



2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION³

2.1 FINANCIAL STABILITY

During 2015 the Bank Board of Národná banka Slovenska issued seven macroprudential policy decisions concerning financial stability from the perspective of cyclical and structural systemic risks.

Four of these decisions were regular quarterly decisions on the countercyclical capital buffer rate, in which the Bank Board, taking into account the phase of the economic and financial cycle, set in all of the four cases the rate at 0%. These decisions were aimed at strengthening the resilience of the financial system and preventing a build-up of systemic risks with a view to maintaining the stability of the financial system as a whole.

The remaining three decisions concerned the local systemically important banks. The Bank Board of NBS classified five banks as other systemically important institutions (O-SII): Československá obchodná banka, a.s., Poštová banka, a.s., Slovenská sporiteľňa, a.s., Tatra banka, a.s., and Všeobecná úverová banka, a.s. Over the period from 1 January 2016 to 1 January 2018, the minimum own-funds requirement for these banks will be gradually increased through an O-SII buffer (capital buffer for other systemically important institutions) and a systemic risk buffer; the required amounts of the buffers will be specified in NBS decisions.

During 2015 NBS also published quarterly commentaries to keep the public regularly informed about the potential systemic risks in the Slovak financial sector. If a systemic risk is identified, these commentaries serve as a basis for the Bank Board of NBS decision to activate an appropriate macroprudential policy instrument in accordance with the Banking Act⁴ and the CRR Regulation.⁵

1 March 2015 saw the entry into force of certain parts of NBS's Recommendation No 1/2014 on risks related to market developments in retail lending, aimed at preserving the domestic

financial sector's stability and avoiding risks that may have a negative impact on banks, their customers, and on the economy as a whole. The other parts of this Recommendation had also entered into force by the end of the year. Hence, the NBS's supervisory tasks in 2015 also included the check of fulfilment of the implementation of this Recommendation by individual banks of the Slovak banking sector.

2.2 SUPERVISION OF THE FINANCIAL MARKET

THE BANKING SECTOR

As at 31 December 2015, there were 13 banks and 14 branches of foreign banks operating in the banking sector of Slovakia.

Under the Single Supervision Mechanism (SSM, a framework for cooperation between the ECB and the competent national authorities), banks (credit institutions) are categorised into:

- significant banks – supervised directly by the ECB (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 the KBC Group; and Sberbank Slovensko, a.s., belonging to Sberbank Europe AG); and
- less significant banks – supervised directly by NBS (other banks with a registered office in Slovakia).

Within the scope of the SSM, the ECB has assumed certain powers in the area of authorisation, too. It conducts authorisation proceedings in close cooperation with NBS. The ECB issues decisions concerning the granting or revocation of authorisations and the acquisition of qualifying holdings in relation to both significant banks and less significant banks. It also assesses the eligibility of board members and supervisory board members, but only for significant banks.

Proceedings in matters falling within the ECB's competence are also commenced before

³ A detailed report on the activities of the Financial Market Supervision Unit of NBS for 2015 is available on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf>.

⁴ Act No 483/2001 Coll. on banks and amending certain laws, as amended ('the Banking Act').

⁵ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ('the CRR Regulation').



NBS. In such cases, NBS assesses the relevant application according to Slovak law, and the ECB does so according to the EU law. In total, 108 proceedings were commenced in the year under review: 82 within the competence of NBS and 26 within the competence of the ECB.

In regard to the banking sector, NBS conducted 94 authorisation proceedings during the year: 12 were instituted in 2014 and 82 were completed in 2015 with the issuance of a final decision. Most of the decisions concerned the granting of prior approval to appoint new members of the statutory body, members of the supervisory board, managerial employees or company secretaries.

The ECB conducted a total of 29 authorisation proceedings in 2015. Three of these proceedings were instituted in 2014 and 22 were completed in 2015 with the issuance of a final decision. Most of the decisions concerned the eligibility of members of the statutory body and members of the supervisory board of banks.

In 2015 no sanction proceedings were initiated in regard to the banking sector. One of the two proceedings brought in 2014 was completed in 2015 with the issuance of a final decision.

In 2015 NBS received one notification from a foreign bank (BNP Paribas Personal Finance S.A.) that intended to establish a branch in Slovakia and registered 14 foreign credit institutions that reported their intention to provide cross-border banking services in Slovakia, without establishing a branch. The branch of The Royal Bank of Scotland plc ended its activities in Slovakia in 2015.

In 2015 eight thematic on-site inspections were carried out in banks and branches of foreign banks. Within the scope of these inspections, the supervisors examined seven applications for the use of, or for a change in, an internal risk measurement model for capital requirement calculation for credit risk and one application for the use of an internal model for capital requirement calculation for operational risk. One of the top priorities of on-site inspections was to assess the effectiveness of banks' risk management systems, the provision of investment and payment serv-

ices, and the protection of banks against money laundering and terrorist financing.

The performance of on-site inspections in significant banks (falling within the ECB's competence) was brought into line with the principles of the SSM during 2015. Inspections in such banks were carried out by the staff members of NBS on the basis of the ECB's authorisation.

