

Národná banka Slovenska

Supplement to the Independent Auditor's Report
on the Report on Results of Operations
of Národná banka Slovenska for 2020

and

Report on Results of Operations
Of Národná banka Slovenska for 2020

Národná banka Slovenska

SUPPLEMENT TO THE INDEPENDENT AUDITOR'S REPORT ON THE REPORT ON RESULTS OF OPERATIONS OF NÁRODNÁ BANKA SLOVENSKA FOR 2020

To the Bank Board of Národná banka Slovenska:

- I. We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS") as at 31 December 2020 presented in the accompanying report on results of operations of the Bank, to which we issued an Independent Auditor's Report on the audit of the financial statements dated 9 March 2021 in the wording as follows:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS"), which comprise the balance sheet as at 31 December 2020, the income statement for the year then ended, and notes, which include a summary of significant accounting policies and accounting methods.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance for the year then ended in accordance with the Guideline of the European Central Bank of 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2016/34 as amended (hereinafter the "ECB Guideline") and the Act on Accounting No. 431/2002 Coll. as amended (hereinafter the "Act on Accounting").

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

This is a translation of the original auditor's report issued in the Slovak language to the accompanying financial statements translated into the English language.

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

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

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

II. Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Report on Results of Operations of the NBS for 2020 – Supplement to the Independent Auditor's Report

The Bank Board of the NBS is responsible for information disclosed in the report on results of operations of Národná banka Slovenska for 2020 prepared under the requirements of the Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (hereinafter the "Act on NBS"). Our opinion on the financial statements stated above does not apply to other information disclosed in the report on results of operations.

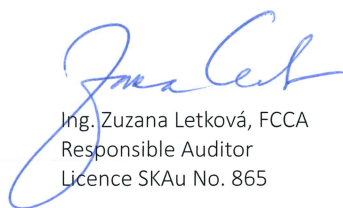
In connection with the audit of financial statements, our responsibility is to gain an understanding of the information disclosed in the report on results of operations and consider whether such information is materially inconsistent with the financial statements or our knowledge obtained in the audit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

We evaluated whether the Bank's report on results of operations includes information whose disclosure is required by the Act on NBS.

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

- Information disclosed in the report on results of operations prepared for 2020 is consistent with the financial statements for the relevant year; and
- The report on results of operations includes information pursuant to the Act on NBS.

Bratislava, 30 March 2021



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

On behalf of
Deloitte Audit s.r.o.
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Report on the Results of Operations of Národná banka Slovenska for 2020

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1 PROFIT/LOSS OF THE NBS

1.1 Executive Summary

The combination of the necessary supporting and compensation measures adopted by the Eurosystem and Národná banka Slovenska (the “NBS” or the “Bank”) to mitigate the negative impacts of the pandemic on Europeans and European economies has substantially affected the profit/loss of the NBS.

In the pandemic year, the profit of Národná banka Slovenska decreased to EUR 26,043 thousand. The main reasons for the year-on-year decrease in the profit are related to the effects of the pandemic: **an increase in the general provision for financial risks by EUR 140,000 thousand** and **a decrease in income from the redistribution of monetary income by EUR 66,583 thousand.**

General provision: The provision was increased by the NBS due to an increase of monetary policy operations carried out in 2020 in response to the instability of markets caused by the COVID-19 pandemic outbreak. These operations boosted the economy, which was weakened by the pandemic. The general provision also had to be increased due to the increased risk on financial markets.

A decrease in monetary income mainly resulted from the increased volume of longer-term refinancing operations that were carried out to mitigate the impact of the pandemic on the euro area economy.

In an effort to further strengthen the resilience of the Slovak financial sector during the crisis, Národná banka Slovenska partially waived annual contributions from supervised financial market entities in the previous year, as a result of which other income of the Bank decreased by EUR 6,615 thousand.

The impact of the pandemic on the Bank’s operating expenses was neutral. A number of expenses required to maintain the smooth running and performance of the Bank’s activities were compensated for by savings in other areas, primarily travel and education.

