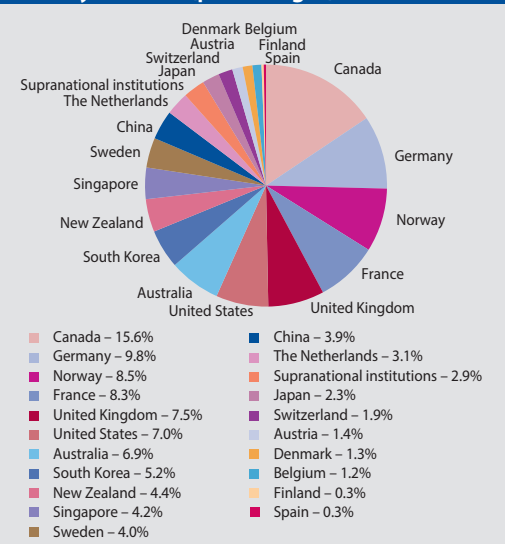




Chart 20 Total value of NBS bond portfolios as at 31 December 2018 broken down by country of issuer (percentages)



Source: NBS.

NBS entered the equity market, establishing an equity portfolio that comprises shares in selected exchange-traded funds representing the global equity market. Overall in 2018, the NBS investment portfolios earned around €38 million (marked-to-market, with the portfolios' aggregate value converted to euro at year-end exchange rates), including earnings on gold reserves and taking into account hedging costs and other expenses and income arising from operations on the liabilities side.

Box 2

FX GLOBAL CODE

The FX Global Code is a set of principles of good practice for traders in the foreign exchange market. Its objective is to promote a robust, fair, liquid, open and transparent market underpinned by high ethical standards that will benefit all forex market participants. The Code was initiated by the Bank for International Settlements (BIS) and its establishment was a joint effort of major world central banks and commercial banks. In May

2017 all ESCB central banks, including Národná banka Slovenska and the European Central Bank, undertook to incorporate the Code in their internal procedures within 12 months. On 14 May 2018 NBS and the other ESCB central banks jointly issued a Statement of Commitment to Foreign Exchange Global Code. At the same time, NBS supports the implementation of and adherence to the Code in the Slovak financial sector.

2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION⁹

2.1 FINANCIAL STABILITY

In 2018 the NBS Bank Board adopted six macroprudential policy decisions concerning cyclical and structural systemic risks.

Four of these decisions were regular quarterly decisions on the setting of the countercyclical capital buffer (CCyB) rate, the first two of which kept the CCyB rate at 1.25%.¹⁰ The next decision, adopted in July (No 6/2018) was significant from

⁹ For further details, see the Report on the Activities of the Financial Market Supervision Unit of NBS in 2018 (in Slovak only), which is published on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnost-i-udf>.

¹⁰ The Bank Board bases its CCyB rate decisions on the analysis provided in NBS's Quarterly Commentary on Macroprudential Policy, which is published on the NBS website in January, April, July and October.



a financial stability perspective, since the Bank Board raised the CCyB rate for the third ever time, to 1.50% with effect from 1 August 2019.

The decision to raise the CCyB rate was made largely in response to the continuing strong growth in loans to households and to non-financial corporations (NFCs). Credit growth was supporting a build-up of cyclical risks, exacerbated by a combination of lower interest rates and macroeconomic overheating. In its decision of October 2018, the Bank Board kept the CCyB rate at 1.5%.

The other two decisions concerned banks in Slovakia identified as 'other systemically important institutions' (O-SIIs). The list of O-SIIs is reassessed annually, and in 2018 there was no change in either the list of O-SIIs¹¹ or in the size of the banks additional buffer requirements, i.e. the O-SII buffer and, for some banks, the systemic risk buffer (SRB). The five O-SIIs were subject to an O-SII buffer of either 0.5% or 1%, and three of those banks were subject to an SRB of 1%. These decisions entered into force on 1 January 2019.

As part of its monitoring of the overall situation in the financial market, NBS also publishes the bi-annual Financial Stability Report (FSR),¹² which in 2018 was released, as usual, in May and November. The purpose of the FSR is to assess the past half-year or year in the Slovak financial system and to provide an overview of the potential risks to its stability. The FSR assesses both the international and domestic economic environment in order to identify the main sources of risks to domestic financial stability.

An important step in the context of macroprudential policy was taken in 2018 with the adoption of one NBS Decree amending the Consumer Loan Decree and another amending the Housing Loan Decree, with each amending Decree entering into force on 1 July 2018. A key element of these amendments was the introduction of a new debt-to-income (DTI) ratio limit, to be phased in over a period of one year. The amending Decrees are designed to mitigate risks associated with rapid household debt growth – which at the current very low interest rates is excessive. Households whose debt is too high for their income could eventually face serious debt-servicing difficulties. If there are many such cases, they may present

serious problems not only for the financial sector, but also the domestic economy as a whole.