In exercising off-site supervision, the supervisors examined the regular statements and reports of banks and branches of foreign banks, analysed the risk profiles of individual banks, performed tasks in the ECB's joint supervisory teams and supervisory colleges for individual banks, and carried out comprehensive evaluations, including an evaluation of banks' risk profile, internal capital adequacy, own-funds adequacy and liquidity. This was followed by a joint assessment of the risk profile and own-funds adequacy of bank groups, which also include banks from the Slovak banking sector. The joint assessment led to the adoption of joint decisions by the participating supervisors. For the needs of a joint assessment of bank groups in terms of risk and capital, the supervisors also compiled detailed risk profile reports for the consolidating supervisors of banks that are the subsidiaries of banks established in other EU countries.

Banks that are subject to direct supervision by the ECB have set up joint supervisory teams to exercise supervision over banks on a continuous basis. These supervisory teams are responsible for the supervision of banks established in Slovakia. They perform this function in close cooperation with the Financial Market Supervision Unit of NBS ('the FMS Unit'). The most important task of these teams in 2015 was to carry out an annual evaluation of banks in accordance with the principles of the SSM. The results of this annual evaluation were taken into account in the joint decisions.

THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

As at 31 December 2015, there were ten payment institutions operating in the Slovak financial market, seven of which were authorised to provide payment services with no scope limit



and three were authorised to provide payment services in a limited scope. One electronic money institution commenced operations in 2015, with the authorisation of NBS.

A total of 22 decisions were issued during 2015 in regard to payment services, 21 of which entered into force in the same year.

In regard to electronic money issuance, three decisions were issued over the course of 2015.

In 2015, on the basis of notifications received from the supervisory authorities of other Member States, NBS registered seven agents of foreign payment institutions intending to provide payment services in Slovakia on a cross-border basis. On the basis of notifications received from the supervisory authorities of other Member States, NBS registered four agents of payment institutions and one other person (distributor of a foreign electronic money institution), who is authorised to distribute or redeem electronic money in Slovakia.

In 2015 one comprehensive on-site inspection of a payment institution (started in 2014) was completed. Furthermore, one comprehensive on-site inspection of a payment institution was carried out and one comprehensive on-site inspection of an electronic money institution was commenced. The inspections focused on verifying and evaluating the provision of payment services and the issuance of electronic money, compliance with the conditions stipulated for their business, the system of internal control and internal audit, the risk management system and selected risks, and the prevention of money laundering and terrorist financing and the fulfilment of the respective obligations and checking the adherence to generally binding legal regulations.

THE FOREIGN EXCHANGE SECTOR

As at 31 December 2015, there were 1,146 foreign exchange places in Slovakia holding a foreign exchange license. Eleven decisions entered into force in 2015, ten of which were issued in the same year and one in the previous year.

In regard to this sector, eight sanction proceedings were instituted in 2015. In addition, two

proceedings brought in 2014 were completed with the issuance of a final decision.

The focus of supervision in this sector was on verifying compliance with the Foreign Exchange Act.⁶

THE NON-BANK CREDITORS SECTOR

A new legislation covering the area of consumer credits and other credits and loans for consumers changed the conditions for the conduct of this business: *creditors* and *other creditors* may provide consumer credits only on the basis of an authorisation by NBS. The new legislation applies also to *creditors* and *other creditors* that used to operate on the basis of their registration in the register of creditors kept by NBS according to the previously applicable legislation. If such *creditors* and *other creditors* wished to continue providing consumer credits after 31 August 2015, they had to apply to NBS for authorisation by 31 May 2015. If a creditor had failed to deliver an application by that date, they were deprived of their right to do business in this area with effect from 1 September 2015. As of the same date, NBS removed the register of creditors from its website in compliance with the Consumer Credits Act.

In 2015 a total of 33 decisions were issued in regard to non-bank creditors, 30 of which entered into force in the same year. The most important decisions were those concerning the authorisation of 23 creditors to provide consumer credits in unlimited scope.

THE INSURANCE SECTOR

As at 31 December 2015, there were 16 domestic insurance undertakings operating in the Slovak financial market and 24 branches of foreign insurance or reinsurance undertakings established in other EU Member States.

In regard to this sector, the FMS Unit conducted 23 authorisation proceedings during 2015 (three of which were instituted in 2014) and issued 23 decisions, which concerned mainly authorisation modifications (extensions) relating to the performance of insurance activities and to financial intermediation for financial institutions under separate regulations, and prior approvals, e.g. for the acquisition of qualifying holdings in insurance undertakings, the appointment of

⁶ Act No 202/1995 Coll. of the National Council of the Slovak Republic, the Foreign Exchange Act and amending Act No 372/1990 Coll. of the Slovak National Council on infringements, as amended ('the Foreign Exchange Act').



board members and general proxies, or for loan repayment before maturity.

The FMS Unit's most significant decisions were those concerning the transfer of part of the insurance portfolio of MetLife Amslico, a.s., and the merger of that company with MetLife Europe Ltd.