Table 1 Profit/Loss of the NBS

Profit/loss of the NBS	L. No.	Actual figures		Δ 2020 2019	(in EUR thousand) Year-on-year change
		2020	2019		
Financial activities	1				
Profit/(loss) from financial operations	2	258,650	284,298	91%	(25,648)
of which withholding tax	3	(27,174)	(35,075)	77%	7,901
Creation of a general provision for financial risks	4	(140,000)	0	x	(140,000)
Total profit/(loss) from financial activities	5	118,650	284,298	42%	(165,648)
Issue of money in circulation and collector coins	6				
Profit/(loss) from the issue of money in circulation and collector	7	(11,713)	(5,415)	x	(6,298)
Operating and other expenses and income	8				
Operating expenses	9	(91,048)	(85,533)	106%	(5,515)
Costs of financial education	10	(437)	0	x	(437)
Operating income	11	312	3,475	9%	(3,163)
Other income	12	10,279	15,240	67%	(4,961)
Total profit/(loss) of the NBS	13	26,043	212,065	12%	(186,022)
Total profit/(loss) before the creation of a general provision	14	166,043	212,065	78%	(46,022)

Note: A disclosure change was made in data for the previous year.

Components of Profit/Loss:

- The most important component is **the profit from financial operations totalling EUR 258,650 thousand**. The result of operations with clients and administration of investment reserves had a **positive** impact on the profit. A decrease in income from the redistribution of monetary income had a **negative** impact on the Bank's profit/loss.
- **Operating expenses** amounted to **EUR 91,048 thousand** at the end of the year.
- **Net costs of issue** totalled **EUR 11,713 thousand**.
- **Other income** comprising fees and contributions from financial market entities and fees for the use of the domestic interbank payment system SIPS **was recognised in the amount of EUR 10,279 thousand**. This income **is reduced by EUR 6,615 thousand** in connection with the decision of the Bank Board to **exceptionally waive this amount**, ie the contribution from the financial market entities for the second half of 2020. This is also how Národná banka Slovenska seeks to help to mitigate the negative impacts of the COVID-19 pandemic.
- **Strengthening financial literacy:** In 2020, Národná banka Slovenska launched its flagship financial literacy project **"5 peňazí"**. The media launch of the campaign, building regional centres of experience learning and an intensive presence on social media and other expenses related to financial literacy development projects amounted to **EUR 437 thousand**.

Based on a decision of the Bank Board of the NBS, the 2020 profit was transferred to Accumulated losses from previous years.

1.2 Impact of the COVID-19 Pandemic on Profit/Loss of the NBS in 2020

Impact of Pandemic Measures on Profit/Loss from Financial Activities:

Main reasons for the decrease in the profit from financial activities and the overall profit/loss compared to 2019:

- **Increase in the general provision for financial risks:** The NBS Bank Board decided to increase the provision as at 31 December 2020 by EUR 140,000 thousand to EUR 800,000 thousand. The Bank increased the provision in response to the increase in the credit risk from monetary policy operations carried out in 2020. These operations were undertaken to boost the economy, which was weakened by the COVID-19 pandemic. The general provision also had to be increased due to the increased risk on financial markets.
- **Lower share from the redistribution of Eurosystem monetary income by EUR 66,583 thousand:** The introduction of emergency and extraordinary pandemic instruments to prevent the consequences of the COVID-19 pandemic resulted in an increase of the costs of monetary policy operations. This led to the stated decrease in Eurosystem income and, thus, to a lower share received by the NBS via its redistribution.

New measures aimed at mitigating the impact of the COVID-19 pandemic were introduced as regards monetary policy operations. They include a new securities purchase programme as part of the Pandemic Emergency Purchase Programme ("PEPP programme"), introduction of pandemic

emergency longer-term refinancing operations ("PELTRO") and offering more attractive interest rates for targeted longer-term refinancing operations ("TLTRO III"). Costs incurred by Národná banka Slovenska on these operations to mitigate the adverse impact of the pandemic on the financial sector amounted to EUR 19,628 thousand.

The overall impact of anti-pandemic measures on the decrease in income from financial activities amounted to EUR 226,211 thousand.

Impact of Pandemic Measures on Other Income

As a response to the pandemic, the NBS Bank Board adopted an early measure dated 26 May 2020 on a waiver of annual contributions from supervised financial market entities for the second half of 2020 in the amount of EUR 6,615 thousand, which had an impact on the year-on-year decrease of the Bank's income from contributions and fees. The measure's aim was to strengthen the financial sector's recovery in response to the extraordinary situation and expected economic decline associated with this situation. By reducing the annual contributions, the NBS will contribute to the joint efforts of financial market entities to maximise support for the real economy.

