



1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

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

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

1.1 MINIMUM RESERVE REQUIREMENTS

In 2014 a total of 28 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 13 banks that had their registered office in Slovakia (including three home savings banks) and 15 branches of for-

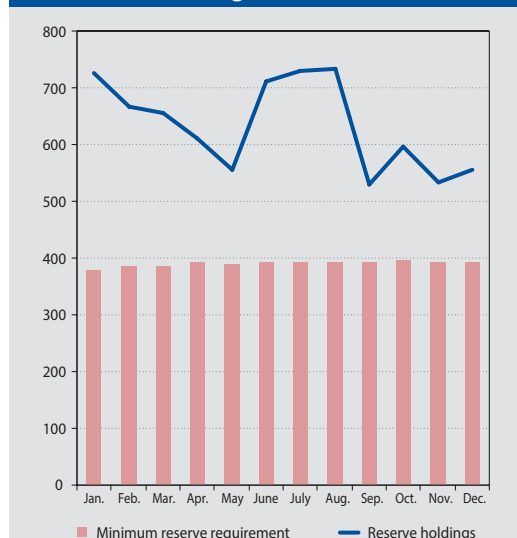
eign credit institutions (including credit cooperatives). Whereas in 2013 excess reserves were remunerated at zero per cent, in the second half of 2014 they were subject to negative interest rates. The aim behind negative rates was to encourage banks to steer liquidity to the real economy, rather than to hold funds on account with central banks.

The average minimum reserve requirement in 2014 was €389.83 million, around 5.58% higher than in 2013. In 2014 actual reserves exceeded the minimum requirement by 62.5% on average, whereas in 2013 they were higher by almost 100%. In 2014 the excess above the minimum peaked in the first half of the year and gradually decreased in the second half. This may have stemmed from the introduction of negative interest rates on excess reserves.

1.2 ELIGIBLE ASSETS

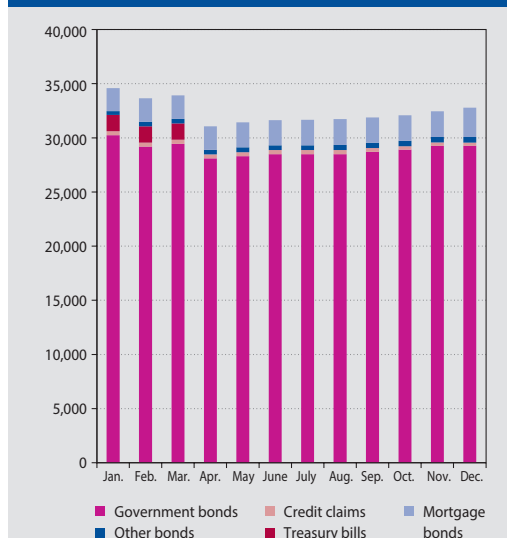
Collateral eligibility criteria for Eurosystem credit operations did not change significantly in

Chart 16 Minimum reserve requirements and reserve holdings in 2014 (EUR millions)



Source: NBS.

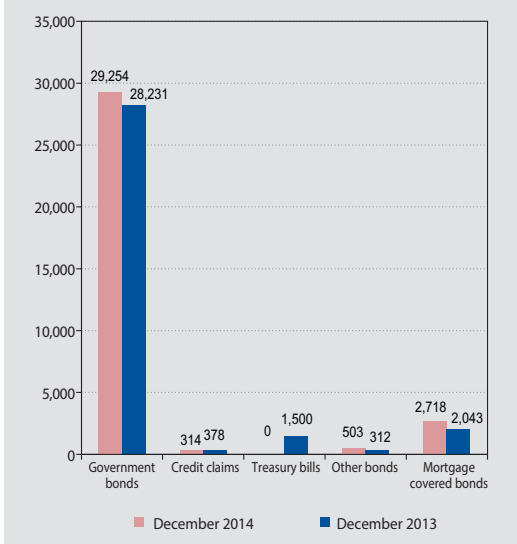
Chart 17 Composition of Slovak eligible assets in 2014 (EUR millions)



Source: NBS.

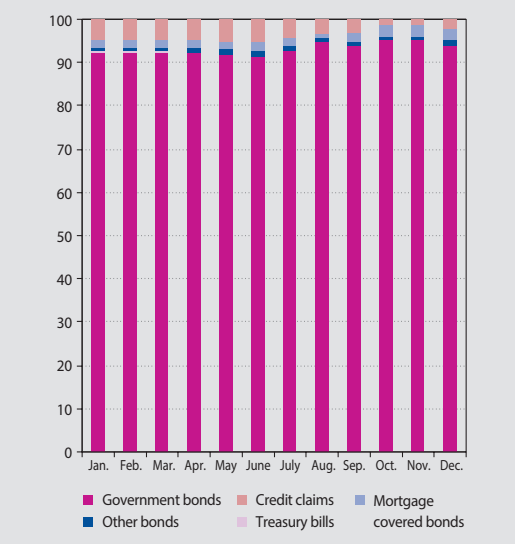


Chart 18 Composition of Slovak eligible assets in December 2013 and December 2014 (EUR millions)



Source: NBS.

