps in USD	6,146	229,966	365,008	144,555	(358,862)	85,412
Foreign exchange swaps in CNY	0	24,231	0	16,698	0	7,533
Foreign exchange swaps in GBP	0	271,509	167,119	438,487	(167,119)	(166,977)
Foreign exchange swaps in JPY	0	587,256	0	13,190	0	574,066
Foreign exchange swaps in CHF	0	44,223	0	85,386	0	(41,162)
Foreign exchange swaps in CZK	0	3,699,622	0	3,665,837	0	33,785
	4,866,266	**4,863,008**	**4,860,720**	**4,899,855**	**5,546**	**(36,847)**

	31 Dec 2019		31 Dec 2018		Change	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Foreign exchange forwards in EUR	0	9,295	2,266	0	(2,266)	9,295
Foreign exchange forwards in CNY	0	0	0	2,277	0	(2,277)
Foreign exchange forwards in GBP	1,057	0	0	0	1,057	0
Foreign exchange forwards in USD	8,171	0	0	0	8,171	0
	9,227	**9,295**	**2,266**	**2,277**	**6,962**	**7,018**

	31 Dec 2019		31 Dec 2018		Change	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Cross currency swaps in EUR	460,284	0	0	0	460,284	0
Cross currency swaps in JPY	0	185,501	0	0	0	185,501
Cross currency swaps in USD	0	187,716	0	0	0	187,716
Cross currency swaps in CHF	0	89,036	0	0	0	89,036
	460,284	**462,253**	**0**	**0**	**460,284**	**462,253**

	31 Dec 2019		31 Dec 2018		Change	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Interest rate futures in EUR	0	0	0	296,600	0	(296,600)
Interest rate futures in GBP	0	125,764	60,367	348,787	(60,367)	(223,023)
Interest rate futures in CHF	0	0	0	63,005	0	(63,005)
Interest rate futures in USD	0	6,449	0	17,467	0	(11,018)
	0	**132,213**	**60,367**	**725,858**	**(60,367)**	**(593,645)**

(in thousands of EUR)

24. Net interest income

	31 Dec 2019	31 Dec 2018	Change
Investments in EUR, of which:	**92,024**	**90,661**	**1,363**
net income from current accounts and term deposits	103,857	92,610	11,247
net income from repo transactions	10,423	9,214	1,209
net income from securities	3,821	2,533	1,288
net expense from derivatives	(26,151)	(13,784)	(12,367)
other	74	88	(14)
Investments in foreign currency, of which:	**33,446**	**21,888**	**11,558**
net income from securities	99,072	56,160	42,912
net expense from repo transactions	(63,297)	(36,847)	(26,450)
net expense/income from derivatives	(3,825)	5,377	(9,202)
net expense from current accounts and term deposits	(1,290)	(4,725)	3,435
compensation from MF SR	2,786	1,923	863
Monetary policy operations, of which:	**105,160**	**93,630**	**11,530**
net income from securities	104,413	93,739	10,674
net expense from deposits and loans	(4,036)	(4,134)	98
net income from MRS	4,783	4,025	758
	230,630	**206,179**	**24,451**

The increase in "Net income from current accounts and term deposits" denominated in EUR is mainly related to remuneration of clients' term accounts (see Note 14).

The increase in net interest income from securities denominated in foreign currency is due to purchases of securities (see Notes 2 and 4).

The increase in net interest income from monetary policy operations is due to purchases of securities held for monetary policy purposes (see Note 7).

As at 31 December 2019, the Bank records no interest on remuneration of the claim from the transfer of foreign reserves, remuneration of euro-banknotes and TARGET2 remuneration due to an interest rate of 0% p.a. (see Notes 8 and 18).