Impact of Pandemic Measures on Operating Expenses

The impact of the pandemic on the Bank's operating expenses is neutral.

As for the ECB and other central banks, Národná banka Slovenska as a responsible employer increased the costs of wage compensation in the event of obstacles at work and healthcare costs (testing of employees) in 2020. Employee safety and health also contributed to the costs of protective personal equipment, disinfection and cleaning. These increased costs enabled Národná banka Slovenska to ensure protection for its employees and reduce possible impacts on their health to the maximum extent, so that the performance of the central bank's tasks was not jeopardised.

An inevitable consequence of home office working during the pandemic was an increase in expenses for computer technology and telecommunication fees. Expenses were incurred to improve computer technology available to the employees. The aim was to increase the NBS' ability to react to the existing situation and to introduce a home office regime for as many employees as possible, which had a positive effect on eliminating the risk of the spread of the infection.

An unplanned, but essential expense in 2020 was incurred in respect of a special survey undertaken by Národná Banka Slovenska not only for the entire financial sector, but also as an important input for the decision-making process in other sectors of the economy. The survey focused on the impact of the coronavirus crisis on the financial situation and expectations of indebted households. The survey consisted of six stages and led to a number of findings. In addition to the NBS, valuable information obtained from the survey was also used in their outputs by other public institutions, organisations and associations, and to a great extent, also banks and the media. The survey showed that due to the coronavirus crisis, more than 6% of indebted households deferred payments, representing around 10% of the volume of retail loans. An additional group of more than 7% used other changes in lending conditions. The results have not yet shown a significant deterioration in the financial situation or expectations of households. The Bank will continue to monitor the development of the financial situation in the near future using other survey stages. Národná banka Slovenska spent EUR 47 thousand on the survey.

In 2020, savings of operating expenses related to the pandemic period amounted to EUR 1,858 thousand. Savings were made mainly from travel and education expenses. The savings were used by Národná banka Slovenska to compensate increased operating expenses related to the pandemic measures.

Impact of Pandemic Measures on Profit/Loss from Issue Activities

The need to urgently increase the production of some euro banknotes resulted from the Eurosystem analysis in 2020. The NBS production of euro banknotes with a nominal value of EUR 20 was higher by 34.2 million, and the costs incurred amounted to EUR 3,116 thousand.

Impact of the Pandemic on Profit/Loss of the European Central Bank (ECB) in 2020 and on the 2021 Budget

Similar as for the NBS, the impact of the pandemic on the drawing of the ECB's budget was an increase in employee costs (extension of short-term employment contracts and moratorium on termination of time-limited job positions), IT technology and information systems in order to ensure that the ECB was able to carry out its tasks while its employees worked from home. The savings were achieved in expenses for advisory services (due to the postponement of the European-wide stress testing of banks), in travel and education expenses.

Impact of the Pandemic on Profit/Loss of the Eurosystem National Central Banks

The impact of the pandemic on the costs of individual central banks (and the related measures) corresponds to the impacts on costs and income in individual areas at the NBS. These facts were confirmed at a meeting of the members of the ECB BUCOM (BUCOM – Budget Committee).

1.3 Financial Activities

The financial activities of the Bank include implementation of the single monetary policy, administration of the Bank's investment reserves, financial operations with the ECB and other NBS clients. The final profit/loss from financial activities is adjusted for the effect of a change to the general provision for financial risks on the Bank's profit/loss.

In 2020, the NBS reported a profit from financial activities before the creation of the provision of EUR 258,650 thousand. The most significant components of the profit are: profit from operations with clients (EUR 111,992 thousand) and profit from the implementation of the single currency policy (EUR 93,576 thousand).

Based on the results of the assessment of financial risks to which the Bank was exposed, **in January 2021, the NBS Bank Board decided to increase the general provision for financial risks to EUR 800,000 thousand** (increase by EUR 140,000 thousand). The main reason for the creation of the provision is **the increase in the NBS's credit risk from monetary policy operations as a result of the increase of the volume of such operations, which increased during 2020 in response to instability of markets caused by the COVID-19 pandemic.** The NBS also responded in this way to the unprecedented situation which dominated the markets during the entire year of 2020. The general provision for financial risks is created to hedge against foreign exchange rate, interest rate, credit, equity and gold price risks. The provision is reported in equity as one component of the Bank's funds. The general provision also had to be increased in 2020 due to the increased risk on financial markets.