On 1 September 2018 a Macroprudential Policy Committee was established at NBS. The committee is tasked with, among other things, discussing topics of macroprudential policy in regard to preserving the stability of the financial system as a whole (including the strengthening of the system's resilience and reduction of systemic risk), as well as discussing risks and trends that could affect financial stability and the possible deployment of tools to mitigate systemic risks.

2.2 FINANCIAL MARKET SUPERVISION

THE BANKING SECTOR

As at 31 December 2018 a total of 12 banks and 15 foreign bank branches were operating in Slovakia. Under the Single Supervision Mechanism (SSM), consisting of the ECB and the national competent authorities of participating Member States, all banks and foreign bank branches operating in Slovakia are categorised as either

- significant, supervised directly by the ECB in close cooperation with NBS;
- less significant, supervised directly by NBS.

In 2018 a total of 29 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 statutory board or supervisory board.

In 2018 NBS issued a total of 27 decisions under approval proceedings in this area; most of them concerned the grant of prior approval for appointments to one or more of the following positions: member of a statutory body or supervisory board, senior manager, authorised representative, and chief internal control/audit officer. Three of the most important decisions issued by NBS in 2018 were related to the new legislative framework for mortgage banking in force since 1 January 2018; they were decisions to grant approval for the conduct of business related to the covered bond programme.

In 2018 a total of nine thematic on-site inspections were conducted in banks and foreign bank

¹¹ The banks included on the list were Československá obchodná banka, a. s., Poštová banka, a. s., Slovenská sporiteľňa, a. s., Tatra banka, a. s., and Všeobecná úverová banka, a. s.

¹² <https://www.nbs.sk/en/publications-issued-by-the-nbs/financial-stability-report>



branches in Slovakia. These inspections focused mainly on the quality of the institution's risk management system, paying particular attention to credit risk, market risk, operational risk, interest rate risk in the banking book, the corporate governance system, and the level of protection against money laundering and terrorist financing.

Off-site supervision of banks and foreign bank branches involves regularly processing statements and reports, monitoring prudential business indicators, conducting analyses, communicating with supervised entities and their home supervisors, and, most importantly, working on joint activities within the ECB's framework of direct and indirect supervision and within supervisory colleges for individual banks.

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

PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

As at 31 December 2018 a total of 12 payment service providers were authorised to operate in the Slovak financial market; eight 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 2018.

A total of 16 final decisions concerning payment services were issued by NBS in 2018, including two decisions to authorise the provision of payment services, and two decisions to amend an authorisation to provide payment services. The other decisions concerned the grant of prior approval for appointments to one or more of the following positions: member of a statutory body

or supervisory board, and chief internal control/audit officer.

Regarding the issuance of electronic money, NBS issued two decisions in 2018, one to amend an authorisation and another to grant prior approval.

By the end of 2017 a total of 32 foreign payment institutions were registered with NBS on the basis of a notification of their intention to provide payments services, and 39 foreign electronic money institutions were registered on the basis of a notification of their intention to issue, offer and exchange electronic money or to provide payment services in Slovakia without establishing a branch.

Two comprehensive on-site inspections of payment institutions were completed in 2018 after commencing in 2017. Another on-site inspection of such an institution was initiated and completed in 2018. A fourth on-site inspection started in 2018 and was still in progress at the year-end; it was being conducted at a bank and focused on reviewing and assessing the bank's system for providing payment services in its capacity as a payment services provider. The other three inspections involved mainly reviewing and assessing the payment services system, compliance with business conditions, the internal control/audit system, the risk management system in respect of selected risks, the system for preventing money laundering and terrorist financing and fulfilment of obligations in this area, and compliance with legislation of general application.

FOREIGN EXCHANGE ACTIVITY

As at 31 December 2018 there were 1,167 entities in Slovakia holding a foreign exchange authorisation. During 2018 NBS issued 17 decisions in this area, 13 of which were decisions to issue a foreign exchange authorisation.

Eight sanction proceedings that resulted in the imposition of a fine were initiated in 2018.

In 2018 ten on-site inspections were conducted in regard to the provision of foreign exchange services (i.e. the purchase of foreign cash currency in exchange for euro cash, and vice versa), primarily in order to check compliance with the Foreign Exchange Act. Another two on-site



inspections concerned the reporting obligation under the Foreign Exchange Act.

NON-BANK CONSUMER LENDING

As at 31 December 2018 there were 31 non-bank lenders operating in the Slovak financial market, of which 30 were authorised to provide consumer credit to an unlimited extent and one to a limited extent. In 2018 NBS issued 53 final decisions under approval proceedings concerning non-bank lenders, including three authorisations to provide consumer credit to an unlimited extent, three prior approvals for the return of an authorisation, and 36 prior approvals for appointments to one or more of the following positions: member of a statutory body or supervisory board, and chief internal control officer.