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 2019:

(in thousands of EUR)

	Balance Sheet Item	31 Dec 2019	31 Dec 2018	Change
Investments in EUR				
Gross interest income, of which:		**111,278**	**98,084**	**13,194**
Current accounts and term deposits	**L6**	105,351	93,925	11,426
Repo transactions	**L3, L6**	5,927	4,159	1,768
Gross interest expense, of which:		**(43)**	**(41)**	**(2)**
Current accounts	**A6**	(43)	(41)	(2)
Investments in foreign currency:				
Gross interest expense, of which:		**(7)**	**(13)**	**6**
Current accounts	**A2, A3**	(7)	(13)	6
Monetary policy operations				
Gross interest income, of which:		**4,944**	**4,211**	**733**
MRS	**L2**	4,783	4,025	758
Deposit facilities	**L2**	161	186	(25)
Gross interest expense, of which:		**(4,197)**	**(4,321)**	**124**
Longer-term refinancing operations	**A5**	(4,197)	(4,321)	124

Development of interest rates as announced by the ECB:

With Effect From	Marginal Lending Facility	Main Refinancing Operations	Deposit Facility
16/03/2016	0.25% p.a	0,00% p.a	-0.40% p.a
18/09/2019	0.25% p.a	0,00% p.a	-0.50% p.a

(in thousands of EUR)

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

	31 Dec 2019	31 Dec 2018	Change
Realised gains from financial operations	**16,444**	**16,328**	**116**
Net gains from sale of securities	11,471	2,828	8,643
Net gains from interest rate swaps	3,766	11,577	(7,811)
Net foreign exchange gains	1,207	1,959	(752)
Net loss from equity shares upon a company's liquidation	0	(36)	36
Write-downs on financial assets and positions	**(45,471)**	**(38,314)**	**(7,157)**
Losses from interest rate swaps revaluation	(42,575)	(16,927)	(25,648)
Losses from securities revaluation	(2,336)	(18,939)	16,603
Losses from foreign currency revaluation	(560)	(2,448)	1,888
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
	(29,027)	**(51,986)**	**22,959**

The year-on-year increase of revaluation losses from interest rate swaps is due to a decrease of market prices of interest rate swaps.

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

	31 Dec 2019	31 Dec 2018	Change
Fees and commissions from investment operations, of which:	**(92)**	**85**	**(177)**
Net profit from operations with clients	216	215	1
Net loss from operations with banks	(230)	(88)	(142)
Net loss/profit from operations with securities	(32)	9	(41)
Net loss from interest rate futures	(18)	(24)	6
Other	(28)	(27)	(1)
Fees and commissions from monetary policy operations, of which:	**1,131**	**1,489**	**(358)**
Net profit from operations with securities	1,736	2,065	(329)
Net loss from operations with banks	(605)	(576)	(29)
Net profit from exchange of euro coins	**72**	**67**	**5**
	1,111	**1,641**	**(530)**

(in thousands of EUR)

27. Income from equity shares and participating interests

	31 Dec 2019	31 Dec 2018	Change
Interim distribution of the ECB's profit of the current year	16,452	13,074	3,378
Share in the ECB's profit of the previous year	4,214	3,150	1,064
Dividends from ETF funds	3,143	567	2,576
Dividends from BIS shares	859	812	47
	24,668	**17,603**	**7,065**

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.

Monetary income is distributed in proportion to NBS's share on the paid-up capital of the ECB after the end of each financial year (1.1497%).

Monetary income pooled by the NBS for 2019 into the common pool of monetary income of the Eurosystem amounted to EUR 38,544 thousand. The monetary income equivalent to the 1.1497% share of the NBS amounted to EUR 129,928 thousand. The difference of EUR 91,384 thousand (EUR 96,805 thousand as at 31 December 2018) represents the net result of the pooling of monetary income. The NBS's income decreased by EUR 176 thousand as a result of a revision of the Eurosystem monetary income for 2017 and 2018 (income increased by EUR 3,865 thousand as at 31 December 2018 as a result of a revision for 2016 and 2017).

This caption also contains the Bank's share on the provision against impairment losses from monetary policy operations in the amount of EUR 981 thousand (EUR 1,768 thousand as at 31 December 2018) related to securities held in the CSPP portfolio (see Note 20).