Profit/loss from financial operations after reflecting the effect of the creation of the general provision for financial risks amounted to EUR 118 650 thousand.

Table 2 Financial Activities

Financial activities	L. No.	Actual figures		(in EUR thousand)	
		2020	2019	Δ 2020 2019	Year-on- year change
Profit/(loss) from monetary policy operations	1	93,576	163,212	57%	(69,636)
of which withholding tax	2	(27,174)	(35,075)	77%	7,901
Profit/(loss) from administration of investment reserves	3	27,903	13,058	x	14,845
Profit/(loss) from operations with the ECB	4	25,179	20,666	122%	4,513
Profit/(loss) from operations with clients	5	111,992	87,362	128%	24,630
Total profit/(loss) from financial activities before the creation of a general provision	6	258,650	284,298	91%	(25,648)
Creation of a general provision for financial risks	7	(140,000)	0	x	(140,000)
Total profit/(loss) from financial activities with the inclusion of a provision	8	118,650	284,298	42%	(165,648)

1.3.1 Monetary Policy Operations

Profit/loss from monetary policy operations was substantially affected by extensive measures of the Eurosystem to compensate for the negative impacts of the pandemic on the euro area economy. These measures were implemented as part of longer-term refinancing operations for the financial sector and structural operations (purchases of government, institutional and corporate securities under monetary policy programmes) with an impact on the NBS's share in the redistribution of the Eurosystem monetary income.

Despite the pandemic situation, the Bank reported a profit of EUR 93,576 thousand from monetary policy operations which was positively impacted by net interest income from structural operations of EUR 76,804 thousand.

A year-on-year decrease of 43% in profit from monetary policy operations resulted from a lower share of the NBS in the redistribution of the Eurosystem monetary income, recognised in the amount of EUR 24,625 thousand in 2020. In 2020, the Eurosystem monetary income fully reflects the necessary supporting setup of the monetary policy, introduction of emergency pandemic instruments and non-standard measures to mitigate negative impacts of the pandemic. Anti-pandemic measures, therefore, contributed to a significant increase in the costs of monetary policy operations, mainly refinancing operations. They also had a negative impact on the total amount of Eurosystem monetary income and, thus, on the NBS's share in its redistribution.

Table 3 Monetary Policy Operations

Monetary policy operations	L. No.	Actual figures		(in EUR thousand)	
		2020	2019	Δ 2020 2019	Year-on- year change
Open market operations (I. 2, 3):	1	60 036	65 141	92%	(5 105)
Longer-term refinancing operations	2	(16 768)	(4 197)	x	(12 571)
Structural operations	3	76 804	69 338	111%	7 466
Standing facilities	4	485	161	x	324
Minimum reserves system	5	6 080	4 783	127%	1 297
Share in monetary income of the Eurosystem and provisions for losses from MPO (I. 7 to 8):	6	25 606	91 995	28%	(66 389)
- share in monetary income	7	24 625	91 208	27%	(66 583)
- provision for losses from MPO Eurosystem	8	981	787	125%	194
Fees, contractual penalties and other	9	1 369	1 132	121%	237
Profit/(loss) from monetary policy operations	10	93 576	163 212	57%	(69 636)

In 2020, the NBS provided the largest volume of liquidity to the Slovak financial sector through the third series of targeted longer-term refinancing operations TLTRO III with a maturity of three years aimed to support bank lending to small and medium-sized businesses most affected by the pandemic.

For the period from June 2020 to June 2022, the interest rate on these operations is reduced to 50 basis points below the average rate of the Eurosystem's main refinancing operations with a maximum possible reduction of up to 50 basis points below the average deposit facility rate. To recognise interest accruals in the Eurosystem under the prudence principle, the lowest possible rate of -1% p.a. is applied.

In April, a package of measures was supplemented by a new series of non-targeted longer-term refinancing operations called PELTROs, falling due in Q3 2021. PELTROs are designed to support liquidity and the smooth functioning of money markets in the euro area with a rate of 25 basis points below the average rate applied in the Eurosystem's main refinancing operations, ie -0.25%.