In 2015 five actuaries were entered into the register of actuaries.

At the end of the year, the FMS Unit granted all 16 insurance undertakings established in Slovakia a certificate of the scope of insurance activities / certificate of the scope of insurance and reinsurance activities under the provisions of Article 192(4) of the Insurance Act,⁷ and thus the insurance and reinsurance activities of insurers based in Slovakia were brought into line with Annex 1 of the Insurance Act.

In regard to the activities of insurers and reinsurers established in Slovakia and other EU Member States, a total of 49 notifications were issued in 2015.

In 2015 the FMS Unit conducted six sanction proceedings in regard to insurers (three of which were instituted in the same year) and issued three first-instance decisions to impose a sanction (two of which entered into force in the same year). Appeals were lodged against three first-instance decisions, which were subsequently forwarded to the Bank Board of NBS for second-instance proceedings.

Off-site supervision focused on verifying compliance with the reporting requirement by insurers and by the Slovak Insurers' Bureau, while NBS also collected data from the branches of insurers established in other Member States for supervisory purposes.

One comprehensive and 14 thematic on-site inspections were carried out in 2015. The thematic inspections focused on verifying compliance with the relevant provisions of the Insurance Act and other generally binding legal regulations pertaining to investment life insurance and on verifying the liquidation of insurance events, the management of insurance contracts and the

handling of complaints. Two additional thematic on-site inspections were instituted in 2015 to verify the use of a partial internal model, but had not been completed by the end of December.

Furthermore, an analysis was carried out in 2015 of the insurers' exposures to Russia and to EU countries experiencing unfavourable economic developments, including countries that were hit by the debt crisis in the past. This analysis revealed that exposures to these countries (mainly to issuers of securities) constituted only a negligible part of the insurers' total assets, and thus the interests of their customers would not be affected severely in the event of a decrease in these exposures.

In accordance with the Solvency II Directive,⁸ NBS continued to cooperate in 2015 with the competent home supervisors in the pre-application preparations for the use of internal models for insurance risk management. The pre-validation process took place in three insurance undertakings in 2015 and focused on a preliminary assessment of the individual partial internal models of entities subject to supervision, which plan to use their internal models for calculating the solvency requirements.

In connection with the new insurance regulations effective from 1 January 2016, off-site supervision was used to determine the preparedness of insurers for Solvency II. The information obtained from insurers indicated that they were intensely preparing for the implementation of the new legal regulations.

THE PENSION SECTOR

In 2015 there were six pension funds management companies in the Slovak financial market, managing a total of 20 pension funds, and four supplementary pension management companies managing a total of 15 supplementary pension funds. Depositary activities were performed by four banking institutions in accordance with the Old-Age Pension Saving Scheme Act⁹ and the Supplementary Pension Scheme Act.¹⁰

Under the Old-Age Pension Saving Scheme Act, people were allowed to enter or leave the old-age pension scheme in the period from 15 March to 15 June 2015.

7 Act No 39/2015 Coll. on insurance and amending certain laws, as amended ('the Insurance Act').

8 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (revised version) (OJ L 335, 17.12.2009) ('the Solvency II Directive').

9 Act No 43/2004 Coll. on the old-age pension saving scheme and amending certain laws, as amended ('the Old-Age Pension Saving Scheme Act').

10 Act No 650/2004 Coll. on the supplementary pension saving scheme and amending certain laws, as amended ('the Supplementary Pension Saving Scheme Act').



In 2015 the FMS Unit issued 34 decisions concerning the old-age pension saving scheme and 38 decisions concerning the supplementary pension saving scheme. All these decisions entered into force in the same year.

One of the priorities of off-site supervision in the pension sector was to verify compliance with the reporting requirement by pension funds management companies, supplementary pension management companies, and the depositories of pension funds in relation to NBS. Special emphasis was placed on the verification for correctness of the valuation of financial instruments in pension fund assets and on the verification of compliance of the acquisition of such financial instruments with the relevant provisions of the Old-Age Pension Saving Scheme Act and of the Supplementary Pension Scheme Act.

The year under review saw the completion of eight thematic on-site inspections in pension funds management companies. Two of these inspections were launched in December 2014 to verify the preparedness of the companies under supervision for the payment of old-age pensions. The other six thematic inspections focused on verifying the ratings assigned to pension fund assets and the methods and procedures used by companies for valuing their assets held in pension funds.

In the third quarter of 2015, a thematic on-site inspection was also instituted in a banking institution performing depositary activities for the pension and collective investment sectors.

THE FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

As at 31 December 2015, a total of 34,400 entities were registered in the Register of Financial Agents and Financial Advisors (REGFAP), which is kept by NBS in accordance with Article 13 of the Financial Intermediation and Financial Advisory Services Act.¹¹ During 2015, 49 new entities were entered into REGFAP and 71 independent financial agents or financial advisors were removed from REGFAP. In addition, 210 financial intermediaries from other Member States were entered into REGFAP, mostly intermediaries au-

thorised to provide insurance and reinsurance services in Slovakia on the basis of the principle of free provision of cross-border services. In 2015 NBS accepted and processed 6,668 electronic proposals for the registration or deregistration of entities, and for a change in their registration, while cooperating with, and providing information to, public authorities and other authorised persons about affiliated entities registered in REGFAP.

