ANNUAL REPORT 2014
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FOREWORD

Last year saw a number of significant changes that affected key activities of Národná banka Slovenska (NBS). After extensive preparatory work, banking supervision in the euro area underwent an overhaul towards the end of 2014, with a substantial reallocation of supervisory powers. As for the common monetary policy, path-breaking decisions were taken in response to monetary and economic developments. The field of payment services also experienced major adjustments.

The global economy grew in 2014 at the same pace as in the previous year. This encompassed an increase in growth across advanced economies caused by higher domestic demand and a slowdown in the emerging world. The euro area economy grew, but the average growth rate was low, reflecting in part geopolitical tensions.

In Slovakia, a fall in the positive contribution of external demand was offset by an increase in domestic demand. Annual GDP growth accelerated to 2.4%, based mainly on higher investment. The buoyancy of the domestic economy had a positive impact on the labour market. As employment increased, the unemployment rate came down.

The consumer price level in Slovakia fell in 2014, with the rise in domestic demand not sufficient to offset stronger downward pressures from the external environment. During most of 2014 the annual inflation rate was negative, and for the year as a whole consumer prices decreased by 0.1%. In the euro area, prices increased slightly on average, but towards the year-end they began to fall significantly.

In response to prolonged low inflation and with the aim of supporting the recovery in the euro area, the ECB's Governing Council decided in June 2014 to cut the interest rate on main refinancing operations to 0.15% and to introduce a negative rate of -0.10% on the deposit facility. In September the ECB cut the main refinancing rate to 0.05% and lowered the deposit facility rate to -0.20%.

At the same time, the ECB continued to use non-standard monetary policy measures. The Governing Council decided that both main refinancing operations and three-month longer-term refinancing operations would continue to be conducted as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of 2016. The ECB also announced further measures to enhance the functioning of the monetary policy transmission mechanism and support the provision of credit to the broad economy. These included targeted longer-term refinancing operations and an asset-backed securities purchase programme.

In the field of supervision, preparations for the transition to the Single Supervisory Mechanism (SSM) continued and were completed in 2014. The preparations included a comprehensive assessment of selected European banks, which confirmed that banks in Slovakia were stable and healthy. In November 2014 the SSM became operational, with the ECB assuming responsibility for the prudential supervision of the largest banks in the euro area. The ECB now directly supervises more than 120 significant banking groups. In addition, it sets and monitors standards for other banks that remain under the direct supervision of national competent authorities. In the case of Slovakia, the ECB supervises the three largest banks and three other banks as part of the supervision of foreign financial groups. The remaining banks continue to be supervised directly by NBS.

As regards payment systems, the most important change was the completion of the migration to the Single European Payments Area (SEPA). From February 2014, in 33 European countries, all euro credit transfers and direct debits payments are treated as domestic payments and the differentiation between national and cross-border payments ceases to exist. Last year NBS continued to ensure the smooth functioning of the SIPS retail payment system. The liabilities and claims of SIPS participants undergo final settlement in the TARGET2-SK system. In each of the two payment systems the total value of transactions executed in 2014 increased by a similar margin in compari-
son with the previous year (by 4.2% and 5.7%, respectively).

The cumulative net issuance of euro currency in Slovakia, i.e. the difference between the value of euro banknotes/coins that NBS has put into circulation and withdrawn from circulation since 1 January 2009 (when Slovakia adopted the euro), amounted to €9.5 billion by the end of 2014. As well as ordinary circulation coins, NBS issued a €2 commemorative coin, marking the 10th anniversary of the accession of the Slovak Republic to the European Union, and three collector coins, including two silver coins and one gold coin.

For 2014, Národná banka Slovenska reported a profit of €102 million, with net interest income being the largest contributor to that result. The number of NBS employees was 1,029 at the end of 2014, slightly higher than at the end of the previous year. Most of the fresh recruitment was related to new supervisory tasks that NBS has assumed.

March 2015

Jozef Makúch
Governor
ECONOMIC, MONETARY AND FINANCIAL DEVELOPMENTS
1 MACROECONOMIC DEVELOPMENTS

1.1 THE EXTERNAL ECONOMIC ENVIRONMENT

1.1.1 GLOBAL TRENDS IN OUTPUT AND PRICES

The global economy grew by 3.3% in 2014, at the same pace as in the previous year. There was, however, heterogeneity in growth rates across countries. Advanced economies saw economic activity accelerate, as they benefited mainly from growth-friendly domestic policies and the improving financial situation of households. In emerging economies, by contrast, growth slowed owing mainly to stricter lending conditions and the normalisation of US monetary policy. A further drag on global growth in 2014 was the geopolitical impact of the ongoing conflict between Russia and Ukraine. In the advanced world, US growth increased with support from an improving labour market situation as well as a revival of domestic demand. The UK, too, contributed positively to global growth, with its economy boosted mainly by private consumption and developments in the real estate market. After contracting in 2013, euro area GDP growth increased in 2014, albeit more modestly than growth rates in the majority of advanced countries. In Japan, tax hikes in April had a dampening effect on private consumption and were one reason that the country’s economic growth remained flat in 2014. As for emerging economies, China reported a slowdown in what is, however, still a solid rate of GDP growth. China’s growth was inhibited by a subdued property market, but with help from a package of stimulation measures and a pick-up in exports, it was ultimately close to the official target. Russia, too, had a negative impact on global activity, as its GDP growth slowed substantially owing to the conflict in Ukraine and limitations on trade. These geopolitical tensions to some extent affected also global trade growth, which fell to 3.1% in 2014, from 3.4% in 2013.

Average inflation in advanced economies was the same in 2014 as in 2013 (1.4%), although price growth slowed in the second half of the year. In the emerging world, average inflation fell by 0.5 percentage point, to 5.4%. Oil prices had a major impact on consumer prices, and especially energy prices, in 2014. In the first half of the year oil prices remained relatively high amid threats to production in Iraq and Libya, as well as the mounting geopolitical risks associated with Ukraine. In the second half, however, oil prices began to plunge as oil inventories increased. The average oil price had fallen by almost half by the year-end, owing to some substantial increases in oil production (especially in the United States), to slackening demand in China, and to OPEC member countries maintaining production levels with the aim of preserving market shares. Non-energy commodity prices likewise had a downward trend in 2014. Metal prices declined, too, due to supply exceeding demand, as well as to the slowdown in China’s growth. Agricultural commodity prices also decreased, because of good harvests and rising production.

1.1.2 EURO AREA ECONOMIC DEVELOPMENTS

The euro area economy grew by 0.9% after contracting in each of the previous two years (by 0.5% in 2013). Its growth was driven mainly by private consumption and, to a lesser extent, by government consumption and investment,
benefiting from the accommodative monetary policy stance and consequent easing of lending conditions. Export growth was higher in 2014 than in the previous year, although the increase was almost wholly offset by import growth. Net exports therefore made only a moderate contribution to GDP growth. The economic recovery remained fragile, affected by tensions in the geopolitical situation. The upturn was reflected in the labour market, as the unemployment rate, albeit still high, edged down from 11.9 % in December 2013 to 11.3% in December 2014. The ongoing adjustments of balance sheets in the public sector, as well as fiscal consolidation in certain euro area countries, were reflected in government final consumption.

Annual average HICP inflation was 0.4 % in 2014, one percentage point lower than in the previous year. The annual inflation rate decreased throughout 2014 and turned negative in December, at -0.2% (the rate in December 2013 was 0.8%). Core inflation (the HICP rate excluding energy and unprocessed food prices) also decelerated over the course of the year, recording an average rate of 0.9% (compared to 1.3% in 2013). The fall in headline inflation during 2014 was due mainly to the marked impact of declining commodity prices, owing to which energy inflation became for more negative and food inflation decreased. Non-energy industrial goods inflation also slowed moderately. Services inflation followed a more stable course, but remained at low levels. Consumer demand stayed relatively low, and in an environment of strong competition helped keep inflation subdued.

The exchange rate of the euro against the US dollar weakened over the course of 2014. After a period of appreciation, the rate depreciated from May and this trend became more volatile in the last two months of the year. This pattern reflected the varying cyclical positions and monetary policy stances of the euro area and US, as well as outlooks for growth and inflation in the euro area. The euro’s value against the dollar was 12% lower at the end of 2014 than at the end of 2013.