The total volume of the portfolio of securities purchased under monetary policy programmes grew by 40.21% year-on-year mainly due to the mitigation of the pandemic situation by prolonging purchases of assets under the existing programmes and the introduction of the temporary PEPP programme. A major increase in the volume of monetary policy operations in the Eurosystem as a whole and at the NBS created the need to make additions to the general provision for financial risks.

As part of structural operations in 2020, the NBS recognised securities purchased under the following asset purchase programmes: The Covered Bond Purchase Programmes ("CBPP1" and "CBPP3"), the Securities Markets Programme ("SMP"), the Public Sector Purchase Programme ("PSPP") and PEPP.

As at 31 December 2020, the NBS records no bonds purchased under the CBPP1, as the portfolio was repaid in January 2020. The SMP programme (purchases completed in 2012) is gradually reduced by matured securities. Active purchases were only carried out under the PSPP, PEPP and CBPP 3 programmes.

Net securities purchases under the APP programme, which includes CBPP3, PSPP, ABSPP and CSPP programmes, continue with a monthly volume of EUR 20 billion together with the purchase of assets under a temporary additional envelope of EUR 120 billion, terminating at the end of the year. The Governing Council also expects that monthly net purchases under the APP will continue for as long as necessary to strengthen the accommodation impact of monetary policy rates with termination shortly before the ECB's key interest rates start to increase. The Governing Council also intends to continue reinvesting the full amount of the principal from redeemed securities purchased under the APP for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

The PEPP was established by a decision of the Governing Council of 18 March 2020 with an allocated volume of EUR 750 billion, which was increased due to negative developments by EUR 600 billion on 4 June 2020 and by an additional EUR 500 billion on 10 December 2020 to the current volume of EUR 1,850 billion.

Net asset purchases under the PEPP will be carried out at least up to the end of March 2022, and as a minimum until the pandemic-related crisis ends. The principal payments from maturing securities will be reinvested under the PEPP programme until at least the end of 2023. The reduction of the PEPP portfolios will be managed to avoid interference with the appropriate monetary stance.

The profit/loss from monetary policy was positively impacted by remuneration of balances on the MRS accounts due to the applied negative interest rate. Based on Decision ECB/2019/31, a two-tier system for remunerating excess liquidity on the accounts of entities constituting MRS has been in effect since 30 October 2019. Based on the above, pursuant to the Governing Council's

decision (2020: 0%) an interest rate is applied to a portion of excess reserves up to the amount of the MRS multiple defined by a multiplier approved by the Governing Council (the multiplier valid for 2020 is 6). The remaining portion of the excess reserves continues to bear interest at a rate valid for deposit facilities (2020: -0.5 % p.a.).

In 2020, the NBS used a portion of the provision for losses from Eurosystem monetary policy operations created by Eurosystem national central banks in 2019 to cover losses from the sale of impaired securities (the NBS's share: EUR 698 thousand). The Bank reversed the remaining portion of its share of EUR 283 thousand to income.

Table 4 Development of Interest Rates

With Effect From	Marginal Lending Facility	Main Refinancing Operations	Deposit Facility
16.3.2016	0.25% p.a	0.00% p.a	-0.40% p.a
18.9.2019	0.25% p.a	0.00% p.a	-0.50% p.a

1.3.2 Administration of Investment Reserves

The administration of investment reserves refers to the management of the Bank's investment assets consisting of portfolios of securities, equity portfolio, a share in the BISIP fund, and gold. The refinancing of the Bank's investment assets is provided by credit operations and deposits. Market risks related to the administration of investment reserves is hedged by the Bank using financial derivatives.

The profit from the administration of investment reserves more than doubled compared to the previous year to EUR 27,903 thousand. The profit increased mainly as a result of lower expenses for credit operations by EUR 43,556 thousand due to a decrease in USD and GBP interest rates. Credit operations used to refinance the Bank's investment reserves in 2020 generated net interest expense in the amount of EUR 13,742 thousand.