In 2018 NBS completed two comprehensive on-site inspections at a lender providing consumer credit (the inspections began in 2017). It also initiated and completed one comprehensive inspection in 2018 and initiated a further 3 comprehensive or thematic on-site inspections. The inspections focused mainly on reviewing or assessing compliance with the Consumer Credit Act in the provision of consumer credit, compliance with business conditions, information provided during authorisation proceedings for consumer lending, the internal control/audit system, the risk management system in respect of selected risks, and the system for preventing money laundering and terrorist financing.

THE INSURANCE SECTOR

As at 31 December 2018 the Slovak financial market included 14 insurers established in Slovakia and operating under the EU's Solvency II regime and 22 branches of (re)insurers established in another EU Member State. (Among the insurers established in Slovakia, one was taken over by another and one had its authorisation terminated in 2018.)

A total of five decisions issued by NBS under approval proceedings concerning the insurance sector entered into force in 2018. One of the most significant of them was a decision to grant prior approval for the acquisition of a qualifying holding in an insurer.

One decision to impose a sanction entered into force in 2018.

In 2018 the NBS Financial Market Supervision (FMS) Unit, besides regularly reviewing statements and reports submitted by insurers, conducted off-site supervision of all insurers falling under the Solvency II regime. The purpose of this exercise was to verify the contents of key information documents for packaged retail and insurance-based investment products (PRIIPs), to review compliance with remuneration requirements, and to review the institution's own funds. Where any deficiencies were identified, the insurer was informed by letter of the results of the inspection.

As part of its off-site supervision of the insurance sector in 2018, NBS requested insurers to submit data and information concerning the prevention of money laundering and terrorist financing.

Several meetings took place in 2018 between staff of the FMS Unit and representatives of individual insurers and their external auditors. These meetings focused mainly on operation of insurers subject to supervision under the Solvency II regime, on the principal risks in the insurance sector, and on expected developments in the insurance market.

NBS initiated six thematic on-site inspections in the insurance sector in 2018, including two looking at own funds and remuneration policy, two that examined the fulfilment of and compliance with obligations arising under the Anti-Money Laundering Act, one centred solely on the institution's own funds, and one that examined the corporate governance system and outsourcing activities. In addition, it completed one comprehensive and one thematic on-site inspection in 2018 after initiating them in 2017. Another thematic on-site inspection initiated in 2017 was not completed because the insurer was declared bankrupt in 2018.

THE PENSION FUND SECTOR

In 2018 the Slovak financial market included six pension fund management companies (PFMCs) managing a total of 19 pension funds (constituting the old-age pension scheme, the second pillar of the pension system), and four supplementary pension management companies (SPMCs) managing a total of 16 supplementary pension funds (the third pillar). Depository activities under the Old-Age Pension Scheme Act



and the Supplementary Pension Scheme Act were performed by five banking institutions. As for NBS decisions that entered into force in 2018 and were issued under approval proceedings, 19 concerned the supplementary pension scheme and another 19 concerned the old-age pension scheme.

In regard to the supplementary pension scheme, one decision to impose a sanction entered into force in 2018.

Off-site supervision of the pension sector in 2018 largely involved collecting and analysing data submitted by PFMCs, SPMCs, and depositories of pension funds and supplementary pension funds.

One thematic on-site inspection of a PFMC was initiated and completed in 2018; it focused on the firm's organisation and governance and the outsourcing of activities relating to pension fund management. Another two thematic on-site inspections were initiated at PFMCs in the fourth quarter of 2018; they focused on reviewing the calculation of the pension point and net asset value of pension funds and on the PFMC's procedures and techniques for valuing pension fund assets. In the third quarter, the comprehensive on-site inspection of a PFMC which NBS initiated in 2017 was completed.

Thematic on-site inspections were initiated and completed at five SPMCs in 2018. One of the inspections focused on the firm's organisation and governance and on the outsourcing of activities relating to supplementary pension fund management. The other four inspections involved reviewing the calculation of the supplementary pension point and net asset value of a supplementary pension fund and the SPMC's procedures and techniques for valuing supplementary pension fund assets.

FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

As at 31 December 2018 there were 34,443 entities registered in the register of financial agents, financial advisers, financial intermediaries from other Member States operating in the insurance or reinsurance sector, and financial intermediaries from other Member States engaged in the provision of housing loans (RegFaP; hereinafter

"the register"). In 2018, a total of 16 authorisations to operate as an independent financial agent and one authorisation to operate as a financial adviser took effect in 2018, and a total of 14 entities from different sectors were newly entered in the register. Under the applicable legislation issued by NBS, a financial agent or financial adviser may be entered in the register only after meeting statutory requirements, i.e. after information specifying the entity's authorised activities has been submitted to the Commercial Register and after the entity has submitted a copy of each insurance contract it has concluded, including a receipt of premium payment. During the year 48 independent financial agents were deleted from the register.