29. Other income and other expenses

As at 31 December 2019, the most significant portion of the Bank's "Other income" comprised income from fees and contributions from financial market entities of EUR 11,974 thousand (EUR 9,554 thousand as at 31 December 2018), income from sale of tangible assets in the amount of EUR 5,202 thousand (EUR 1,262 thousand as at 31 December 2018) and received fees from participation in settlement systems of EUR 3,245 thousand (EUR 3,109 thousand as at 31 December 2018).

As at 31 December 2019, the Bank's "Other expenses" mainly represented costs for minting circulation and collector coins, including costs for related services, of EUR 3,850 thousand (EUR 3,033 thousand as at 31 December 2018).

(in thousands of EUR)

30. Staff costs

	31 Dec 2019	31 Dec 2018	Change
Wages and salaries	(34,334)	(31,293)	3,041
Social security costs	(12,580)	(11,346)	1,234
Other employee costs	(6,541)	(4,817)	1,724
	(53,455)	**(47,456)**	**5,999**

As at 31 December 2019, the average FTE number of employees was 1,103 (1,097 as at 31 December 2018), of who 105 were managers (104 as at 31 December 2018).

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".

31. Administrative expenses

As at 31 December 2019, this item mainly included costs for technical support and IS maintenance, repairs and maintenance, energy consumption and telecommunications costs totalling EUR 11,210 thousand (EUR 10,373 thousand as at 31 December 2018).

The cost of the statutory auditor for the audit of the financial statements amounted to EUR 61 thousand as at 31 December 2019 (EUR 61 thousand as at 31 December 2018). As at 31 December 2019, 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 2019	31 Dec 2018	Change
Depreciation of tangible fixed assets	(6,799)	(6,822)	(23)
Depreciation of intangible fixed assets	(2,444)	(2,200)	244
	(9,243)	**(9,022)**	**221**

33. Banknote production services

As at 31 December 2019, the costs for printing euro banknotes were EUR 3,383 thousand (EUR 4,911 thousand as at 31 December 2018).

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 2019, the NBS paid a withholding tax of EUR 35,076 thousand (EUR 28,884 thousand at 31 December 2018). The increase by EUR 6,192 thousand compared to the preceding period was due to an increase in the volume of securities used for monetary policy purposes (see Note 7).

35. Profit for the year

The Bank's financial result as at 31 December 2019 was a profit of EUR 212,065 thousand (profit of EUR 172,336 thousand as at 31 December 2018). 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 19 February 2020, the Governing Council of the ECB decided to distribute the ECB's net profit for 2019 to national central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 10,747 thousand from the profit distribution is recognised in the 2020 reporting period.

As a result of the exit of the United Kingdom of Great Britain and Northern Ireland from the European Union on 31 January 2020 and the subsequent withdrawal of the Bank of England from the ESCB, the weighted shares of the Eurosystem national central banks were adjusted. As at 1 February 2020, the amount of the NBS's capital key was adjusted to 0.9314% (0.8004% until 31 January 2019), the amount of the NBS's Eurosystem key was adjusted to 1.1452% (1.1497% until 31 January 2019), and the amount of the euro banknote allocation key was adjusted to 1.0535% (1.0575% until 31 January 2019).

No significant events occurred subsequent to 31 December 2019 that would require any further adjustments to the 2019 financial statements.

Bratislava, 3 March 2020

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Governor

Ing. Jaroslav Mikla
Executive Director
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Národná banka Slovenska

SUPPLEMENT TO THE INDEPENDENT AUDITOR'S REPORT to Section Report on Information Disclosed in the Annual Report

To the Bank Board of Národná banka Slovenska:

We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS") as at 31 December 2019 disclosed on pages 124 – 156 of the accompanying annual report of the Bank, on which we issued an independent auditor's report on 3 March 2020 that is disclosed on pages 125 – 126 of the Bank's annual report. We have prepared this supplement in accordance with Article 27 (6) 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 "Statutory Audit Act").

Based on the performed procedures described in section "Report on Information Disclosed in the Annual Report" of the independent auditor's report specified above, in our opinion:

- Information disclosed in the Bank's annual report prepared for 2019 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to Act No. 431/2002 Coll. on Accounting, as amended and Act on NBS, as amended.