Table 5 Administration of Investment Reserves

(in EUR thousand)					
Administration of investment reserves	L. No.	Actual figures		Δ 2020 2019	Year-on-year change
Securities	1	124,395	116,030	107%	8,365
Transactions with gold	2	5,596	4,497	124%	1,099
Transactions with derivatives	3	(85,697)	(68,955)	124%	(16,742)
Credit transactions	4	(13,742)	(57,298)	24%	43,556
Current accounts and deposits	5	22,717	18,601	122%	4,116
Foreign exchange rate differences	6	(24,768)	647	x	(25,415)
Receivables from/payables to Target 2	7	0	0	x	0
Fees	8	(598)	(464)	129%	(134)
Profit/(loss) from administration of investment reserves	9	27,903	13,058	x	14,845

The volume of the investment portfolio of securities increased by EUR 539,833 thousand year-on-year to EUR 8,782,687 thousand. The Bank's investment portfolio includes bonds mainly issued by financial institutions, denominated in EUR, USD, GBP, JPY, CHF, CNY and AUD.

1.3.3 Operations with the ECB

Operations with the ECB are executed in accordance with the Protocol on the Statute of the European System of Central Banks and of the European Central Bank and the ECB's decisions. The Bank reported a net profit of EUR 25,179 thousand from these operations. The profit from

operations with the ECB consists of the share in the ECB's preliminary redistribution of the 2020 profit in an amount of EUR 14,432 thousand and the NBS's share in the ECB's profit for 2019 in an amount of EUR 10,747 thousand.

1.3.4 Operations with Clients

This category includes reported expenses and income associated with other financial operations, such as monetary policy operations, administration of investment reserves and operations with the ECB. The NBS reported a profit from these operations of EUR 111,992 thousand. The largest share of the profit mainly comprises interest received from the remuneration of balances on client accounts not included in the MRS held in TARGET2 in the amount of EUR 112,282 thousand bearing interest at a rate valid for deposit facilities.

1.4 Issue of Banknotes and Euro Coins

Currency issue activities for 2020 include the costs of printing banknotes and minting coins in circulation and commemorative and collector euro coins totalling EUR 13,851 thousand. The Bank produced 114.12 million euro banknotes with a nominal value of EUR 20, minted 114.66 million circulation euro coins and euro coins intended for sets, 1 million €2 commemorative euro coins and 6 types of collector euro coins totalling 50.1 thousand (see Table 7). In 2020, income from the issue of banknotes and coins mainly comprised revenues from the sale of collector coins, which are **higher by EUR 380 thousand compared to 2019**.

The year-on-year increase in costs of issue by EUR 6,618 thousand is mainly affected by printing costs of euro banknotes, which were higher by EUR 3,635 thousand (higher number of euro banknotes produced by 34.2 million pieces) and the costs of minting euro coins in circulation, which were higher by EUR 2,626 thousand (higher number of minted euro coins in circulation by 61.1 million pieces).

As a result of the pandemic, there were significant changes in the development of money circulation, inventories and euro banknote production regimes in 2020 (in particular, reduction of production capacities of mints, euro banknote processing and increased issues). Based on an analysis carried out by the Eurosystem it was necessary, in addition to other measures, to ensure an accelerated increase in the production of some euro banknotes in 2020 or, where appropriate, transfers of production planned for 2021 in order to ensure the continuity of cash money circulation in 2020.

Table 6 Issue of Euro Banknotes and Euro Coins

Issue of money in circulation and collector coins	L. No.	Actual figures		(in EUR thousand)	
		2020	2019	Δ 2020 2019	Year-on-year change
Costs of printing euro banknotes and minting euro coins	1	(13,851)	(7,233)	191%	(6,618)
Revenues from the issue of euro banknotes and euro coins	2	2,138	1,818	118%	320
Profit/(loss) from the issue of money in circulation and collector euro coins	3	(11,713)	(5,415)	x	(6,298)