Also newly entered in the register in 2018 were 325 financial intermediaries from other Member States operating in the insurance or reinsurance sector; these entities are authorised to operate in Slovakia under the freedom to provide services. Another two financial intermediaries entered in the registry in 2018 are authorised to operate in the insurance or reinsurance sector in Slovakia under the freedom of establishment. A further six intermediaries from other Member States were entered in the register in 2018 and are engaged in the provision of housing loans. In 2018 NBS received and processed 7,485 electronic applications from independent financial agents and financial institutions for the entry of subordinate financial agents or tied financial agents in the register, or for the amendment or cancellation of such subordinate entities' entries in the register.

In this area of supervision, a total of 11 decisions to impose a fine entered into force in 2018.

In 2018 a total of 13 legal entities were entered in the register as providers of specialised financial education.

Off-site supervision of this sector in 2018 included evaluating independent financial agents for their compliance with the obligation to submit to NBS a statement on their provision of financial intermediation for the period from 1 January 2017 to 31 December 2017 and a MiFID II report, and ensuring that data on subordinate entities entered in the register were updated on the basis of information contained in incoming forms pro-



cessed by NBS. All independent financial agents and financial advisers were required to submit to NBS by the end of 2018 information on the fulfilment in 2016 and 2017 of their obligations to prevent and detect money laundering and terrorist financing. As part of its off-site supervision, NBS also examined the provision of a financial benefit to customers in relation to financial intermediation and whether the complaints filed by natural and legal persons against financial market participants providing financial intermediation and financial advisory services were justified.

Two comprehensive on-site inspections of independent financial agents were initiated in 2018, and one of these inspections was still in progress at the year-end. Another two comprehensive on-site inspections of independent financial agents were completed in 2018 after commencing in 2017.

THE SECURITIES MARKET

A total of 20 investment firms were operating in the Slovak financial market as at 31 December 2018. A total of 18 decisions issued under approval proceedings in this area entered into force in 2018. One of the most significant of them was a decision to issue an authorisation to provide investment services. In 2018 the FMS received from foreign investment firms 121 notifications of their intention to provide cross-border investment services.

In 2018 the FMS Unit approved 45 securities prospectuses, three securities notes including summary document, and five securities prospectus supplements. The FMS Unit received 63 notifications from other EU countries' supervisory authorities concerning the approval of securities prospectuses or prospectus supplements and sent seven such notifications to other EU countries' supervisory authorities.

As part of approval activities concerning central securities depositories (CSDs), one decision to authorise the operation of a CSD pursuant to the CSD Regulation entered into force in 2018.

As regards approval activities concerning issuers of shares traded on the Bratislava Stock Exchange (BSSE), three decisions to approve a mandatory takeover bid and one decision to approve the exercise of the right of squeeze-out entered into force in 2018.

Approval activities concerning the BSSE in 2018 included the entry into force of four decisions to grant prior approval for the appointment of a member of a management board or supervisory board.

In regard to the securities market, three decisions to impose a sanction entered into force in 2018. Off-site supervision of the securities market in 2018 was exercised over 20 domestic investment firms and over seven investment firms operating in Slovakia through branches in accordance with MiFID II, four of which were operating through tied agents. Off-site supervision was also exercised over banks and foreign bank branches authorised to provide investment services. The main priorities of this off-site supervision were to check compliance with prudential business rules, to assess an entity's financial situation and risk profile, and to check compliance with statutory obligations. The obligations of supervised entities and the quality of data they transmit, in particular the data reported to trade repositories under EMIR and transaction reporting under MiFIR, are reviewed on an ongoing basis.

Off-site supervision also covered the BSSE and two 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 71 such issuers registered as at 31 December 2018.

One comprehensive on-site inspection of an investment firm was initiated in 2018 and focused on the firm's activities and its compliance with the Securities Act and with other legislation of general application applicable to the firm or its activities. The first quarter of 2018 saw the completion of one comprehensive and one thematic on-site inspection which had been initiated in 2017 and which focused on reviewing the provision of investment services and activities and ancillary services.

Five thematic on-site inspections of banking entities which concerned the provision of investment services and activities and ancillary ser-



vices in accordance with the Securities Act were completed in 2018. Two of these inspections were initiated in 2017.

THE INVESTMENT FUND SECTOR

A total of eight asset management companies (AMCs) were operating in the Slovak financial market as at 31 December 2018. In the case of one of these companies, the commencement of its operation was pending its fulfilment of conditions for the performance of its authorised activities as laid down in an NBS decision. Among the most significant decisions taken by NBS in this area in 2018 was a decision to issue an AMC with an authorisation to establish and manage alternative investment funds and foreign alternative investment funds. A total of 69 decisions issued under approval proceedings entered into force in 2018. NBS received 41 notifications from European funds concerning their intention to make a public offering of their securities in Slovakia and 31 notifications from foreign fund management companies concerning the marketing of their securities in Slovakia via private offerings under the freedom to provide services.