In response to developments, the ECB’s Governing Council (GC) cut the key ECB interest rates on two occasions in 2014. In pursuing its price stability mandate, the GC also approved additional measures to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia’s economic growth increased to 2.4% in 2014, from 1.4% in the previous year, according to data from the Slovak Statistical Office (SO SR). This growth was attributable mainly to domestic demand, boosted mainly by investment, whose growth rate was even higher than that of consumption. External demand growth was lower than in 2013. Looking at GDP according to the production approach, its growth was largely accounted for by value added in the government, trade and industry sectors.

The balance of payments current account surplus stood at 0.1% of the GDP in 2014, which was significantly less than in 2013 (1.4%). The slowdown was caused primarily by the deteriorating income balance, as well as by a lower surplus in the services balance. The current trans-
1.2.1 Price developments

**Consumer prices**

Inflation as measured by the Harmonised Index of Consumer Prices (HICP)

Average annual HICP inflation fell from 1.5% in 2013 to an all-time low of -0.1% in 2014. The rate turned negative owing mainly to a decrease in unprocessed food price prices. In addition, prices of services, non-energy industrial goods, and processed food increased more slowly in 2014 than in 2013, while the rate of decrease in energy prices became more pronounced. The fall in the price level in 2014 reflected also external factors (decreasing prices of oil and agricultural commodities) and administrative measures (rail fare adjustments and the impact of the cancellation of fees for the maintenance of mortgage loans accounts in mid-2013).

International electricity prices fell, with the result that household electricity prices decreased markedly. Electricity price inflation dropped from 0.4% in December 2013 to 0.0% in January 2014, hence contributing significantly to the HICP’s rate of decrease. The second half of the year saw fuel price inflation begin to fall as a result of plummeting oil prices.

Owing to a second successive year of good harvests, annual food price inflation turned negative from April 2014 until the year-end. Its rate of decrease peaked in the third quarter and was moderated only partially in the fourth quarter by the base effect of a sharp drop in prices a year earlier.

Prices of non-energy industrial goods remained flat in 2014 (after rising by 0.8% in 2013) in an environment of low import price inflation and despite a gradual pick-up in household consumption (supported by real wage growth). Nevertheless, their annual rate of change followed an upward path, increasing gradually from -0.4% in January to 0.4% in December 2014. The overall slowdown in non-energy industrial goods inflation reflected lower annual rates of increase in non-durable goods (pharmaceutical products, goods used for regular maintenance and repair of dwellings).
and semi-durable goods (sports and recreational equipment, toys, image and sound carriers, books), as well as a more marked rate of decrease in prices of durable goods (sound recording and reproduction equipment, data processing equipment, motor vehicles). As for industrial goods, their prices are expected to have remained affected by structural changes (falling unit costs of manufacturing, technological progress, and the rapid expansion of internet sales which have made cross-border price comparisons simpler and consumer goods more affordable).

Services price inflation was lower in 2014 than in 2013, and its subdued rate in each year was caused mainly by administrative measures. In mid-2013 bank fees for the maintenance of mortgage loans accounts were cancelled and the downward impact of this step on services inflation continued in 2014. Another significant measure was the abolition of rail fares for students and pensioners in late 2014. The lower services inflation rate also reflected non-administered prices, despite increases in the real disposable income and financial consumption of households.

1.2.2 Gross Domestic Product
Slovakia’s annual GDP growth at constant prices increased to 2.4% in 2014, from 1.4% in 2013, according to the SO SR’s figures. The growth was driven by reviving domestic demand. GDP amounted to €75.2 billion, and its nominal growth (2.2%) was lower than the real rate (2.4%) owing to a decline in the general price level, expressed by the GDP...
deflator. Affected by falling consumer, producer, import and export prices, the GDP deflator fell year-on-year by 0.2% (after rising by 0.5% in 2013).

**GDP by the production approach**
Looking at GDP from the production approach, real value added growth increased year-on-year to 2.2% (from 1.1% in 2013). The sectors whose value added growth made the largest contributions to overall GDP growth were public administration, trade and industry. By contrast, value added declined in construction (for a second year in a row) and agriculture.

**GDP by the expenditure approach**
After two years of decline, domestic demand increased in 2014 (by 3.4%) with support from falling oil prices that boosted households' disposable income and firms' profits. Net exports, however, had a negative impact on GDP growth, as imports of goods and services increased year-on-year more than exports (by 5% as against 4.6%). Import growth, which was higher in 2014 than in 2013, was buoyed by the two components of domestic demand.

All components of domestic demand increased, with fixed investment recording the largest rise, spread across a broad range of sectors. It may well be that firms felt compelled to make investments after having deferred them for a lengthy period. The scope for investment increased towards the year-end, as falling oil prices reduced firms costs related to energy and intermediate consumption. Along with investment demand, consumption demand also contributed positively to GDP growth. Private consumption growth was based on households' disposable income, which rose owing to the improved labour market situation and decline in inflation. The inflation rate, which reflected mainly lower energy and food prices, allowed households to increase consumption spending on non-essential goods and services. Government consumption grew

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### Table 1 GDP from the production approach (index: same period a year earlier = 100, constant prices)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1-Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>GDP</td>
<td>101.4</td>
<td>102.3</td>
</tr>
<tr>
<td>Gross output</td>
<td>99.4</td>
<td>105.2</td>
</tr>
<tr>
<td>Intermediate consumption</td>
<td>98.4</td>
<td>107.3</td>
</tr>
<tr>
<td>Value added</td>
<td>101.1</td>
<td>102.0</td>
</tr>
<tr>
<td>Net taxes on products</td>
<td>105.4</td>
<td>105.9</td>
</tr>
</tbody>
</table>

Source: SO SR.

1) Value added tax, excise tax, import tax, less subsidies.

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### Table 2 GDP from the expenditure approach (index: same period a year earlier = 100, constant prices)

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1-Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>GDP</td>
<td>101.4</td>
<td>102.3</td>
</tr>
<tr>
<td>Final consumption:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final consumption of households and non-profit institutions serving households</td>
<td>100.0</td>
<td>103.3</td>
</tr>
<tr>
<td>Final consumption of general government</td>
<td>99.3</td>
<td>102.8</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>102.4</td>
<td>104.7</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>97.3</td>
<td>102.1</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>105.2</td>
<td>112.4</td>
</tr>
</tbody>
</table>
| Source: SO SR.
twice as fast as private consumption, due mainly to employee compensation.

Exports were responsive to demand in Slovakia’s trading partners, as they increased sharply at the beginning of the year and then at a more moderate pace. Annual export growth for 2014 as a whole was 4.6%. Among the causes of the slowdown in export growth were the stuttering of emerging Asian economies, the Russia-Ukraine conflict, and the slowdown of exports in neighbouring markets.

Nominal exports and imports of goods and services as a percentage of GDP fell year-on-year in 2014, owing primarily to a marked drop in export and import prices. The export ratio decreased by 1 p.p., to around 92%, and the import ratio by 0.7%, to 88%, hence the openness of the Slovak economy, measured by sum of these two ratios, fell by 1.7 p.p., to 180%.

1.2.3 THE LABOUR MARKET

The labour market situation improved during 2014, particularly in the second half of the year. This upturn stemmed mainly from the economy’s recovery and a change in the composition of its growth. Whereas in previous years exports had been the main driver of GDP growth, in 2014 their contribution was not significant and domestic demand accounted for the bulk of growth. A broad swathe of sectors benefited from the pick-up in domestic demand, not just those focused on exports. The average nominal wage increased, but given that unemployment remained high, the wage growth cannot be accounted for by aggregate labour demand exceeding supply. In some sectors, however, there was a shortage of labour.