Table 7 Collector and Commemorative Euro Coins Minted or Issued in 2020

Name of commemorative euro coin, collector euro coin	L. No.	Euro coin type	Nominal value	Issue date	Number of coins (pcs)
Slovak National Theatre – 100th anniversary of establishment	1	silver collector coin	EUR 10	28.02.2020	11,300
Andrej Sládkovič – 200th anniversary of birth	2	silver collector coin	EUR 10	30.03.2020	9,150
Maximilián Hell – 300th anniversary of birth	3	silver collector coin	EUR 10	27.05.2020	9,300
Poľana – protected landscape area	4	silver collector coin	EUR 20	17.09.2020	9,750
Štefan Banič – 150th anniversary of birth	5	silver collector coin	EUR 10	13.10.2020	9,200
Accession of the Slovak Republic to the Organisation for Economic Co-operation and Development (OECD) – 20th anniversary	6	commem. circulation coin	EUR 2	11.11.2020	1,000,000
Nitra Prince Svätopluk II.	7	gold collector coin	EUR 100	26.11.2020	3,950
Janko Matúška – 200th anniversary of birth	8	silver collector coin	EUR 10	19.1.2021	8,800
Singing Choir of the Slovak Teachers – 100th of the establishment	9	silver collector coin	EUR 10	12.3.2021	9,100
Total:	10				1,070,550

Note: Slovak National Theatre – 100th anniversary of establishment and Andrej Sládkovič – 200th anniversary of birth: minted in 2019

1.5 Operating and Other Expenses and Income

In 2020, the NBS recognised operating expenses totalling EUR 91,048 thousand. The Bank reduced administrative and operating expenses by 1% to EUR 22,620 thousand while ensuring adequate protection of its employees to eliminate the spread of COVID-19 in the workplace (see Note 1.2.). Since 2020, the Bank has been allocating increased funds to financial education and increasing financial literacy, in particular through the “5 peňazí” project (2020: EUR 437 thousand).

Other income totalling EUR 10,279 thousand primarily comprised contributions and fees from supervised financial market entities (EUR 6,944 thousand) and received fees for the use of the domestic interbank payment system SIPS (EUR 2,902 thousand). The year-on-year decrease is due to the Bank's decision to waive annual contributions for the second half of 2020 in order to mitigate negative impacts of the COVID-19 pandemic on the financial sector.

Table 8 Operating and Other Expenses and Income

(in EUR thousand)

Operating and other expenses and income	L. No.	Actual figures		Δ 2020 2019	Year-on-year change
		2020	2019		
Operating expenses	1	(91,048)	(85,533)	106%	(5,515)
Staff costs and social security expenses	2	(58,865)	(53,455)	110%	(5,410)
Operating and administrative expenses	3	(22,620)	(22,835)	99%	215
Depreciation of tangible assets	4	(7,181)	(6,799)	106%	(382)
Amortisation of intangible assets	5	(2,382)	(2,444)	97%	62
Costs of financial education	6	(437)	0	x	(437)
Operating income	7	312	3,475	9%	(3,163)
Other income	8	10,279	15,240	67%	(4,961)
Income received from financial market entities	9	6,944	11,995	58%	(5,051)
Income from payment systems	10	3,334	3,245	103%	89

1.5.1 Staff Costs and Social Security Expenses

The full-time equivalent for 2020 is 1,109, of which 146 employees fulfil the central bank's objectives at the branches and other NBS facilities located outside Bratislava.

Národná banka Slovenska also fulfils, based on the State's requirements, functions of integrated supervision over the whole financial market, financial consumer protection and banking resolution, which is performed by 266 employees.

In 2020, staff costs amounted to EUR 38,367 thousand. Social security expenses amounted to EUR 20,498 thousand, of which 68% were social security contributions. These comprised statutory social contributions to social insurance funds paid to Sociálna poisťovňa, a.s. (Social Insurance Agency) and health insurance companies (EUR 13,864 thousand).

1.5.2 Administrative and Operating Expenses and Income

Table 9 Operating and Administrative Expenses

Operating and administrative expenses	L. No.	Actual figures		Δ 2020 2019	Year-on- year change
		2020	2019		
Costs of technical support and maintenance of information systems	1	(5,138)	(4,943)	104%	(195)
Repairs and maintenance	2	(4,424)	(4,567)	97%	143
Consumed raw materials	3	(2,495)	(2,389)	104%	(106)
Contributions to legal entities and membership fees	4	(1,577)	(1,386)	114%	(191)
Access fees, data transfer fees and telecommunication expenses	5	(1,410)	(1,332)	106%	(78)
Consumed energy	6	(1,402)	(1,658)	85%	256
Promotion expenses, periodicals and other press and information materials	7	(1,060)	(675)	157%	(385)
Financial donations	8	(855)	(582)	147%	(273)
Cleaning services	9	(538)	(503)	107%	(35)
Rent	10	(512)	(240)	213%	(272)
Education	11	(500)	(967)	52%	467
Entertainment expenses	12	(391)	(499)	78%	108
Costs of protecting buildings and protecting the transport of money in circulation	13	(386)	(394)	x	8
Rating and audit expenses	14	(319)	(364)	88%	45
Taxes and fees	15	(269)	(261)	103%	(8)
Translation, interpretation and advisory expenses	16	(231)	(69)	335%	(162)
Travel expenses	17	(227)	(1,262)	18%	1,035
Insurance premium paid	18	(122)	(123)	99%	1
Other administrative and operating expenses	19	(764)	(621)	x	(143)
Operating and administrative expenses (l. 1 to 19)	20	(22,620)	(22,835)	99%	215