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

Bratislava, 28 April 2020

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

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

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

Legislation

Národná banka Slovenska produces legislation in accordance with its legislative competences under Article 30 of Act No 566/1992 on Národná banka Slovenska, as amended ('the NBS Act'). Any draft primary legislation concerning currency circulation must be submitted to the Slovak Government by NBS, and any draft primary legislation concerning foreign exchange relations, payment systems, payment services, or the financial market (including the banking sector and the role and remit of NBS) must be submitted to the Government jointly by NBS and the Slovak Finance Ministry. NBS's authority to issue secondary legislation in the form of regulations and decrees is based on Article 56(1) of the Constitution of the Slovak Republic, according to which the central bank may issue legislation of general application where authorised by statutory law to do so.

Amendments made in 2019 to laws on matters falling within the competence of Národná banka Slovenska

Act No 566/1992 on Národná banka Slovenska, as amended, was amended in 2019 by Act No 95/2019 and Act No 221/2019.

Act No118/1996 on the protection of deposits (and amending certain laws), as amended, was amended in 2019 by Act No 281/2019.

Act No 483/2001 on banks (and amending certain laws), as amended, was amended in 2019 by Act No 6/2019, Act No 30/2019, Act No 54/2019, Act No 211/2019, Act No 305/2019 and Act No 390/2019.

Act No 371/2014 on resolution in the financial market (and amending certain laws), as amended, was amended in 2019 by Act No 281/2019 and Act No 390/2019.

Act No 186/2009 on financial intermediation and financial advisory services (and amending certain laws), as amended, was amended in 2019 by Act No 221/2019.

Act No 492/2009 on payment services (and amending certain laws), as amended, was amended in 2019 by Act No 30/2019.

Act No 566/2001 on securities and investment services (and amending certain laws) (the Securities Act), as amended, was amended in 2019 by Act No 156/2019 and Act No 211/2019.

Act No 203/2011 on collective investment, as amended, was amended in 2019 by Act No 156/2019.

Act No 39/2015 on insurance (and amending certain laws), as amended, was amended in 2019 by Act No 156/2019, Act No 221/2019 and Act No 281/2019.

Act No 381/2001 on compulsory motor third party liability insurance (and amending certain laws), as amended, was amended in 2019 by Act No 281/2019.

Act No 43/2004 on the old-age pension scheme (and amending certain laws), as amended, was amended in 2019 by Act No 231/2019 and Act No 234/2019.

Act No 650/2004 on the supplementary pension scheme (and amending certain laws), as amended, was amended in 2019 by Act No 35/2019 and Act No 156/2019.

Implementing legislation of general application issued by Národná banka Slovenska in 2019

Decrees promulgated in the Collection of Laws of the Slovak Republic by virtue of their publication

Decree No 1/2019 of Národná banka Slovenska of 8 January 2019 amending Decree No 9/2017 of Národná banka Slovenska laying down national discretions for institutions under other legislation.

Decree No 2/2019 of Národná banka Slovenska of 27 August 2019 on reporting by supplementary pension management companies for the purposes of providing information to Národná banka Slovenska and the European Supervisory Authorities.

Decree No 3/2019 of Národná banka Slovenska of 1 October 2019 on reporting by banks, foreign bank branches and investment firms for data collection purposes under other legislation.

Decree No 4/2019 of Národná banka Slovenska of 1 October 2019 amending Decree No 1/2018 of Národná banka Slovenska on how to demonstrate compliance with conditions for an authorisation to act as an independent financial agent and for an authorisation to act as a financial adviser.

Decree No 5/2019 of Národná banka Slovenska of 12 November 2019 amending Decree No 6/2011 of Národná banka Slovenska on the elements of applications for prior approval of Národná banka Slovenska made under the Collective Investment Act, as amended by Decree No 1/2014.

Decree No 6/2019 of Národná banka Slovenska of 13 December 2019 amending Decree No 13/2017 of Národná banka Slovenska on reporting for supervisory purposes by banks and branches of foreign banks, as amended by Decree No 18/2018 of Národná banka Slovenska.