In regard to this sector, one decision to impose a sanction entered into force in 2018.

In 2018 off-site supervision was exercised over the eight domestic AMCs, which as at the year-end were managing a total of 67 standard funds (including five funds established under the Collective Investment Act and managed by a foreign AMC), and over 19 alternative investment funds. It also encompassed five banking entities performing depository activities in accordance with the Collective Investment Act.

Off-site supervision focused on checking AMCs and depositories of collective investment undertakings for their compliance with reporting obligations to NBS. Based on the information reported, NBS reviewed the asset structure of investment funds and assessed in particular the riskiness of transactions undertaken and the impact of these transactions on individual funds' global risk exposure and on the pricing of funds' assets.

Three thematic on-site inspections were initiated in this sector in 2018. Each focused on review-

ing the asset structure of a special real estate fund, on the procedures and methods for investing the assets of a special real estate fund, and on the application of risk mitigation principles. A further three thematic on-site inspections of AMCs were completed in the first half of 2018 after commencing in 2017. These inspections focused on checking the application of remuneration principles, compliance with ESMA Guidelines on sound remuneration policies under the Alternative Investment Fund Managers Directive (AIFMD), and on checking the implementation of the compliance function in regard to measures, strategies and procedures for risk identification and internal audit.

2.3 FINANCIAL MARKET REGULATION

THE BANKING SECTOR

During 2018 FMS Unit staff cooperated actively with the Ministry of Finance of the Slovak Republic (MF SR) on the drafting of an amendment to the Resolution in the Financial Market Act. The amending law includes amendments to several other laws that are substantively interrelated and represent a comprehensive legislative framework governing various legal relations in the financial market. The purpose of the amendments is to limit risk and prevent the emergence of crisis situations in the financial market. The package of measures will increase the efficiency of financial institutions, thereby supporting their resilience to potential crises and increasing the stability of the Slovak financial market.

In regard to the banking sector, for example, the above-mentioned amending Act's amendments to the Banking Act include mainly provisions on the Register of Bank Loans and Guarantees and on the provision of information subject to banking secrecy. Likewise, the amendment to the Act on the Export-Import Bank of the Slovak Republic harmonises the legislative provisions on the protection of information and data concerning customers. A number of laws were amended in 2018 in connection with legislative provisions concerning the abolition of the Slovak Banking Association's Permanent Court of Arbitration; these included the Banking Act, the Payment Services Act, the Arbitration Act, the Consumer Arbitration Act, and the Alternative Dispute Resolution Act.



In regard to the new regulatory framework under which the mortgage banking sector has been governed and supervised since 2017, NBS drafted several related decrees in 2018. These included a Decree on the covered bonds register, which stipulates the following: the information to be registered in the covered bonds register for purposes related to the covered bonds programme; the method, procedures and technical rules by which the covered bonds register is to be maintained; and the time limits, periods, and frequency for entering and updating information in the covered bonds register. Also in 2018 NBS issued a Decree on the submission for supervisory purposes of reports from the covered bonds register and mortgages register. Its main purpose is to harmonise the method of transmitting information on covered bonds and mortgage bonds and on the securing of such bonds in the banking sector, in order to ensure investor protection and to minimise the investment risk associated with covered bonds. Another response to changes in the mortgage banking sector was an amendment to the Decree on the disclosure of information by banks and branches of foreign banks. This Decree laid down a template for disclosing information on bonds and mortgage bonds, and it also incorporated terminological changes and new rules on the measurement of assets pursuant to International Financial Reporting Standard (IFRS) 9.

Credit growth remained robust in 2018, particularly in the household sector, and for an extended period it has been outpacing growth in GDP, employment and wages. In this context, NBS adopted several measures in 2018 with the aim of ensuring that borrowers do not become overindebted. Especially important in this regard was the issuance of two amending Decrees, one amending the Housing Loan Decree and the other amending the Consumer Loan Decree. As a result of these amendments, banks ceased providing housing loans with a loan-to-value (LTV) ratio of more than 90% and began reducing the share of new housing loans with an LTV ratio of more than 80%. In addition, a limit was introduced on the share of new loans that may have a debt-to-income ratio of more than eight (i.e. eight times the borrower's annual income). So as to prevent these amendments causing sudden changes in the market, the tightening of regulatory lending standards is being phased in gradually.

PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE

In the area of payment services regulation, the Payment Services Act was amended via the above-mentioned amendment to the Resolution in the Financial Market Act. The principal amendments concerned the implementation of corrigenda to the EU's second Payments Services Directive (PSD II), which the Payment Services Act transposes, and the abolition of the SBA's Permanent Court of Arbitration.