**EMPLOYMENT**

Employment (according to ESA 2010) increased year-on-year in 2014, by 1.4%, after falling by 0.8% in the previous year. Employment growth accelerated from one quarter to the next, recording its highest rate in the fourth quarter. It is worth mentioning that employment growth over 2% was registered in only one quarter since 2008 (the second quarter of 2011). The number of hours worked increased by 0.9% in comparison with 2013. The rate of change in this indicator was positive for only the second year since 2008 (the other being 2011). The sectors accounting for most of the employment growth were services, industry, wholesale trade, retail trade, and the public sector. Employment in the construction sector recorded its most moderate rate of decline since 2011. Public sector employment\(^1\) rose, by 1.8%, after falling for the previous three years. In central government and defence, employment increased by 1.4%, in education by 0.7%, and in health by 3.6%. According to the Labour Force Survey, the number of Slovak citizens working abroad in 2014 fell year-on-year by 1.8 % (or by 2,400 people), which marked a reversal of the trend observed since 2012.

<table>
<thead>
<tr>
<th>Table 3 Labour market indicators</th>
<th>2013 Q1-Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>2014 Q1-Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal wages (index)</td>
<td>102.4</td>
<td>104.1</td>
<td>104.8</td>
<td>104.2</td>
<td>103.5</td>
<td>104.1</td>
</tr>
<tr>
<td>Real wages (index)</td>
<td>101.0</td>
<td>104.2</td>
<td>104.9</td>
<td>104.3</td>
<td>103.5</td>
<td>104.2</td>
</tr>
<tr>
<td>Nominal compensation per employee – ESA 2010 (index)</td>
<td>102.6</td>
<td>103.0</td>
<td>104.9</td>
<td>103.0</td>
<td>102.5</td>
<td>103.4</td>
</tr>
<tr>
<td>Labour productivity – GDP per employee (index, current prices)</td>
<td>102.8</td>
<td>101.1</td>
<td>100.5</td>
<td>100.8</td>
<td>100.6</td>
<td>100.8</td>
</tr>
<tr>
<td>Labour productivity – GDP per employee (index, constant prices)</td>
<td>102.2</td>
<td>101.6</td>
<td>101.1</td>
<td>100.9</td>
<td>100.3</td>
<td>101.0</td>
</tr>
<tr>
<td>Employment – ESA 2010 (index)</td>
<td>99.2</td>
<td>100.6</td>
<td>101.4</td>
<td>101.4</td>
<td>102.1</td>
<td>101.4</td>
</tr>
<tr>
<td>Unemployment rate – LFS(^1) (%)</td>
<td>14.2</td>
<td>14.1</td>
<td>13.2</td>
<td>12.9</td>
<td>12.6</td>
<td>13.2</td>
</tr>
<tr>
<td>Nominal unit labour costs (ULC)(^2)</td>
<td>100.3</td>
<td>101.3</td>
<td>103.7</td>
<td>102.1</td>
<td>102.2</td>
<td>102.3</td>
</tr>
</tbody>
</table>

Source: SO SR, NBS calculations.

1 Including also the health and education sectors.

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1) LFS – Labour Force Survey.
2) Rate of compensation per employee growth at current prices to labour productivity growth (ESA 2010) at constant prices.
UNEMPLOYMENT
The number of unemployed in 2014 decreased year-on-year by 7.1%, according to the Labour Force Survey. Consequently, the average annual unemployment rate fell by 1 percentage point, to 13.2%. The registered unemployment rate according to labour office figures averaged 12.8% in 2014, which was 1.3 percentage points lower than in the previous year.

WAGES AND LABOUR PRODUCTIVITY
The average monthly nominal wage in 2014 increased to €858, and its annual rate of growth accelerated to 4.1%. The sectors reporting the highest nominal wage growth were financial and insurance activities (7.9%), administration activities (7.2%), mining and quarrying (6.3%), and industry (5.7%). Sectors in which the average wage fell were other services (-2.6%), construction (-1.2%) and water supply (-1.0%). Since the price level decreased year-on-year, real wage growth exceeded nominal wage growth. Although there was a year-on-year increase in labour productivity (measured by GDP per person employed) in 2014, it was lower than in 2013. Real labour productivity growth was less than real wage growth. If this situation were to continue for a longer period and spread to export-oriented sectors, it could push up prices and threaten economic competitiveness. With real wage growing faster than real labour productivity, unit labour cost growth increased by 2.3%. The largest rises in unit labour costs were in agriculture, wholesale and retail trade, entertainment and recreation, and information and telecommunications.

1.2.4 FINANCIAL RESULTS
In 2014 the total profits of non-financial and financial corporations in Slovakia fell year-on-year by 0.7%, to €10,236.6 million (after declining by 0.5% in 2013), according to the SO SR's preliminary data. The drop was accounted for by profits of financial corporations, which decreased by 7%.

As for non-financial corporations, their overall profits increased by €59.4 million, to €8,488.8 million. That rise was attributable primarily to manufacturing industry, in particular to firms manufacturing transport equipment, metals, chemical products, and pharmaceutical products. Also contributing positively to profits were the sectors of education, health services, social work activities, and arts, entertainment and recreation. The coke and refined petroleum products manufacturing sector reported an overall loss in 2014 after making a profit in 2013.

The total profit of the financial sector, excluding NBS, increased moderately in 2014, by €256.6 million to €1,648.4 million. The composition of this profit was, however, different from that in the previous year, since most of the growth was accounted for by insurance corporations, whose aggregate profit soared by 51.1% (after falling by 16.9% in 2013). The banking sector excluding NBS saw its total profit rise by 1.1% (27.7% in 2013). Banks' profits were boosted by increases in fee and interest income and in income from financial transactions, while they were negatively affected by an increase in funds set aside for provisions and reserves as well as by rising operating expenses. As for other financial intermediaries – including leasing companies, private health insurers, stock exchanges, and pension funds management companies – their aggregate profit grew by 18.5% in 2014 (26.0% in 2013).

1.2.5 BALANCE OF PAYMENTS
CURRENT ACCOUNT
The current account surplus of Slovakia was €0.1 billion in 2014, far lower than in 2013. The

<table>
<thead>
<tr>
<th>Table 4 The b.o.p. current account (EUR billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>Trade balance</td>
</tr>
<tr>
<td>Exports</td>
</tr>
<tr>
<td>Imports</td>
</tr>
<tr>
<td>Services balance</td>
</tr>
<tr>
<td>Income balance</td>
</tr>
<tr>
<td>of which: investment income</td>
</tr>
<tr>
<td>of which: reinvested earnings</td>
</tr>
<tr>
<td>Current transfers balance</td>
</tr>
<tr>
<td>Current account in total</td>
</tr>
<tr>
<td>Current account to GDP ratio (%)</td>
</tr>
</tbody>
</table>

Source: SO SR and NBS.
fall in the surplus was caused largely by outflows from the investment income account, in the form of higher dividend payments to foreign direct investors. The ratio of the current account surplus to GDP (at current prices) decreased by 1.3 percentage points to 0.1%.

The pace of growth in goods exports slowed gradually from the beginning of 2014, while for the year as a whole it was only slightly higher year-on-year. Export growth was lower than that of external demand. Except in the first quarter, Slovak exporters were losing shares in Slovakia’s export markets.

In 2014, as in the previous year, car exports increased only slightly and the electrical/electronics industry reported the highest export growth. Exports in the refined petroleum products manufacturing sector were dampened by investment-related plant shutdowns. Looking at exports by destination country, the largest decline was in exports to the other Visegrad Four countries, in particular the Czech Republic. Exports to Russia, Ukraine and Asian markets also fell. These declines were offset by increasing exports to euro area countries.

Given the level of import intensity, the slowdown in exports translated into a marked drop in import growth. With exports and imports increasing at the same pace (0.7%), the trade surplus was virtually unchanged from the previous year.
The services balance posted a lower surplus in 2014 than in the previous year, owing to adverse results in its main categories. In other services and transportation receipts fell, while in travel the increase in payments exceeded the increase in receipts. The deterioration in the income balance, as against 2013, was caused by higher dividend payments to foreign direct investors and, to a lesser extent, by a rise in interest payments. The current transfers deficit narrowed in 2014, from its level in 2013, mainly because receipts from EU funds increased at a time when contributions to the EU budget fell.

**Capital and financial account of the balance of payments**

The surplus in the capital and financial account increased by €1.1 billion, to €3.6 billion.