Decree No 7/2019 of Národná banka Slovenska of 13 December 2019 laying down the structure of an extended auditor's report for statutory audits of banks and branches of foreign banks.

Decree No 8/2019 of Národná banka Slovenska of 13 December 2019 on reporting by payment institutions, branches of foreign payment institutions, electronic money institutions and branches of foreign electronic money institutions.

Decree No 9/2019 of Národná banka Slovenska of 17 December 2019 amending Decree No 10/2017 of Národná banka Slovenska laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans, as amended by Decree No 6/2018 of Národná banka Slovenska.

Decree No 10/2019 of Národná banka Slovenska of 17 December 2019 amending Decree No 10/2016 of Národná banka Slovenska laying down detailed provisions on the assessment of borrowers' ability to repay housing loans, as amended by Decree No 7/2018 of Národná banka Slovenska.

Abbreviations

AML/CFT	anti-money laundering and combating the financing of terrorism
AnaCredit	analytical credit datasets (a dataset containing detailed information on individual bank loans in the euro area, harmonised across all euro area countries)
BIS	Bank for International Settlements
BSSE	Bratislava Stock Exchange / Burza cenných papierov v Bratislave, a.s.
CDCP	Centrálny depozitár cenných papierov SR, a.s. (a central securities depository)
CERI	Central Register of Regulated Information / Centrálna evidencia regulovaných informácií
CSDB	Centralised Securities Database
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
fintech	financial technology
GDP	gross domestic product
GFSR	Global Financial Stability Report
IMF	International Monetary Fund
IS SCP	(information system) Statistics Collection Portal
LFS	Labour Force Survey
MTPL	motor third party liability (insurance)
NFC	non-financial corporation
NPL	non-performing loan
RBLG	Register of Bank Loans and Guarantees
MPSVaR SR	Ministry of Labour, Social Affairs and Family of the Slovak Republic
MREL	minimum requirement for own funds and eligible liabilities
NBS	Národná banka Slovenska
NCA	national competent authority
NCDCP	Národný centrálny depozitár cenných papierov, a.s. (a central securities depository)
OECD	Organisation for Economic Co-operation and Development
PFMC	pension fund management company (second pension pillar)

REGFAP	register of financial agents, financial advisers, financial intermediaries from other EU Member States operating in the insurance or reinsurance sector, and financial intermediaries from other EU Member States engaged in the provision of housing loans
RIAD	Register of Institutions and Affiliates Database
SBA	Slovak Banking Association
SPMC	supplementary pension management company (third pension pillar)
SR	Slovak Republic
SRB	Single Resolution Board
SSM	Single Supervisory Mechanism
WEO	World Economic Outlook

Short titles and abbreviations of Slovak legal acts

AML/CFT Act	Act No 297/2008 on the prevention of money laundering and terrorist financing (and amending certain laws)
Consumer Credit Act	Act No 129/2010 on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended
Financial Intermediation Act	Act No 186/2009 on financial intermediation and financial advisory services (and amending certain laws), as amended
Financial Market Supervision Act	Act No 747/2004 on financial market supervision (and amending certain laws), as amended
Foreign Exchange Act	Act No 202/1995 – the Foreign Exchange Act (including amendments to Act No 372/1990 on non-indictable offences, as amended), as amended
MTLP Act	Act No 381/2001 on compulsory motor third party liability insurance (and amending certain laws), as amended
Insurance Act	Act No 39/2015 on insurance (and amending certain laws), as amended
Securities Act	Act No 566/2001 on securities and investment services (and amending certain laws), as amended

Short titles and abbreviations of EU legal acts

AIFMD	Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010
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
Central Securities Depositories	Regulation (EU) No 909/2014 of the European Parliament and of the Council
(CSD) Regulation	of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012
Insurance Distribution Directive	Directive (EU) 2016/97 of the European Parliament and of the Council of 20
(IDD)	January 2016 on insurance distribution
MiFID 2	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
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

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
SCA regulation	Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication

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