In 2018 NBS issued a methodological guideline laying down conditions for bringing payment institutions, electronic money institutions, and the activities of these institutions into line with the Payment Services Act.

NON-BANK CONSUMER LENDING

The regulation of non-bank consumer lending was addressed by an amendment to the Consumer Credit Act made through the amendment to Resolution in the Financial Market Act. The main amending provisions concerned the abolition of the exemption of 'pre-approved' loans from compliance with new regulatory limits on debt-to-income and debt service-to-income ratios, and, in respect of all pre-approved loans, the relaxation of requirements for verifying the borrower's income with the Social Insurance Agency.

Another amending provision concerned mainly motor vehicle financing through leasing companies – giving the borrower options of what to do with the vehicle at the end of the repayment term, for example, whether to pay the final instalment or return the vehicle to the leasing company.

THE INSURANCE SECTOR

An NBS Decree laying down a template document for the principal elements of insurance contracts entered into force in July 2018, its purpose being to improve the provision of information to insurance policyholders. The document, contained in the annex to the Decree, is designed to assist prospective policyholders when deciding whether to conclude an insurance contract or whether the insurance product in question is suitable for them. The document should provide a clear summary of the following: the conditions for concluding the contract and the principal elements of the contract; and the general and spe-



cific insurance terms and conditions, and other documents, which the policyholder should assess before concluding the contract.

THE PENSION FUND SECTOR

In 2018 NBS was part of a working group established by the Ministry of Labour, Social Affairs and Family of the Slovak Republic (MPSVaR SR) with the task of drafting an amendment to the Supplementary Pension Scheme Act which transposes the EU's Directive on Institutions for Occupational Retirement Provision (the IORP II Directive). The amendment was approved in March 2018 and entered into force on 1 January 2019.

In connection with the amendment of the Supplementary Pension Scheme Act, NBS was also involved in the drafting of two MPSVaR SR Decrees: Decree No 295/2018, which includes a new template for the statement of a personal account and the statement of projected pension benefits under the supplementary pension scheme; and Decree No 296/2018, which provides information about benefits under the supplementary pension scheme.

As part of its regulatory activity in respect of the pension fund sector, the NBS Regulation Department issued an opinion for supplementary pension scheme entities concerning the prevention of money laundering and terrorist financing. The opinion provided these entities with further details of their obligations in this area, specifically how to proceed when concluding supplementary pension scheme agreements with customers included in a list of sanctioned persons.

FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES

There were substantial changes in 2018 concerning the regulation of financial intermediation and financial advisory services in Slovakia. The EU's Insurance Distribution Directive, which replaces the Insurance Mediation Directive, was transposed into Slovakia's Financial Intermediation Act. Changes were also made to statutory provisions on the basis of experience gained from practice, in particular to provisions that regulate specialised financial education as part of professional competence requirements for persons providing financial intermediation and

financial advice, and to provisions that tighten the conditions which must be met by persons providing specialised financial education for different sectors and at different levels of professional competence.

Secondary legislation in this sector included a significant Decree that introduced a completely new system of reporting for financial agents and financial advisors. Based on knowledge gained from supervision activity, the Decree stipulated reporting on a quarterly basis, thus responding to the supervisory authority's need to monitor more closely the entities subject to supervision and thus to be better placed to respond proactively to any regulatory breaches by these entities. At the same time, NBS has maintained the requirement that these entities submit an annual statement – the information contained in this statement need only be reported once a year, and reporting it once a year rather than quarterly reduces the administrative burden. The scope of data to be reported was also expanded, in order to support more efficient supervision of entities by means of risk indicators.

THE SECURITIES MARKET

The Financial Market Supervision Act was another of the laws amended by the 2018 Act amending the Resolution in the Financial Market Act. The purpose of its amendment was to ensure the fairer setting of annual contributions payable by supervised entities and the fairer distribution of the related financial burden between the entities concerned. At the same time, several other of the law's provisions were spelled out more precisely in response to the implications of the relevant legislation and in order to take account of the reality on the ground.

The Securities Act was also subject to a package of amendments contained in the Act amending the Resolution in the Financial Market Act. These addressed transpositional inconsistencies arising from the inadequate or incorrect implementation of the EU's second Markets in Financial Instruments Directive (MiFID II). The amending provisions concerned in particular the professional competence of investment firms' employees who come into contact with customers, specifically the harmonisation of this competence level with the requirements laid down in other relevant legislation and the



avoidance of divergence in conditions across the market. Provisions governing the public offering of securities were also amended, since it was necessary to bring the Securities Act into line with EU's new Prospectus Regulation, which now directly governs the public offering of securities and securities prospectuses. Provisions on the exercise of the right of squeeze-out were also amended, with the aim of simplifying the squeeze-out process (by changing what was then a contractual arrangement involving both sides). Since the Act in its previous wording did not allow the squeeze-out right to be effectively exercised for the benefit of a shareholder holding more than 95% in the company, the amendment introduced the principal of transfer of securities based on the decision of a shareholders' general meeting of the offeree company.