In the direct investment category, the year-on-year fall in net inflow was related mainly to the asset side and, specifically, an increase in claims on direct investors. On the liability side, the moderate outflow of equity capital from Slovakia was offset by an increased inflow of other capital arising from the business activities of corporate entities. Portfolio investment recorded a net inflow owing mainly to funding acquired through the issuance of government and corporate bonds. In both categories the inflow of debt securities was far lower than in 2013. In other investment there was a marked change from a net outflow in 2013 to a moderate inflow in 2014, based mainly on short-term financing operations in the NBS sector (repo transactions).

**External debt of Slovakia**

As seen in b.o.p. developments, Slovakia’s external debt denominated in euro increased year-on-year by €6.5 billion, to €66.2 billion, and denominated in US dollars it decreased by USD 1.9 billion, to €80.4 billion. External liabilities of the Slovak Government and NBS increased by a substantial €4.0 billion over the year, owing to stronger demand for bonds and notes. According to preliminary figures, Slovakia’s ratio of total gross external debt to GDP at current prices was 88.1% as at 31 December 2014, up by 5.4 percentage points from its level at the end of 2013 (82.7%). Over the same period, the ratio of short-term external debt to total gross external debt decreased by 0.2 p.p. to 30.1%. Debt per capital at the end of 2014 amounted to €12,262, representing a year-on-year increase of €1,211.
The nominal effective exchange rate (NEER) index appreciated year-on-year by an average of 1.2% in 2014. The largest positive contribution to that figure was made by appreciation against the Czech koruna (0.8 p.p.), since the Czech central bank, Česká národní banka, used weakening of the exchange rate (close to CZK 27 to the euro) as a further instrument for easing monetary conditions. Weakening of the Russian rouble, related to the conflict in Ukraine, added 0.6 p.p. to the NEER’s appreciation. There were negative contributions to the NEER from depreciation against the South Korean won (-0.3 p.p.) and against the pound sterling (-0.2 p.p.).

Despite the NEER’s appreciation, the real effective exchange rate (REER) index based on unit labour costs in manufacturing depreciated by 0.1% (after appreciating by 1.1% in 2013). This was caused by the negative inflation differential against Slovakia’s most significant trading partners. The most negative differentials were against Russia (-7.3 p.p.), the Czech Republic (-2.8 p.p.), the United States (-2.6 p.p.) and Hungary (-2.3 p.p.). Taking into account the weights of the trading partners, the differentials that had the largest impact on the REER’s depreciation were those against the Czech Republic and Germany (in each case -0.4 p.p.), and Russia (-0.3 p.p.). The price competitiveness of domestic firms in 2014 may have continued to be supported by an undervalued REER, since equilibrium growth of labour productivity was higher in Slovakia than abroad, creating scope for sustainable moderate appreciation of the real exchange rate. The trend of increasing REER undervaluation observed in previous years came to a halt in 2014, as did the improving trend in Slovakia’s trade balance. This may partly explain the decelerating rise in the share of Slovakia’s exports in world trade.

2 EurosysteM monetary policy

2.1 Monetary policy operations

The European Central Bank (ECB) implements euro area monetary policy through national central banks (NCBs) using several standard monetary policy instruments: open market operations, standing facilities, and minimum reserve requirements. Open market operations consist of main refinancing operations (MROs), longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and structural operations (SOs). The standing facilities comprise the deposit facility (DF) and the marginal lending facility (MTF).

The divergence between the monetary policies of major world central banks became more pronounced during 2014. In the United States, the Federal Reserve concluded its asset purchase programme and sent signals of its intention to tighten monetary policy, whereas the ECB, amid falling prices and a lack of progress in boosting
economic growth indicated its intention to further ease monetary policy.

The ECB was conducting open market operations throughout 2014 using the fixed rate full allotment policy. It decided to continue with this policy for as long as necessary, and at least until the end of the Eurosystem’s reserve maintenance period ending in December 2016. The objective, as in previous years, was to ensure the stability of the euro area banking sector, with banks being able, as required, to utilise the ECB’s liquidity-providing operations.

At its monetary policy meeting in June, the Governing Council (GC) of the ECB reduced the bank’s key interest rates and, in addition, decided on a number of other measures. These included suspending the weekly fine-tuning operation sterilising the liquidity injected under the Securities Markets Programme (SMP), and stepping up preparatory work for outright purchases of euro-denominated assets. Furthermore, the GC decided to discontinue the Eurosystem’s special-term refinancing operations (STROs) with a maturity of one maintenance period.

In pursuing the ECB’s price stability mandate, the GC announced measures that would improve the monetary policy transmission mechanism by supporting lending to the real economy. At the June meeting, it decided to proceed with a series of targeted longer-term refinancing operations (TLTROs), in order to support bank lending to the euro area non-financial private sector, excluding loans to households for house purchase. The TLTROs are designed to ensure that the funding obtained is passed on, via bank lending activity, to end users, i.e. the final borrowers.

Under the first two LTROs, counterparties – commercial banks – were able to borrow, initially, 7% of the total amount of their loans to the euro area non-financial private sector, excluding loans to households for house purchase, outstanding on 30 April 2014. In these two initial tenders, conducted in September and December 2014, banks took up a cumulative €212 billion. In addition, in a further six TLTROs to be conducted over the course of 2015 and 2016, counterparties will be able to borrow, quarterly, up to three times the amount of their net lending to the euro area non-financial private sector, excluding loans to households for house purchase, provided between 30 April and the respective allotment reference date. Counterparties may participate in TLTROs either individually or as part of a group.

The interest rate on the TLTROs was fixed over the life of each operation, at the MRO rate prevailing at the time of take-up, plus a fixed spread of 10 basis points. Those counterparties that have not fulfilled certain conditions regarding the volume of their net lending to the real economy will be required to pay back borrowings in 2016, two years before the TLTROs mature.

The ECB decided to conduct, from October, a third euro-denominated covered bond purchase programme (CBPP3) – two years after the previous one – and, from November, an asset-backed securities purchase programme (ABSPP). By the year-end the purchases made under these two programmes, within euro area primary and secondary markets, amounted to €31 billion. The ABSPP is being conducted by external firms.

The two purchase programmes and the TLTROs are aimed at enhancing transmission of monetary policy and to support the provision of credit to the euro area economy. At the same time, they are expected to steer the ECB’s balance sheet towards the dimensions it had at the beginning of 2012 and to return inflation to levels nearer the ECB’s inflation target.

The banks that participated in two three-year LTROs in 2011 and 2012, each maturing in the first quarter of 2015, continued their gradual early repayment of these operations, and by the year-end 79% of the overall borrowings had been repaid (out of a total take-up of €1 trillion).

The euro area banking sector minimised its participation in US dollar liquidity-providing operations dating back to 2008. The ECB, in cooperation with the Bank of England, Bank of Japan and the Swiss National Bank, decided to cease con-
ducting three-month US dollar liquidity-providing operations. The same operation with a one-week maturity continued to be conducted, and the ECB indicated that it would periodically assess the need for it.

In response to falling prices and weak economic recovery in the euro area, the ECB reduced its key interest rates on two occasions in 2014. At its monetary policy meeting in June, the Governing Council lowered the rate on the main refinancing operations by 10 basis points, to 0.15%, the rate on the marginal lending facility by 35 basis points, to 0.40%, and the rate on the deposit facility by 10 basis points, to -0.10%. For the first time in the history of the euro area, the ECB set a negative deposit facility rate. At September’s meeting, the GC further reduced each of the three key rates by 10 basis points, setting the MRO rate at 0.05%, the MLF rate at 0.30%, and the DF rate at -0.20%.

The rate-cutting decision had a downward effect on unsecured money market rates in the euro area. In August the overnight EONIA rate moved to negative territory for the first time ever, and mostly remained there until the end of the year, when it stood at an all-time low of -0.085%. One-week and two-week EURIBOR rates also turned negative. The average size of overnight transactions fell in comparison with the previous year.