Chart 19 Use of eligible assets in 2014 (%)



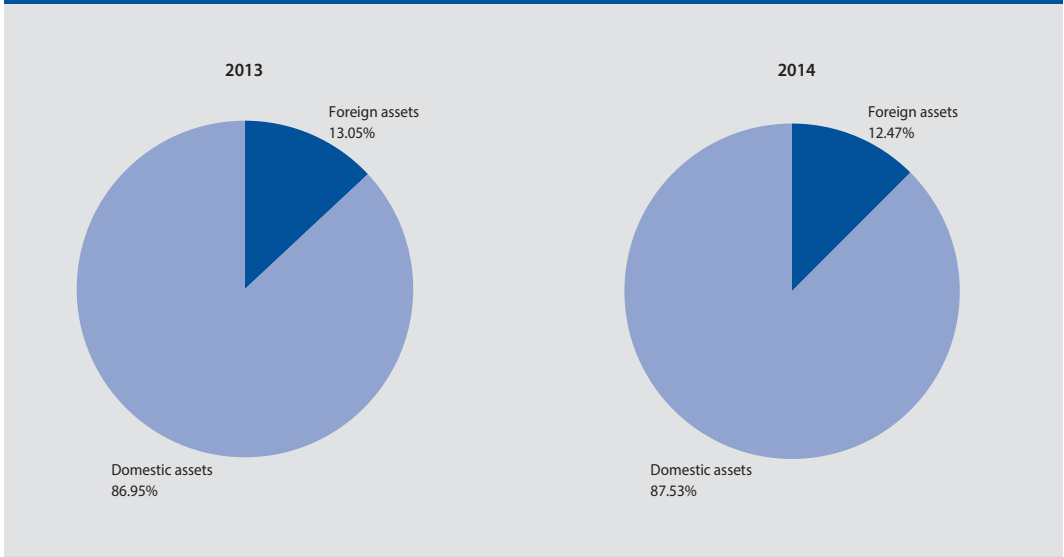
Source: NBS.

2014. Among the few, limited adjustments was a modification of conditions for ensuring high credit quality standards of eligible assets. Credit card asset-backed securities were accepted as a new group of eligible assets, since the underlying claims generate financial flows used for interest and principal payments to the ABS

holders. There were also minor adjustments to haircuts for assets issued by the Greek and Cypriot governments.

The value of Slovak eligible assets in 2014 remained similar to its levels in 2013. The total nominal value of these assets was €32,789 million at

Chart 20 Use of domestic and foreign eligible assets (%)



Source: NBS.



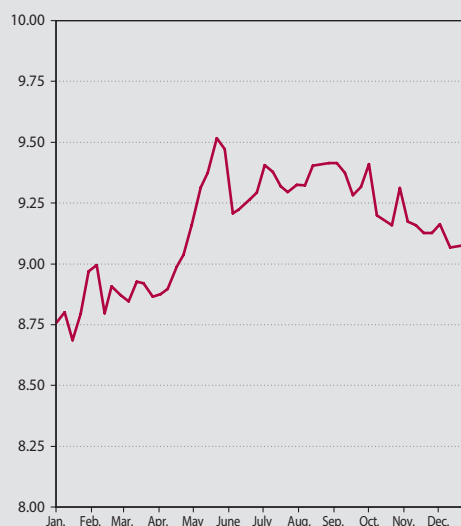
the end of 2014, which was €324.3 million higher than at end-2013. Slovak government bonds constituted almost 89% of these eligible assets, and mortgage covered bonds nearly 9%. Treasury bills did not feature in the list of eligible assets at the end of 2014, as the last outstanding issue of these securities, issued in 2013, were redeemed in the first half of 2014 and there were no further issues.

The participation of Slovak banks in Eurosystem monetary policy operations did not change notably during 2014. The period was marked by their gradual repayment of longer-term refinancing operations conducted in 2011 and 2012. The value of collateral pledged by domestic banks in Eurosystem operations was almost the same at end-2014 as at end-2013. Of that total, government debt securities made up almost 94%, with their share standing around two percentage points higher than at the end of the 2013. In 2014, as in the previous year, assets issued in the domestic market accounted for the vast majority, 87%, of the eligible collateral. Slovak counterparties used a collateral pool to manage their collateral.

1.3 INVESTMENT PORTFOLIO MANAGEMENT

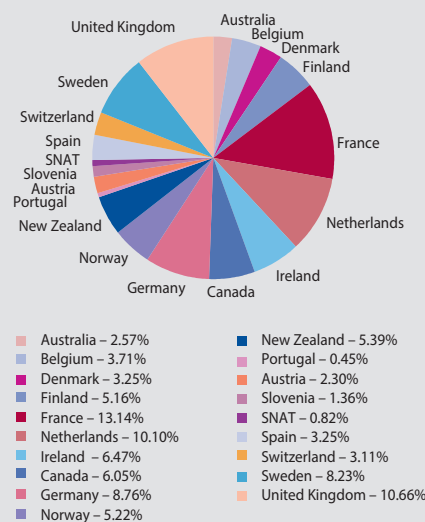
Národná banka Slovenska manages its investment assets with the aim of ensuring that investments contribute positively to its overall financial result. The total value of NBS's investment assets as at 31 December 2014 was €9 billion (at corresponding exchange rates and with securities at nominal value). The value of the portfolio over the course of the year is shown in Chart 21. In managing its assets, NBS applies the principles laid down in the NBS investment strategy approved in 2008. In the case of euro-denominated assets, which make up 93.6% of the investment portfolio, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. The return on the euro-denominated portfolio in 2014, after taking into account interest expenses and hedging, stood at 0.828%. The geographical breakdown of euro-denominated investment assets is shown in Chart 22.

Chart 21 Value of NBS investment portfolio in 2014 (EUR billions)



Source: NBS.

Chart 22 Portfolio of euro-denominated assets at 31 December 2014 – broken down by country of issuer



Source: NBS.

1) SNAT – supranational institutions.