As regards secondary legislation, the start of the year saw the entry into force of a Decree amending the NBS Decree on fees for acts performed by NBS, which the bank issued after consulting with the Slovak Finance Ministry. The purpose of the amendment was to update the annex to the original Decree in order to align it with the relevant EU and domestic legislation. The amendment also included provisions based on insights from practice.

A Decree amending the NBS Decree on reporting by investment firms and branches of foreign investment firms for the purposes of financial market supervision was issued by NBS in the second half of 2018. The amendment stipulates how settlement internalisers are to fulfil their obligation to disclose the value of all transactions settled outside the securities settlement system to the competent supervisory authority, as set out in the CSD Regulation and in the relevant delegated regulation and implementing regulation.

THE INVESTMENT FUND SECTOR

The Collective Investment Act, too, was amended by the 2018 Act amending the Resolution in the Financial Market. The law was amended on the basis of insights gained from practice and from market participants, so as to enhance processes within the collective investment sector. The main purpose of the amendment was to introduce a more elaborate classification of invest-

ment funds and to regulate their operation so as to make it less complicated.

In 2018 NBS drafted and issued a Decree on reporting by asset management companies, foreign asset management companies, autonomous investment funds, and depositories of investment funds for the purposes of financial market supervision. The Decree was needed in order to bring an existing Decree on reporting by collective investment undertakings into line with the current wording of the Collective Investment Act. The Decree entered into force on 31 December 2018, while the Decree on reporting by asset management companies and investment funds' depositories for the purposes of financial market supervision was repealed as of the same date.

2.4 BANK RECOVERY AND RESOLUTION

In 2018 Slovakia's Resolution Council addressed the issue of contributions to the Single Resolution Fund. The Council issued decisions on collecting contributions from individual banks and approved the draft financial statements of the national resolution fund for 2017. It also dealt with draft simplified resolution plans and with criteria for the application of simplified obligations in regard to the production of resolution plans. The Council also discussed the current situation regarding resolution plans and related methodologies in 2018, and discussed legislative amendments related to the resolution regime.

At the end of 2018 the Slovak Parliament passed an Act amending the Resolution in the Financial Market Act. The amending Act entered into force on 1 January 2019, with the exception of certain points that will enter into force on 21 July 2019. The amending Act also included amendments to other laws. These amendments related not only to the issue of resolution, but also to many other areas. There were important changes concerning the resolution regime and insolvency, in particular the transposition of the EU's Directive amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy. Its enactment in Slovak law introduced a new class of claims in bank insolvency – non-preferred senior debt. Among the other



changes were the following: the introduction of another new class of claims in bank insolvency – claims related to securities which have the attributes of additional Tier 1 (AT1) instruments; the defining of the term ‘subordinated debt’ for resolution purposes; and the simplifying and expediting of the write-down and conversion of capital instruments and of capitalisation measures.

Also in 2018 the FMS Unit was monitoring the issue of the resolution of financial institutions other than credit institutions and investment firms. Its discussions in this regard centred on insurers. In summer 2018 EIOPA published a document on potential sources of resolution funding for (re)insurers¹³, which followed on from an EIOPA Opinion on the harmonisation of recovery and resolution frameworks for (re)insurers.¹⁴ The FMS Unit was regularly expressing comments on the Opinion during its drafting.

2.5 FINANCIAL CONSUMER PROTECTION

In 2018 the FMS Unit’s methodological activity in regard to financial consumer protection was led by the need to give supervised entities guidance in response to the findings of on-site inspections and to insights gained from dealings with financial consumers. This activity focused on two issues, the first being repayment agreements concluded with consumers who are subject to debt recovery procedures related to consumer loans; the FMS Unit produced an opinion aimed at increasing legal certainty for suppliers and consumers on the question of what, within the claim restructuring process, may be considered the provision of a new consumer credit. The second issue was loan repayment insurance. The FMS Unit issued an opinion on how and to what extent consumers are to be informed about the content and nature of loan repayment insurance offered as a ‘bancassurance’ product just when the credit agreement is being concluded.

Sanction proceedings conducted in 2018 concerned findings related to all types of supervision, including the handling of complaints made by financial consumers, which were not systematically remediable through less restrictive measures. Under decisions issued in 2018 which also imposed fines, NBS prohibited unfair commer-

cial practices and unfair contractual terms, and in cases where remedy could be made, it issued remedial measures. In 2018 NBS issued a total of 11 decisions under which sanctions were imposed for a breach of consumer rights. It also initiated five sanction proceedings in this area, four of which were still in progress at the year-end. A total of eight sanction-imposing decisions entered into force in 2018.