2.2 EURO DEVELOPMENTS

The euro was affected by several factors in the euro area, as well as by developments in the global economy and the monetary policy stances of major central banks. The situation was therefore heavily conditioned by the euro area’s economic performance, as well as by oil price movements and tensions between Russia and Ukraine. The depreciation of the euro’s exchange rate against the US dollar stemmed from ECB measures taken during the course of the year, the reduction of the deposit facility rate to negative levels, projections of slower economic growth in the euro area, expectations of quantitative easing in the euro area, political unrest in Greece, and geopolitical tensions associated with the crisis in Ukraine. Another contributing factor was the improving labour market situation in the United States, the outlook for accelerating US economic growth, and expectations of monetary policy
3 Financial market developments

Developments in the external environment are important to the stability of the financial sector in Slovakia. Although the euro area economy improved moderately during 2014, it did so with limited impact on financial stability risks. The labour market situation picked up only slightly, while the euro area’s disinflationary trend continued throughout the year. In response, the ECB has decided to embark on an asset purchase programme (also known as quantitative easing), which in conjunction with low oil prices and depreciation of the euro exchange rate is expected to benefit the economy going forward. The environment of weak economic growth and subdued inflation remains a significant risk, one that complicates the position of highly indebted countries. A second sizeable risk is the persisting search for yield, especially with regard to how increases in risk premia would affect the global financial system. These could be triggered by political developments in particular euro area countries, mounting geopolitical tensions, or movements in key US interest rates. On the positive side, Slovakia’s economic growth was stable and relatively strong in 2014; nevertheless, a continuation of this trend will be contingent on stability in the euro area.

The potential for such adverse external risks to impair the stability of the Slovak financial sector remains mitigated by the strong position of its main pillar – the banking sector. In terms of solvency, profitability and access to funding, the banking sector in Slovakia is reporting better results than are its counterparts in most other EU countries. The sector’s aggregate profit for 2014 was moderately higher year-on-year, at €560 million. Although a sharp drop in interest rates, mainly on loans to households, had a negative impact on profits, this was offset by lending growth and falling deposit costs. The aggregate capital ratio increased only slightly from the previous year, to 17.3%. It should be noted, however, that this stabilisation followed several years in which the capital ratio rose substantially.

The lending activity of domestic banks in 2014 remained marked by heterogeneity between the household and corporate sectors. Lending to the corporate sector recovered slightly after a long downward period, particularly in the second half.
of the year. The outstanding amount of loans to this sector was significantly affected by both an increase in loans to state-owned firms and by, more importantly, the improving situation in lending to private firms. This reflected rising demand for loans rather than supply-side conditions, which stayed largely the same amid a still uncertain economic climate.

The amount of loans to households maintained robust year-on-year growth with an increase of 12%. The drivers of that growth were housing loans and consumer loans, which increased on yearly basis by 13% and 20%, respectively. Slovakia reports one of the higher rates of household lending growth in the European Union, due largely to falling interest rates and the consequent high rate of refinancing. Refinancing loans made up 40% of the total amount of new loans provided in 2014. This trend in lending growth is also important in terms of its upward impact on household indebtedness.

Looking at banking sector’s debt securities portfolio, the principal trends continued in 2014 with decreasing investment in domestic and foreign government bonds. By contrast, the total investments in bonds issued by domestic banks and non-financial corporations increased. As regards debt securities issued by domestic banks, mortgage bonds accounted for more than 70% of the total.

The most significant risk to the banking sector remains that of a deterioration in loan portfolio quality arising from adverse developments in the domestic and external economy. The non-performing loan (NPL) ratio for total corporate loans stayed slightly above 8% for most of 2014, only edging up to 8.6% towards the end of the year. The NPL ratio for household loans fluctuated during 2014, and in December it stood at 4.3%.

Total profits in the insurance sector grew by 13.3% year-on-year, to reach their second highest level on record. Premiums in life insurance declined moderately, due largely to their fall in traditional life insurance policies. In supplementary insurance and unit-linked insurance, premiums continued to increase. Premiums in non-life insurance rose after two years in decline. The greatest risk to the insurance sector continues to be the environment of low interest rates, notwithstanding a reduction in the technical interest rate, which in any case affected only new contracts. In this context, reinvestment risk also remains present, with around one-third of the bond portfolio due to mature before 2020. Credit risk is largely unchanged.

In the second pension pillar, 2014 was the last year in which there was an accumulation stage without any distribution, and therefore results were stable. The increase in the total number of savers was attributable entirely to the increase in savers in pension funds focused on higher-risk investments (in equity and index funds). In the sector as a whole, the pace of asset accumulation accelerated. Equity and mixed pension funds saw an increase in their equity market exposures. The average nominal return on pension funds was among the highest in the history of the old-age pension saving scheme, and the real return showed an even stronger performance.

In the third pension pillar – the supplementary pension scheme – the number of participants and amount of assets under management increased more sharply in 2014 than in 2013. The aggregate asset composition of third-pillar funds did not alter significantly. In several third-pillar
funds, the proportion of assets denominated in a foreign currency increased to a significant level. The average annual return of third-pillar funds more than doubled in 2014, from the rate in previous year, to 3.6%. The total profits of supplementary pension fund management companies fell by around one-third owing to reductions in pension fund management fees.

The collective investment sector reported an increase in assets under management for a third successive year. The majority of the growth in 2014 was accounted for by local investment funds. Mixed funds recorded the largest net inflows, closely followed by bond funds. The percentage increase in the net asset value of alternative investment funds was the highest in the sector. Real estate funds experienced moderate net redemptions after a lengthy period of net sales. As in the previous year most of the inflows into investment funds came from households. In all fund categories except for equity funds, returns were higher in 2014 than in 2013. With an increasing amount of assets under management, the aggregate profits of asset management companies in the sector soared by 145%.
NBS ACTIVITIES
1 Monetary Policy Implementation and Investment Portfolio Management

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

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

1.1 Minimum Reserve Requirements

In 2014 a total of 28 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 13 banks that had their registered office in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions (including credit cooperatives). Whereas in 2013 excess reserves were remunerated at zero per cent, in the second half of 2014 they were subject to negative interest rates. The aim behind negative rates was to encourage banks to steer liquidity to the real economy, rather than to hold funds on account with central banks.

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

1.2 Eligible Assets

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

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

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

*Source: NBS.*
2014. Among the few, limited adjustments was a modification of conditions for ensuring high credit quality standards of eligible assets. Credit card asset-backed securities were accepted as a new group of eligible assets, since the underlying claims generate financial flows used for interest and principal payments to the ABS holders. There were also minor adjustments to haircuts for assets issued by the Greek and Cypriot governments.

The value of Slovak eligible assets in 2014 remained similar to its levels in 2013. The total nominal value of these assets was €32,789 million at...
the end of 2014, which was €324.3 million higher than at end-2013. Slovak government bonds constituted almost 89% of these eligible assets, and mortgage covered bonds nearly 9%. Treasury bills did not feature in the list of eligible assets at the end of 2014, as the last outstanding issue of these securities, issued in 2013, were redeemed in the first half of 2014 and there were no further issues.

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

1.3 INVESTMENT PORTFOLIO MANAGEMENT

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

Národná banka Slovenska (NBS) participated in the preparation of the Single Supervision Mechanism (SSM), which constitutes the first pillar of the Banking Union under which the European Central Bank (ECB) has taken on responsibility for the supervision of significant institutions. The SSM, which started functioning officially on 4 November 2014, comprises the ECB and the competent national authorities of the participating Member States. When the SSM was introduced, one of its crucial tasks was to carry out a comprehensive assessment of all significant banks, in which NBS also took an active part.

Another important task in 2014 was to establish Joint Supervisory Teams (JSTs) as basic SSM units for the supervision of bank groups at the highest level of consolidation. NBS is a member of nine JSTs. The staff members of NBS representing supervision over local banks in these JSTs are commissioned to act as sub-coordinators. Their task is to coordinate the conduct of supervision activities at local level in accordance with the rules of supervision at the highest level of consolidation.

The completion of the first pillar of the Banking Union in 2014 was followed by the implementation of its second pillar, i.e. the Single Resolution Mechanism (SRM). A legislative framework for the SRM was established in 2014. The second half of August 2014 saw the coming into force of a regulation stipulating uniform rules and procedures for the recovery and resolution of credit institutions and investment firms within the scope of the SRM and the establishment of a Single Resolution Fund (SRF) for bank resolution within the euro area, after an intergovernmental agreement was signed in May 2014 on the transfer and mutualisation of contributions to the SRF. These legal documents, along with the Bank Recovery and Resolution Directive (BRRD) represent the basic legislative pillars of the SRM. The year under review also witnessed the preparatory phase of SRM implementation.