In regard to this sector, the FMS Unit conducted a total of 101 sanction proceedings during 2015 and issued 76 decisions to impose a sanction and 21 decisions to end the proceedings (83 of which entered into force in the same year). Appeals were lodged against two first-instance decisions, but were not resolved in 2015.

Off-site supervision in this sector was exercised to verify and evaluate compliance with the statutory reporting requirement by the entities under supervision and to examine, in cooperation with the competent registry courts, compliance with the requirement that newly authorised financial agents and financial advisors should submit a proposal for the entry into the Commercial Register of the business of financial intermediation or financial advisory within three months of the date of authorisation. In several cases, the supervision revealed a breach of the Financial Intermediation and Financial Advisory Services Act. Such breach of law was sanctioned with the revocation of authorisation.

In 2015 six on-site inspections were conducted in regard to independent financial agents (legal persons), i.e. three thematic and two comprehensive inspections (one of which had not been formally completed by the end of December), and one comprehensive inspection from 2014 (it was completed in the first quarter of 2015).

THE SECURITIES MARKET SECTOR

As at the end of 2015, there were 14 investment firms operating in the Slovak financial market. During the year, one investment firm was authorised to provide investment services and one investment firm returned its authorisation.

In regard to investment firms, the FMS Unit issued 18 decisions over the course of 2015. Most

¹¹ Act No 186/2009 Coll. on financial intermediation and financial advisory services and amending certain laws, as amended ('the Financial Intermediation and Financial Advisory Services Act').



of these decisions concerned changes in authorisations to provide investment services and prior approvals for the appointment of board members or for the relocation of a firm's head office. During the year, the FMS Unit received 100 notifications from foreign investment firms that intended to provide investment services in Slovakia on a cross-border basis.

Regarding the public offering of securities, the FMS Unit approved 36 securities prospectuses in 2015, plus 11 supplements to securities prospectuses and 6 investment certificate prospectuses, which are not classified as securities prospectuses under the Prospectus Directive.¹² In the same year, the FMS Unit received 74 notifications from the supervisory authorities of other EU Member States in regard to the approval of securities prospectuses or of supplements to such prospectuses, and sent four notifications to the supervisory authorities of other EU Member States.

Within the scope of authorising activity relating to the segment of share issuers whose shares are traded on a regulated market of the Bratislava Stock Exchange (BCPB, a.s.), the FMS unit issued three decisions in 2015 in regard to the approval of take-over bid proposals and to the granting of permission for the exercise of the squeeze-out right.

In regard to the performance of depositary activities, the FMS Unit issued 14 decisions in 2015. These decisions concerned mainly the granting of prior approvals for the appointment of board and supervisory board members for the Central Securities Depository of the SR (CDCP SR, a.s.), for changes in the organisational rules of CDCP SR, a.s., and for the draft organisational rules of the National Central Securities Depository (NCDCCP, a.s.). The approval of the organisational rules of NCDCCP, a.s., was one of the conditions for NCDCCP to commence securities depositary activities, stipulated by NBS. However, NCDCCP, a.s. had not commenced operations by 31 December 2015.

Within the scope of its authorising activity relating to BCPB, a.s., the FMS Unit issued five decisions in 2015 to grant prior approval for the appointment of board members and supervisory board members for BCPB, a.s.

In the securities market sector, the FMS Unit conducted 13 sanction proceedings during 2015, four of which were cancelled and three completed with the issuance of a decision to impose a sanction. A total of seven first-instance decisions entered into force in 2015. Appeal proceedings were initiated against one first-instance decision, which was forwarded to the Bank Board of NBS for second-instance proceedings, but had not been reviewed by the end of 2015.

As at 31 December 2015, 14 domestic investment firms and 7 foreign investment firms operating in Slovakia through their branches were subject to off-site supervision under the MiFID Directive.¹³ Off-site supervision also covered the activities of BCPB, a.s., and CDCP SR, a.s., as well as compliance with the reporting requirement by 78 issuers of securities admitted to trading on a regulated market of BCPB, a.s., via the Central Register of Regulated Information (CERI) kept by NBS. Their number had dropped to 67 by end-December 2015. During 2015 NBS also verified six issuers in the matter of invitations for take-over bids.

In the securities market sector, two comprehensive on-site inspections were carried out in 2015 (one of them was instituted in 2014). In addition, 14 thematic on-site inspections were carried out in investment firms, with the focus being on verifying the measures employed by these firms to ensure adequate protection for complainants / consumers and other clients and the method they used to implement the Complaints Handling Guideline of ESMA¹⁴ into their internal regulations and policies. In the second half of 2015, two on-site inspections (one comprehensive and one thematic) were instituted in two investment firms with the focus being on verifying the provision of investment services and auxiliary services to clients.