Supervisory activity continues to address consumer lending as an area of risk for consumers – in particular the marketing of such loans, compliance with the obligation to provide information to consumers, the assessment of consumers’ ability to repay loans, and whether credit agreements contain any unfair terms. Supervisory monitoring activity and the subjects of complaints made by financial consumers showed the need to focus also on the debt recovery aspect of consumer lending, especially in regard to the activity of debt collection companies. NBS examines all new advertising campaigns in order to identify any deficiencies which must be rectified. As part of its financial consumer protection mandate, NBS conducted 29 off-site examinations. It also conducted two broad surveys focused on the deferral or reduction of housing loan repayments following the birth of a child. As part of its monitoring for unauthorised business, NBS investigated 14 cases. The NBS regularly publishes warnings on its website about entities engaged in unauthorised activities. In 2018 three new on-site inspections relating to financial consumer protection were initiated: one at a bank and two at non-bank lenders. The inspections focused on the provision of housing loans, the provision of consumer loans, and debt recovery. Another three on-site inspections were concluded in 2018 after commencing in 2017.

In 2018 NBS received 1,948 complaints about financial institutions from financial consumers and other customers, which was 416 fewer than it received in 2017. Of them, 689 were found to be justified, and in 60% of these cases, the financial institution itself rectified the shortcoming without being required to do so by NBS. Most of the complaints concerned the insurance sector; these numbered 1,118 (57% of the total), representing a year-on-year increase of 3%, and were largely concerned with inadequate transparency

¹³ Discussion Paper on resolution funding and national insurance guarantee schemes, July 2018; available at: https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-18-003_Discussion_paper_on_resolution_funding%20and.pdf

¹⁴ EIOPA: Opinion to Institutions of the European Union on the Harmonisation of Recovery and Resolution Frameworks for (Re) insurers across the Member States, July 2017; available at: https://eiopa.europa.eu/Publications/Opinions/EIOPA-BoS-17-148_Opinion_on_recovery_and_resolution_for_%28re%29insurers.pdf



(in particular with the offering of products when a contract is being concluded, with the calculation of the amount of an insurance claim, and with the rejection of an insurance claim. A large number of complaints (271, or 14% of the total) concerned the non-payment of windscreen repair/replacement claims. Banking products themselves attracted 520 complaints (27%), and, as before, these included objections to bank charges for housing loans and consumer loans and complaints related to card and payment transactions. The number of complaints concerning the capital market sector did not increase in 2018 (standing at 42, or 2% of the total). The nature of these complaints indicated an increase in trading in financial instruments with entities not subject to NBS supervision and in consumer investment in high-risk financial instruments.

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

In 2018 NBS's educational activities aimed at professionals included organising several workshop-style lectures and technical conferences on the topics of credit product promotion, information obligations when amending a contract, and the assessing of unfair contract terms and unfair

commercial practices in consumer relationships. As part of its efforts to increase consumer financial literacy, NBS published a number of warnings on its website, including, for example, one entitled "What is a pyramid scheme, airplane game or Ponzi scheme?". It also produced a Slovak-language financial guide for senior citizens, called "Všetko, čo by ste mali vedieť o peniazoch" (Everything you should know about money).

Also in 2018, NBS organised interactive lectures for primary and secondary schoolchildren, which were based on the National Standard for Financial Literacy and focused on information gained from practice. There were a total of 39 lectures and 1,180 students participated in them. During school holidays, NBS supported the Children's University project of Comenius University by organising two talks for 60 children.

Národná banka Slovenska realises that one of the key tasks of central banks is to support financial literacy among the general public, so that people gain a better understanding of their personal finances and know how to approach the financial market. This is why, in 2018, the NBS Bank Board approved the establishment of a Financial Literacy Committee, which will prepare a draft NBS strategy for supporting financial literacy among the public.

3 ISSUING ACTIVITY AND CURRENCY CIRCULATION

3.1 CUMULATIVE NET ISSUANCE OF EURO CASH

The cumulative net issuance (CNI)¹⁵ of euro banknotes and coins in Slovakia had a total value of €13.5 billion as at 31 December 2018, with banknotes accounting for €13.3 billion of that amount. In year-on-year terms, the CNI increased in 2018 by 10.6% (or €1.3 billion), which was almost the same as 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 more than doubled over the following ten years. The year-on-year increase in the issuance of euro

cash demonstrates the strong demand for cash, which still retains its status as a significant means of payment in society.

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 €12.4 billion¹⁶ as at 31 December 2018. The value of euro banknotes issued in Slovakia was higher than the 'allocated' value by €884.5 million.

The CNI's daily trend showed the same seasonal fluctuations as in previous years, with the year-on-year difference ranging approximately be-

¹⁵ 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 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 2018.

¹⁶ The value of euro banknotes in circulation throughout the euro area as at 31 December 2018 was €1,231.1 billion, and the share of that amount issued by NBS according to the banknote allocation key was 1.0095% (€12.4 billion).