To accomplish the key tasks of bank recovery and resolution in Slovakia, a national resolution authority has been established, namely the Resolution Council, with effect from 1 January 2015. Professional and organisational conditions for the Council to exercise its powers are ensured by NBS through its newly established Resolution Section, which is part of the Regulation Department of the Financial Market Supervision Unit (since 1 September 2014). This organisational arrangement ensures the Resolution Section's operational independence and conflict of interests prevention between the functions of this Section and those of the FMS Unit's other organisational units, the competence of which includes the supervision of credit institutions and investment firms.

In 2014, the NBS representatives were involved in the work of the team in charge of the transposition of the BRRD into the Resolution Act in the Financial Market. This Act was passed by Parliament on 26 November 2014 so that it could enter into force on 1 January 2015 in accordance with the relevant provisions of the BRRD. With the adoption of the Resolution Act, a new framework has been introduced for the prevention and resolution of possible crisis situations in the financial market of Slovakia. The objective of this framework is to deploy an efficient crisis management system suitable for ensuring the financial stability and continuity of the financial system's critical functions. The main task is to protect the depositors of any institution or group that has run into difficulties.

2.1 FINANCIAL STABILITY

In 2014, NBS was charged with another important task. The amendment to the Banking Act (effective since 1 August 2014) has implemented macroprudential policy instruments into the Slovak legislation (consisting mainly of the setting of capital buffers and risk weights for selected exposures), the use of which will be decided by the Bank Board of NBS. These decisions will be taken with a view to strengthening the resilience of the financial system and re-
stricting the increase in systemic risks in order to help maintaining the stability of the financial system as a whole. The first decision regarding the use of macroprudential policy instruments was made at the October 2014 meeting of the Bank Board.

In 2014, NBS issued a recommendation (No 1/2014) on risks related to market developments in retail lending. The objective of this recommendation is to help maintaining the stability of the domestic financial sector and avoiding risks that may have a negative impact on banks, their customers, and on the economy as a whole. According to this recommendation, banks and branches of foreign banks should, inter alia, observe the LTV limits for new housing loans and apply a prudential approach to loan refinancing combined with a significant increase in principal and to lending via intermediaries.

Macroprudential policy implementation also included the introduction of the capital conservation buffer at an earlier date. Banks are required to maintain a capital conservation buffer calculated as 1.5% of their total risk exposure amount from 1 August 2014 to 30 September 2014 and as 2.5% of their total risk exposure amount from 1 October 2014 onwards.

The FMS Unit started to publish quarterly comments with the aim of regularly informing the public about the potential systemic risks in the Slovak financial sector. If a systemic risk is identified, these comments serve as a basis for the Bank Board of NBS to activate an appropriate macroprudential policy instruments in accordance with the Banking Act and the CRR5 regulation.

A large part of the analytical work done in this area was devoted to a comprehensive assessment of banks, including stress testing, which was carried out by the ECB. Apart from this, the analytical activity focused on a detailed analysis of market developments in retail lending, an analysis of risks associated with the high share of government bonds in the portfolios of banks, and an assessment of the impact of new regulatory requirements, including the implementation of Basle III6. During macro-stress testing, particular attention was paid to the modelling of lending to the corporate sector.

2.2 SUPERVISION OF THE FINANCIAL MARKET

THE BANKING SECTOR

As at 31 December 2014, there were 13 banks and 15 branches of foreign banks operating in the Slovak banking sector.

Within the scope of the SSM (mutual cooperation with the ECB and the competent national authorities), which officially entered into operation on 4 November 2014 as a new system of financial supervision, banks (credit institutions) are categorised into:

- significant – supervised directly by the ECB (Tatra banka, a.s.; Všeobecná úverová banka, a.s.; Slovenská sporiteľňa, a.s.; Československá obchodná banka, a.s., and ČSOB stavebná sporiteľňa, a.s., belonging to the KBC Group; and Sberbank Slovensko, a.s., belonging to Sberbank Europe AG; and
- less significant (other banks with a registered office in Slovakia) – supervised directly by NBS.

Within the scope of the SSM, the ECB has assumed certain powers in the area of authorisation, too. It conducts authorisation proceedings in close cooperation with NBS. According to the above categorisation, authorisation proceedings in the banking sector fall within the competence of NBS or the ECB.

In 2014, NBS conducted a total of 79 authorisation proceedings in regard to the banking sector. Four of these proceedings were commenced in 2013 and 68 were completed with the issuance of a final decision. Most proceedings concerned the granting of prior approval to appoint new members to the boards of directors or supervisory boards of banks, managerial employees, and heads of the internal control and internal audit units of banks. Within the competence of the ECB, four applications were submitted in the period from 4 November 2014 to the end of 2014 for the approval of new members of the boards of directors or supervisory boards of banks. One of the proceedings conducted in this matter came to an end in 2014 with the issuance of a final decision by the ECB.

In regard to the banking sector, two sanction proceedings were instituted in 2014. One of

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6 A global regulatory framework for more resilient banks and banking system: http://www.bis.org/publ/bcbs189_dec2010.pdf
these proceedings was completed in the period under review with the issuance of a final decision to impose a penalty.

In 2014, NBS registered 18 foreign credit institutions that notified their intention to provide cross-border banking services in Slovakia, without establishing a branch.

Supervision in the banking sector in 2014 (over banks and branches of foreign banks) was exercised on the basis of the annual supervision plan. Apart from making a comprehensive assessment of banks, the main priorities for the year under review were the monitoring of banks’ liquidity, credit risks, capital adequacy, and the protection of banks and branches of foreign banks against money laundering and terrorist financing.

In 2014, a total of nine thematic on-site inspections were commenced in banks and branches of foreign banks, five of which were formally completed in the same year. Within the scope of these inspections, the FMS Unit examined four applications for the use of, or for a change in, an internal risk measurement model for capital requirement calculation for credit risk or for operational risk.

One of the top priorities of on-site inspections was to assess the risk management system’s effectiveness, mainly for credit risk, market risk, operational risk, and liquidity risk. In addition to this priority, on-site inspections also focused on the provision of investment and payment services, the evaluation of banks’ internal systems of administration and management, and of their protection against money laundering and terrorist financing.

Regarding off-site supervision, the FMS Unit conducted monthly evaluations in 2014 on the basis of the statements and reports of banks and branches of foreign bank, quarterly analyses of the risk profiles of individual banks, and comprehensive annual assessments of banks, including a risk profile assessment, internal capital adequacy assessment, and own funds adequacy assessment.

Before assuming responsibility for prudential supervision, the ECB, working closely with the national supervisory authorities, carried out a comprehensive assessment of the three largest banks, focusing on the quality of their assets and capital adequacy, with a view to strengthening the balance sheets of these banks through the imposition of corrective measures designed to eliminate the shortcomings revealed, increasing the banks’ transparency by improving the quality of available information about their condition, and strengthening the confidence of all parties concerned by assuring them that, after the adoption of corrective measures, the banks will have sufficient capital adequacy. The assessment was preceded by a preparatory phase, i.e. risk assessment.

The payment services and electronic money issuance sector

As at 31 December 2014, there were ten payment institutions operating in the Slovak financial market, seven of which were authorised to provide payment services without limitations on the scope and three were authorised to provide payment services in a limited scope.

One of the most important decisions (14 such decisions were issued in 2014) was a decision to authorise SPPS, a.s., to provide payment services without limitations.

In 2014, NBS registered 26 foreign payment institutions and 11 foreign electronic money institutions that had notified their intention to provide services in Slovakia without establishing a branch.

On the basis of notifications received from the supervisory authorities of other Member States, NBS registered six agents of foreign payment institutions providing payment services in Slovakia on a cross-border basis.

On-site inspections in payment institutions were conducted on the basis of the annual plan of inspections, the evaluation of the nature of activities performed by such institutions, and their overall risk profile.