THE COLLECTIVE INVESTMENT SECTOR

In 2015 there were seven management companies operating in the collective investment sector of the Slovak financial market. At the end of the year, one of these companies returned its authorisation to manage standard mutual funds and standard European mutual funds.

¹² Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC ('the Prospectus Directive').

¹³ Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC ('the MiFID Directive').

¹⁴ Methodological Guideline No 2/2014 of the Financial Market Supervision Unit of NBS of 30 September 2014 on complaints-handling for investment firms and management companies in accordance with the requirements of the European supervisory authority (European Securities and Markets Authority) ('the Complaints-Handling Guideline').



Within the scope of its authorising activity, the FMS Unit issued 108 decisions during 2015, including four authorisations to set up or manage a mutual fund (i.e. two authorisations to set up a standard mutual fund, one authorisation to set up a special public securities fund, and one authorisation to manage a special professional investor fund), 96 prior approvals (63 of which were prior approvals for a change in a mutual fund's statutes and 24 prior approvals for the appointment of board members or supervisory board members for a management company), and two authorisations for foreign management companies to distribute, using public offering, securities issued by their alternative investment funds to non-professional investors.

In 2015 a total of 38 notifications were received from European funds intending to offer publicly their securities in Slovakia. In addition, 39 notifications were received from foreign management companies intending to offer the shares/units of European alternative investment funds in Slovakia.

In regard to this sector, the FMS Unit issued one decision in 2015 to impose a penalty (it entered into force in the same year).

Subject to off-site supervision in 2015 were seven domestic management companies, which managed a total of 66 standard mutual funds (six of which were standard mutual funds set up under the Collective Investment Act but managed by a foreign management company), 22 alternative investment funds and 5 banking institutions performing depositary activities in accordance with the Collective Investment Act.¹⁵

In the collective investment sector, two comprehensive on-site inspections of two management companies were completed in 2015 (one of them was instituted in 2014). In addition, six thematic on-site inspections were completed in 2015; these inspections were carried out to verify the measures that companies had adopted to ensure adequate protection for complainants / consumers and other clients and to check the implementation of the Complaints Handling Guideline for investment firms and management companies into the internal regulations and policies of the companies concerned.

In the third quarter of 2015, a thematic on-site inspection was also commenced in a banking institution performing depositary activities for the collective investment and pension sectors.

2.3 FINANCIAL MARKET REGULATION

THE BANKING SECTOR

In cooperation with the Ministry of Finance, NBS prepared an amendment to the Resolution Act,¹⁶ in order to extend the legal framework for the prevention and resolution of crisis situations in the Slovak financial market. The amendment was designed to transpose the Bank Recovery and Resolution Directive (BRRD)¹⁷ into Slovak law.

NBS, working closely with the Ministry of Finance, also prepared a law on housing loans¹⁸, designed to implement the Mortgage Credit Directive¹⁹ and to create a legal framework for the effective functioning of the housing loan market within the harmonised internal market of the EU. This law stipulates conditions for the provision of housing loans and other services, procedures for the conclusion of housing loan agreements, the due form of such loan agreements and other particulars needed for the provision of housing loans.

In connection with the implementation of the new single European regulatory framework for banks, i.e. the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD IV),²⁰ NBS continued to prepare further legal regulations in 2015, especially NBS decrees.

NBS prepared a decree stipulating the details of additional types of risks, the details of the risk management systems of banks and branches of foreign banks, and the details of what is meant by a 'sudden and unexpected change in market interest rates.'

The risks related to asset encumbrance and their management were taken into account in the drafting of a decree amending the decree on information disclosure by banks and branches of foreign banks. In compliance with the EBA

15 Act No 203/2011 Coll. on collective investment, as amended ('the Collective Investment Act').

16 Act No 437/2015 Coll. amending Act No 371/2014 Coll. on resolution in the financial market and amending certain laws ('the Amendment to the Resolution Act').

17 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council ('the BRRD Directive').

18 Act No 90/2016 Coll. on housing loans and amending certain laws (hereinafter 'the Housing Loans Act').

19 Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 ('the Mortgage Credit Directive').

20 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ('the CRD IV Directive').



Guideline,²¹ the new decree was designed to extend the list of financial indicators to include a new item to be published, i.e. information about encumbered and unencumbered assets.

THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

An amendment to the Payment Services Act²² was prepared and approved in 2015, for the purpose of transposing the PAD Directive.²³ It entered into force on 1 January 2016.

This amendment was designed to keep financial consumers better informed, by supplying them with detailed information about fees related to payment accounts before they enter into a payment account agreement, to ensure a higher degree of transparency by enabling consumers to compare the banks' fees on the NBS website, and to simplify the process of payment account switching. The amendment also contained adjustments to the 'basic bank product,' which is designed for the lower-income groups of households.

THE NON-BANK LENDING SECTOR

During 2015 the Consumer Loans Act²⁴ was amended on two occasions in connection with the enactment of a law on housing loans.

In this connection, NBS also prepared a decree on the submission of statements by creditors providing consumer loans in a limited extent. Its purpose was to implement certain provisions of the Consumer Loans Act. This decree has created a legal framework for the verification of compliance with the requirement laid down in the Consumer Loans Act under which creditors, when allowed to provide consumer loans in a limited extent, may not exceed the amount lent of €10,000 over a period of 12 calendar months from the commencement of lending to consumers.