Compared to the previous year, operating and administrative expenses decreased by 1% to EUR 22,620 thousand. These expenses relate to activities of individual organisational units of the NBS when performing the NBS's objectives and tasks arising from the Act on the NBS.

Funds were mainly used for the technical support and maintenance of the NBS's information systems and for servicing, maintenance and operation of buildings. Repair expenses mainly concern maintenance of buildings and facilities for processing money in circulation. Corporate contributions and membership fees increased due to higher EBA and ESMA membership fees. Increased expenses for access rights, data transfer and telecommunication fees are due to the fact that NBS employees are working from home more frequently. Increased promotion expenses are associated with the adoption of the new NBS Communication Strategy. Rent expenses were affected by the lease of premises for employees during the reconstruction of the main NBS building. The NBS plans to establish a new back-up technology centre and it uses expert opinions and advisory services for its efficient setup, which impacted the year-on-year increase in the costs of advisory services.

In 2020, the Bank recorded major savings as regards travel expenses, education and entertainment expenses. As a result of the pandemic, business trips were cancelled, some planned events with a special purpose (events for employees, events for the public, e.g. "Open Door Day") were cancelled, and events and business meetings were moved to online form. The NBS assumes that some of these savings will be permanent, as it intends to move certain events to online form, for which the Bank created adequate technical conditions in 2020. The decrease in energy costs is affected by lower consumption during the pandemic (lighting, cooling and heating of premises, operation of elevators), as well as savings due to investments in reducing the energy consumption of buildings (replacement of cooling units and electric lights in buildings).

1.5.3 Expenses for Financial Education

In 2020, the Bank decided to increase engagement in improving the level of financial literacy of the citizens of the Slovak Republic. In 2020, the Bank's costs to support financial education projects for the public aimed at financial literacy amounted to EUR 437 thousand. Even during the pandemic given managed loan deferrals, financial education and financial literacy is considered to be an area which requires and deserves extensive support from Národná banka Slovenska. The core of the project to increase financial literacy in 2020 was a new portal, "5 peňazí". The NBS considers the building of three new learning centres in the regions (Kremnica, Banská Bystrica, Košice) to be extremely important.

2 DISTRIBUTION OF PROFIT

In accordance with Article 39 (4) of the Act on NBS, the result of the NBS's operations for the reporting period is either a profit or loss. The NBS allocates the generated profit to a reserve fund and other funds created from the profit, or uses it to settle losses from previous years. A loss generated in a reporting period may be settled from the reserve fund or from other funds. If the Bank Board of the NBS decides that an incurred loss should remain unsettled, such a loss is transferred to the following reporting period.

For 2020, the NBS reported a profit of EUR 26,043 thousand. Based on a decision of the Bank Board of the NBS dated 9 March 2021, the 2020 profit was recognised in full against the Accumulated losses from previous years (see Table 10).

Table 10 Distribution of Profit/Settlement of Loss

		(in EUR thousand)	
Distribution of profit/settlement of loss	L. No.	2020	2019
Profit for the current year	1	26,043	212,065
Funds (allotments to)/transfers from:			
Statutory fund	2	0	0
Reserve fund	3	0	0
Capital funds	4	0	0
Profit for the current year after transfers in funds (l. 1 to l. 4)	5	26,043	212,065
Settlement of loss from previous years	6	(26,043)	(212,065)
Profit for the current year after distribution (l. 5 + l. 6)	7	0	0

Bratislava, 30 March 2021



Peter Kažimír

Governor



Albín Kotian

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