In 2014, one comprehensive on-site inspection of a payment institution (started in 2013) was completed and three comprehensive on-site inspections were commenced and completed, with the focus being on verifying and evaluating the provision of payment services, compliance with the conditions stipulated for the business of payment institutions, the system of internal control and internal audit, the risk management system and selected risks, and the prevention of
money laundering and terrorist financing. Another on-site inspection of a payment institution was commenced in 2014 but was not formally completed in the same year.

Off-site supervision comprised the following activities: verification of compliance with the statutory obligations of entities under supervision in accordance with the law on payment services, collection of data according to the decree on the submission of statements by payment institutions and electronic money institutions, plus evaluation and analysis on a monthly basis of the data obtained during the monitoring of individual entities under supervision.

The Foreign Exchange Sector
As at 31 December 2014, there were 1,142 entities in Slovakia holding a foreign exchange authorisation.

In 2014, NBS issued 13 decisions, 12 of which entered into force in the same year. These decisions concerned mainly the granting of foreign exchange authorisations for trade in foreign exchange assets in the range of currency exchange activity, consisting in the purchase or sale of foreign currency for euros in cash.

In 2014, seven sanction proceedings were instituted, five of which were completed in the same year. One of these proceedings brought in 2013 were completed in the period under review with the issuance of a final decision to impose a penalty.

Supervision in this sector focused on verifying compliance with the Foreign Exchange Act, mainly in the area of trade in foreign exchange assets in the range of currency exchange activity, consisting in the purchase or sale of foreign currency for euros in cash. In 2014, a total of 12 on-site inspections were carried out in the area of currency exchange activity.

The Insurance Sector
As at 31 December 2014, there were 17 insurance companies operating in the Slovak insurance sector with a registered office in Slovakia, and 21 insurance and reinsurance companies with a registered office in another EU Member State.

The FMS Unit conducted 34 authorisation proceedings in 2014 (two were instituted in 2013) and issued 30 final decisions. These decisions concerned mainly changes (extensions) in the authorisations of financial institutions to conduct insurance activities and financial intermediation in accordance with separate regulations and prior approvals, e.g. authorisations to acquire qualifying holdings in insurance companies, appoint persons as board members or as proxies. A significant change in the area of insurance in 2014 was caused by the FMS Unit’s decision to extend the scope of authorisations of Allianz – Slovenská poistovňa, a.s., Generali poistovňa, a.s., and Union poistovňa, a.s., to include assurance related to the length of human life, this being governed by legal regulations in the area of social insurance. In regard to the activities of insurers and reinsurers based in another EU Member State, a total of 37 notifications were issued in 2014.

In the area of insurance, seven sanction proceedings were conducted in 2014, six of which were instituted in the same year. In 2014, the FMS Unit issued five first-instance decisions to impose a penalty, three of which entered into force in the same year.

One comprehensive and nine thematic on-site inspections started in 2013 were continued in 2014. They focused on investment life insurance. On-site inspections in this area were also instituted in 2014 in four more insurance companies. Two thematic inspections came to an end in 2014 with the expiry of the time limit set for the submission of written objections to the data recorded in the on-site inspection protocol. The other on-site inspections focusing on investment life insurance had not been formally completed by 31 December 2014. Two more thematic on-site inspections were instituted in 2014, but were not completed in the same year.

In connection with the issuance of recommendations No 4/2013, 5/2013, 6/2013 and 7/2013, transposing the guidelines of the European Insurance and Occupational Authority (EIOPA), the FMS Unit of NBS exercised off-site supervision over the course of 2014 with the aim of verifying the implementation of these recommendations in all insurance companies in the Slovak insurance market.

In compliance with the Solvency II guideline, NBS continued to cooperate in 2014 with the...
competent domestic supervisory authorities in the pre-application process for the use of internal models for insurance risk management. The pre-validation process in 2014 focused on a preliminary assessment of the individual internal models of entities under supervision, planning to use their internal models for calculating the solvency requirements.

**The Pension Sector**

In 2014, there were six pension asset management companies managing a total of 20 old-age pension funds and four supplementary pension management companies managing a total of 15 supplementary pension funds in the Slovak financial market. Depositary activities were conducted by four banking institutions in accordance with the Old-Age Pension Saving Scheme Act and the Supplementary Pension Scheme Act.

In regard to this sector, 65 authorisation proceedings were conducted in 2014. Four of these proceedings were commenced in 2013 and 62 of them were completed with the issuance of a final decision. The most important decisions were those issued in connection with Act No 318/2013 Coll., amending the Supplementary Pension Scheme Act and the Income Tax Act (No 595/2003 Coll.), which entered into force on 1 January 2014.

The year under review saw the completion of six thematic on-site inspections in pension asset management companies and four thematic on-site inspections in supplementary pension management companies. These inspections were carried out to verify compliance with the rules of professional care during the management of accounts for unidentified payments, the identification and refunding of payments, and the adoption of measures in connection with the coming into force of the EMIR\(^8\) regulation. In addition, six thematic on-site inspections were instituted in pension asset management companies to verify the preparedness of these companies for the payment of old-age pensions in accordance with the annuity amendment.

In 2014, thematic on-site inspections were completed in two banking institutions conducting depositary activities for the pension and collective investment sectors.

**The Financial Intermediation and Financial Counselling Sector**

As at 31 December 2014, a total of 34,436 entities were registered in the register of financial agents, financial advisors, and financial intermediaries (hereinafter referred to as ‘register’) kept by NBS in accordance with Article 13 of the Act on financial intermediation and financial counselling. In regard to this sector, 113 authorisation proceedings and 165 sanction proceedings were conducted during 2014, of which 109 authorisation proceedings and 164 sanction proceedings came to an end in the same year with the issuance of a final decision.

In the year under review, 64 newly authorised financial agents were entered into the register and 75 financial agents were removed from the register after their authorisation had expired. In addition, 301 financial intermediaries from other Member States were entered into the register, mostly intermediaries authorised to provide insurance and reinsurance services in Slovakia on the basis of the principle of free provision of services. In 2014, NBS accepted and processed 6,125 electronic proposals for the registration or de-registration of affiliated entities, or for a change in their registration.

Within the scope of off-site supervision, NBS verified compliance with the statutory reporting requirement by the entities under supervision, i.e. the reporting of certain information to NBS via the internet or in writing. Off-site supervision was used to verify compliance with the requirement that the manager of each independent financial agent / financial institution / financial advisory should submit to NBS a report on any breach of duty by a subordinate or tied financial agent, a report on operations for the previous calendar year, and a statement of financial intermediation and/or financial counselling activities for the previous calendar year. In cooperation with the competent registered courts, off-site supervision was also used to verify compliance with the requirement that a proposal be submitted for the entry of financial intermediation and/or financial counselling into the commercial register within three months of the date of authorisation. Apart from updating the data in the register using the information forms delivered by individual financial agents and financial advisors, off-site supervision verified almost 50 submissions sent.

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in writing by legal or natural persons in regard to the activities of entities providing financial intermediation and/or financial counselling services. Four comprehensive on-site inspections of financial agents were carried out in 2014, plus one thematic on-site inspection and one comprehensive on-site inspection of a financial advisor instituted in 2013 were formally completed in 2014.

The securities market sector
As at 31 December 2014, there were 14 investment firms operating in the Slovak financial market.

In regard to investment firms, 26 various decisions were issued in 2014 (25 entered into force in the same year); they concerned changes in authorisations to provide investment services and in prior approvals, e.g. for the acquisition of qualifying holdings in investment firms, for the appointment of board members, and for the sale of part of the firm. The most important decision concerned a change in the authorisation of PROXENTA Finance, o.c.p., as., to provide investment services in the securities market, and the granting of prior approval to FIO, o.c.p., a.s., for the sale of part of the investment firm. The granting of prior approvals for the acquisition of qualifying holdings in investment firms gave rise to significant changes in the structure of shareholders of SYMPATIA Financie, o.c.p., a.s., and M Securities, o.c.p., a.s., in 2014. During the year, the FMS Unit received a total of 146 notifications from foreign investment firms that intended to provide cross-border investment services in the territory of Slovakia.

As regards the segment of share issuers whose ordinary shares are traded on a regulated market of the Bratislava Stock Exchange (BCPB, a.s.), eight authorisation proceedings were conducted in 2014 in regard to proposals for take-over bids and the granting of approval for the exercise of the squeeze-out right, seven of which came into force in the same year.