THE INSURANCE SECTOR

The new law on insurance implementing the new regulatory requirements for insurance market entities, laid down in the Solvency II Directive, entered into force on 1 January 2016. The new regulation is based on a risk-oriented approach and is designed to provide better protection for the insured and beneficiaries. In parallel, it supports market stability, especially by higher quality of risks evaluation and effective allocation of capital. The structure of Solvency II is

based on three pillars. The first pillar lays down capital requirements for insurance and reinsurance undertakings, taking account of the risk to which they are exposed (including underwriting, credit, market and operational risks). The second pillar sets out requirements for the system of governance used by insurance and reinsurance undertakings, as well as the method of supervision. The third pillar focuses on reporting and disclosure requirements.

For implementing the authorising provisions of the law, NBS issued twelve decrees in 2015 with effect from 1 January 2016.

In connection with the introduction of the new regulation under the Solvency II regime, NBS issued a recommendation to transpose the Solvency II guidelines of EIOPA.

THE PENSION SECTOR

As part of its legislative competences, NBS issued five decrees reflecting the changes in the primary legislation applicable for this sector, including amendments to the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act. The new decrees also take into account the prepared transition to the new information system, Statistics Collection Portal (IS ŠZP), and the application practice.

In preparing a formal letter providing the savers with information about the pay-out options of Pillar II of the pension system, the Financial Market Supervision Unit cooperated closely with the Slovak Ministry of Labour, Social Matters, and the Family.

The regulatory activity of NBS consisted in the adoption and publication of standpoints, with a view to ensuring a common approach to the transfer of funds from the institutions of foreign pension schemes and to the preservation of supplementary pension rights for Slovak citizens working and paying contributions abroad.

THE FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

During 2015 NBS cooperated closely with the Ministry of Finance in the preparation and drafting of a comprehensive amendment to the Financial Intermediation and Advisory Services Act, which was to enter into force on 1 January 2016. After

²¹ Guideline No EBA/GL/2014/03 of the European Banking Authority of 27 June 2014 on disclosure of encumbered and unencumbered assets.

²² Act No 405/2015 Coll. amending Act No 492/2009 Coll. on payment services and amending certain laws, as amended, and amending Act No 483/2001 Coll. on banks and amending certain laws, as amended ('the Amendment to the Payment Services Act').

²³ Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features ('the PAD Directive').

²⁴ Act No 35/2015 Coll. amending Act No 129/2010 Coll. on consumer loans and other credits or loans for consumers and amending certain laws, as amended ('the Amendment to the Consumer Loans Act'). Act No 117/2015 Coll. amending Act No 566/2001 Coll. on securities and investment services and amending certain laws (the Securities Act), as amended, and amending certain other laws.



the draft amendment had undergone the inter-ministerial coordination procedure, however, the legislative process was suspended in the summer of 2015. With effect from 1 January 2016, a shortened version of this amendment was passed to provide a legal framework for the use of a professional guarantor instead of a senior employee of a financial agent or of a financial advisor.

THE SECURITIES MARKET SECTOR

As regards the securities market sector, NBS cooperated closely with the Ministry of Finance in the implementation of a recent amendment to the Transparency Directive,²⁵ which was transposed into the Stock Exchange Act,²⁶ as well as in the preparation of an amendment to the Securities Act²⁷ with the aim of extending the legal framework for the issuance of investment certificates and simplifying the process of transition to the conduct of central depository activities on the principle of full membership. With the issuance of an amendment to the Securities Act, one of the tasks arising from the Concept of Capital Market Development has been accomplished.

During 2015 NBS drafted several decrees for the securities market sector to amend the existing decrees, mainly on reporting by investment firms.

At the beginning of the year, NBS issued a decree to amend an existing decree on the submission of statements by non-bank investment firms for the purpose of maintaining continuity in the structure of databases and data reported to NBS by in the form of balance sheets and profit and loss accounts.

Within its regulatory competence, the Financial Market Supervision Unit NBS published recommendation²⁸ on the definition of financial instruments pursuant to Article 5 (1) (f – g) of the Securities Act on its website, transposing the respective ESMA guideline²⁹.

THE COLLECTIVE INVESTMENT SECTOR

In 2015 NBS cooperated closely with the Ministry of Finance in the preparation of an amendment to the Collective Investment Act, designed to transpose the UCITS V Directive³⁰ to Slovak law. In the context of the tasks arising from the Concept of Capital Market Development, the new amendment has created a legal framework for the use

of new forms of collective investment and related activities, mainly by introducing open-ended collective investment funds (SICAV).

For collective investment undertakings, NBS issued an amendment to the decree on risks and risk management systems, risk measurement, and the calculation of overall and counterparty risks, which was designed to implement the updated guidelines of the European Securities and Markets Authority (ESMA) on ETFs and other UCITS issues.³¹

For the managers of alternative investment funds (AIFs), NBS issued a decree in the first half of 2015 on the submission of information by the managers of AIFs for the purposes of supervision and systemic risk monitoring, as well as a related methodological guideline.

2.4 BANK RECOVERY AND RESOLUTION

In January 2015, the Resolution Council started to perform its key tasks and functions in the area of bank recovery and resolution. The performance of tasks needed to create a professional and organisational framework for the Council to exercise its powers is actually ensured by the Resolution Section of the Regulation Department of NBS.

In 2015 the Resolution Section ensured the preparation of internal regulations for the Resolution Council and, working closely with the Deposit Protection Fund, established procedures for the collection of contributions from banks for the National Resolution Fund. The staff members of the Resolution Section cooperated closely with the Ministry of Finance in the preparation of amendments to the Resolution Act, which were designed, inter alia, to clarify and review the provisions governing proceedings before the Resolution Council, and in the transposition of a new directive on deposit protection. The Resolution Section also cooperated intensely with the Single Resolution Board based in Brussels. Together with the representatives of other euro area countries, the Resolution Section participated in the preparation of methodologies and joint procedures for the Single Resolution Board, and in the organisation of two internal resolution teams for bank groups operating in Slovakia.

25 Directive 2013/50/EU of the European Parliament and of the Council of 22 October 2013 amending Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, Directive 2003/71/EC of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading, and Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC ('the Amendment to the Transparency Directive').

26 Act No 388/2015 Coll. amending Act No 429/2002 Coll. on the stock exchange, as amended, and amending Act No 566/2001 Coll. on securities and investment services and amending certain laws (the Securities Act), as amended ('the Amendment to the Stock Exchange Act').

27 Act No 117/2015 Coll. amending Act No 566/2001 Coll. on securities and investment services and amending certain laws (the Securities Act), as amended, and amending certain other laws ('the Amendment to the Securities Act').

28 http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/legislativa/detail-dokumentu/_c1edef39-1834-4966-9190-ba90418589c3

29 Guidelines on the application of the definitions in Sections C6 and C7 of Annex I of Directive 2004/39/EC.

30 Directive 2014/91/EU of the European Parliament and of the Council of 23 July 2014 amending Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards depository functions, remuneration policies and sanctions ('the UCITS V Directive').

31 Guideline No ESMA/2014/937SK of the European Securities and Markets Authority of 1 August 2014 on ETFs and other issues for competent authorities and UCITS management companies.



2.5 FINANCIAL CONSUMER PROTECTION

As from 1 January 2015, NBS is the competent authority for consumer protection in the Slovak financial market. Before that date, NBS had already performed the functions of a single contact place for consumers and other clients who complained about the violation of their rights by entities subject to supervision. Consumer protection is currently perceived as an important matter at both the national and European levels. NBS intends to contribute to the protection of consumer rights and to ensure that remedy for any breach thereof is provided as soon as possible and that practices that had given rise to complaints in the past are not repeated. A crucial task in this regard is to ensure adequate consumer protection in the area of non-bank lending, too. This task was taken on by NBS in 2015.

Since the year under review saw several major legislative changes in consumer protection, methodological activity is regarded as one of the key tools for accomplishing this task. The FMS unit has adopted a standpoint on the application of the Civil Code to business relationships involving consumers.³² It concerns the use of new rules in relation to virtually all the entities that are subject to supervision. With effect from April 2015, the Civil Code is to be applied even to legal relationships that are covered by the Commercial Code, for example to loan and current account agreements. In regard to consumer protection, further two methodological guidelines were issued in 2015: a guideline on the designation and promotion of insurance products and a guideline on the use of valuation tables in connection with the conclusion of an insurance contract. In addition, a statement was issued on the application of Article 9a of the Consumer Protection Act. Two public consultations were initiated in 2015 on the following subjects: (1) unilateral modifications to contracts for financial services and (2) the examination of a person's state of health for health insurance purposes.

As regards consumer protection, several sanctions proceedings were instituted in 2015 but no final decision was issued to impose a sanction. At the same time, preliminary measures were taken to protect the collective rights of consumers.

Since 2015 was the first year of supervision in the area of financial consumer protection, in-depth examinations were carried out to obtain an overview of compliance by the entities under supervision with their obligations and of the market practices used in consumer protection. As the range of supervisory tools and powers used in this area had been extended through an amendment to the Financial Market Supervision Act³³ (with effect from the beginning of 2015), appropriate internal processes and procedures had to be adopted for the exercise of supervision. These included a brand new tool, i.e. on-site inspection conducted indirectly or in the form of a mystery shopping exercise in which the FMS Unit had no practical experience at that time. In the area of banking, supervision focused on verifying the segment of consumer loans, in particular whether consumer loan agreements contained any unacceptable conditions, whether they contained all the statutory elements, whether consumers had all the information needed for the conclusion of a loan agreement, and whether any false or misleading information was used during the promotion of loan products. Supervision was also used to verify the legality of, and the information provided about, fees charged for payment services, mainly in connection with payments in foreign currency. In the area of insurance, the supervisors verified the procedures followed by insurers in liquidating insurance events and the sale of insurance products linked to bank products – banking insurance. In connection with the latest amendment to the Consumer Loans Act, which required companies that intended to continue providing non-bank consumer loans to apply for authorisation for such activity, the supervisors in charge of consumer protection made preparations for the verification of the facts such companies stated in their applications. In the area of consumer protection, the focus of supervision was on verifying the conduct of financial intermediation, in particular whether aggressive and unfair business practices were employed, such as concealment of material facts or misleading of consumers.

In 2015 off-site supervision was instituted in 18 cases and broad surveillance in 6 cases. Thematic on-site inspections were commenced in nine cases (six in non-bank entities), with the focus being on the conclusion of consumer loan agreements. In all these cases, the on-site inspection began

³² Standpoint No 1/2015 of the Financial Market Supervision Unit of Národná banka Slovenska of 21 April 2015 on the application of the Civil Code to business relationships involving consumers.

³³ Act No 747/2004 Coll. on financial market supervision and amending certain laws, as amended ('the Financial Market Supervision Act').



with a mystery shopping exercise. A total of 42 mystery shopping exercises were conducted during the year, 20 of which also included the conclusion of a financial service agreement.

In 2015 NBS received 1,645 submissions from financial consumers, i.e. 167 more than in 2014 (an increase of 10%). Almost one fifth of these submissions were justified, i.e. they concerned cases where the right of a consumer had actually been violated by a financial institution. The exercise of supervision over consumer loans provided by non-bank creditors was also reflected in the number of submissions received. During 2015 NBS received 209 such submissions. This indicates that consumer loans were the second most

frequent subject-matter of complaints, next to comprehensive motor insurance. In the area of banking, the complaints of financial consumers concerned mainly mortgage loans, housing loans and consumer loans provided by banks. The number of submissions regarding financial intermediation remained virtually unchanged during 2010-2014. These submissions concerned the method, range and quality of the information financial consumers had received before the financial service was actually provided. In 2015 submissions received from the customers of entities subject to supervision remained the main source of information that NBS used in conducting on-site inspections or off-site supervision in specific companies.

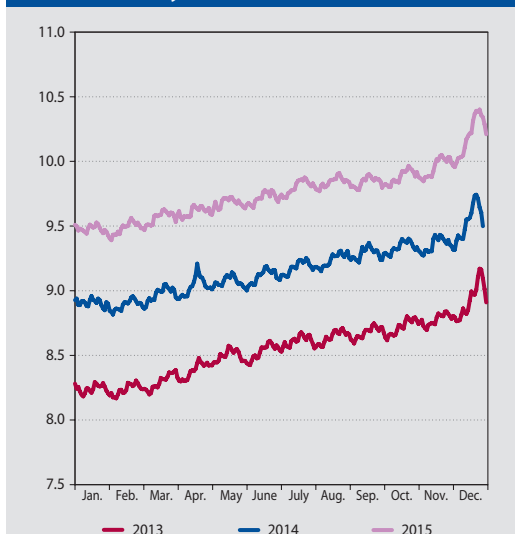
3 ISSUING ACTIVITY AND CURRENCY CIRCULATION

3.1 CUMULATIVE NET ISSUANCE

The cumulative net issuance (CNI)³⁴ of euro banknotes and coins in Slovakia had a total value of €10.2 billion as at 31 December 2015, with euro banknotes accounting for €10.1 billion of that amount. The CNI increased in 2015 by 7.5% year-on-year (by €711.5 million), with its growth rate

accelerating after several years on a downward trend³⁵. The value of the item *currency in circulation*, corresponding to Národná banka Slovenska's allocated share in the Eurosystem's production of euro banknotes (Banknote Allocation Key), amounted to around €10.9 billion as at 31 December 2015³⁶. The difference in value between the euro banknotes issued in Slovakia and the *currency in circulation* item was €879 million.

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



Source: NBS.

The CNI's daily trend in 2015 remained the same as in previous years, with the year-on-year difference ranging approximately between €0.4 billion and €0.8 billion. The daily CNI is usually highest in the pre-Christmas period, and in 2015 it peaked on 23 December (at €10.4 billion).

Euro banknotes accounted for almost the entire value of the CNI (98.5%), but only for 20% of the CNI in terms of volume. Euro coins (including euro collector coins) made up the remaining 80%.

The cumulative net issuance as at 31 December 2015 comprised almost 149 million euro banknotes and approximately 604 million euro coins (including collector coins). The €50 denomination had the largest share of the total number of banknotes included in the CNI, at almost 24%. The coins issued in the highest volumes are the

³⁴ Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2015 refers to the difference between the value (volume) of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009, when Slovakia joined the euro area, and 31 December 2015.

³⁵ The CNI increased by 6.6% in 2014, 7.5% in 2013, 12.7% in 2012, 21.6% in 2011 and 30.8% in 2010.

³⁶ The value of currency in circulation throughout the euro area as at 31 December 2015 was €1,083 billion, and the share of that currency issued in Slovakia according to the banknote allocation key was 1.0095%, or around €10.9 billion.