Regarding the Central Securities Depository of the SR (CDCP SR, a.s.), six authorisation proceedings were conducted in 2014 in regard to the granting of prior approval for the appointment of a member of the board of directors of CDCP SR, a.s.; the granting of prior approval to Patria Direct, a.s., Prague, Česká republika, for operation as a member of CDCP SR, a.s.; the approval of two proposals for changes in the organisational rules of CDCP SR, a.s.; and approval for the performance of other central depository activities. At the request of SZRB, a.s., the FMS Unit granted authorisation to NCDCP, a.s., to operate as a central securities depository on conditions that NCDCP meets the criteria specified in the authorisation.

Seven authorisation proceedings were conducted in 2014 in regard to the Bratislava Stock Exchange. On the basis of these proceedings, three prior approvals were granted for the appointment of new members to the board of directors, three prior approvals for the appointment of the general director, and one prior approval for the appointment of the head of department for stock exchange transactions.

In 2014, there were seven asset management companies operating in the Slovak financial market. Asset management companies that managed special mutual funds were required to apply for authorisation for the management of domestic or foreign alternative investment funds by 22 July 2014. By that date, all five asset management companies to which this requirement applied had submitted an application and three of them were authorised to manage domestic or foreign alternative investment funds. Foreign entities authorised to operate as foreign special collective investment undertakings were required to prove to NBS that they had met the conditions stipulated by the law on collective investment, by 22 July 2014. The meeting of these conditions had been documented by that date by one foreign asset management company.
Within the scope of its authorising activity in 2014, the FMS Unit of NBS granted seven authorisations for the establishment or management of mutual funds, including one authorisation for the management of a special mutual fund of qualified investors, and issued 41 decisions concerning the granting of prior approvals, including 27 prior approvals for changes in the statutes of mutual funds, six prior approvals for the transfer of mutual funds, six prior approvals for the appointment of board of directors or supervisory board members, one prior approval for the merger of mutual funds, and one prior approval for the return of an authorisation for the establishment of a mutual fund.

In the area of collective investment, 39 notifications were received in 2014 from European funds intending to offer publicly their securities in Slovakia. In addition, 41 notifications were received from foreign asset management companies intending to provide financial services in Slovakia on the basis of the principle of free provision of services through local or foreign alternative investment funds, while six of these notifications concerned the managers of qualified risk capital funds in accordance with the EuVECA regulation.

In the securities market sector, 12 sanction proceedings were conducted in 2014, six of which were instituted in the same year. In this area, the FMS Unit issued seven decisions to impose a sanction, while one sanction proceeding was ended and six first-instance decisions to impose a sanction entered into force in 2014.

In the securities market sector, off-site supervisions were conducted in 2014 focused on seven domestic asset management companies (managing a total of 61 standard mutual funds and 20 alternative investment funds) and five banking institutions conducting depository activities under the Collective Investment Act. At the same time, six standard mutual funds managed by a foreign asset management company were under supervision. In addition, 14 domestic investment firms and 5 foreign investment firms operating in Slovakia through their branches according to the MiFID guideline were under supervision in 2014. Supervision also covered BCPB, a.s., CDCP SR, a.s., and compliance with the reporting requirement by 78 issuers of securities admitted to trading on a regulated market of BCPB, a.s.

In 2014, two comprehensive on-site inspections were completed in the securities market sector (one comprehensive and one follow-up inspection), which focused on assessing the measures adopted for the elimination or correction of the shortcomings revealed by comprehensive on-site inspections in 2011, three thematic on-site inspections aimed at assessing the provision of investment services and investment activities by clients, and four follow-up on-site inspections focusing on assessing the measures adopted for the elimination or correction of shortcomings found during thematic in-site inspections carried out in eight investment firms in 2012. In addition, one comprehensive on-site inspection commenced in 2014 in an investment firm.

In the area of collective investment, one comprehensive on-site inspection was completed and one comprehensive on-site inspection commenced in 2014, in two asset management companies. In 2014, three thematic on-site inspections were instituted in three banking institutions conducting depository activities for the pension and collective investment sectors.

2.3 Financial Market Regulation

The banking sector

Regulatory activities in 2014 focused on the preparation and implementation of a new single European regulatory framework for banks consisting in the transposition of the international standards (Basle III) into the EU legislation.

The existing and new rules of bank regulation were divided, in a larger part, into a capital requirements regulation (CRR) with a direct binding force in the legal systems of national regulators, and, in a smaller part, into a capital requirements directive (CRD IV¹). The CRR and CRD IV legislative packages were promulgated on 26 June 2013. The CRR regulation became effective on 1 January 2014, and the deadline for the transposition of CRD IV directive was 31 December 2013.

The new regulation has introduced stricter requirements for banks and investment firms with a view to reducing the risk of failure and thus enhancing the stability of the financial system within the EU as a whole, as well as in Slovakia.


The basic instruments of the new regulation include a requirement to have a larger amount of good-quality capital, a reduction in the pro-cyclical mechanisms of the financial system by creating a sufficient amount of capital reserves in a period of economic prosperity and by using these reserves for the coverage of losses during recession, macroprudential policy instruments (capital buffers), new reporting and liquidity requirements, and restrictions on the ratio of total assets to equity (leverage).

In 2014, NBS intensely cooperated with the Ministry of Finance of the SR in the harmonisation of the country’s legal system in connection with the implementation of the CRD IV directive and the CRR regulation. This cooperation resulted in the drafting and approval of an amendment to the Banking Act. Most of new provisions entered into effect on 1 August 2014.

In response to the new package of EU regulations, NBS drafted and issued numerous decrees in 2014. The most important decree concerned national elections to institutions in accordance with the CRR regulation. This cooperation resulted in the drafting and approval of an amendment to the Banking Act. Most of new provisions entered into effect on 1 August 2014.

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The transformation of the payments system to meet the SEPA standards was completed in 2014. Under the EU legislation, this transformation was originally to be completed by 7 February 2014, but this deadline was postponed by the European Commission to 1 August 2014. Since that date, the SEPA has been in operation in all euro area countries.

Last year, NBS prepared and issued a decree on the submission of statements by payment institutions and electronic money institutions, which has fully replaced the former decree from 2011.

The foreign exchange sector
In 2014, NBS drew up and issued a decree specifying the procedure to be followed by entities holding a foreign exchange authorisation in making cross-border payments and dealt with submissions received from the market.

The insurance sector
In 2014, NBS issued a decree introducing a methodology for the calculation of own funds, risk concentration, and asset exposure at the level of a financial conglomerate in accordance with the insurance law, and specifying the contents, form, manner, and dates of submission of reports on the adequacy of own funds, on risk concentration, and on significant intra-group transactions carried out in a financial conglomerate. With this decree, NBS has transposed, into national law, the EU directive on the supplementary supervision of credit institutions, insurance undertakings, and investment firms in a financial conglomerate.

Another NBS decree issued in regard to the insurance sector in 2014 was an amendment to the decree on the submission of statements, overviews, and reports by insurance companies and branches of foreign insurance companies in connection with Act No 183/2014 Coll. amending the Old-Age Pension Scheme Act and other related laws. Section V of this Act contains provisions amending the Insurance Act by imposing new obligations on insurance undertakings intending to provide insurance products in connection with the payment of old-age pensions. Moreover, the Insurance Act has been extended (see Part A of Annex 1) to include a new insurance line (A7), i.e. ‘assurance related to the length of human life, this being governed by legal regulations in the area of social insurance’. Information on the activities of the A7 insurance line has been incorporated into the decree mentioned above.
At the end of 2014, the FMS Unit issued a recommendation on the use of the LEI (legal entity identifier) code for insurers, reinsurers, branches of foreign insurers, and branches of foreign reinsurers. This recommendation is a transposition of the EIOPA guideline on the use of the LEI code. The LEI code will be used in communication with authorities that require the use of LEI codes, including reports submitted to NBS or EIOPA.

**The pension sector**
Regarding the pension sector, NBS intensely cooperated in the regulation of the old-age pension saving scheme, in particular in providing assistance to the Ministry of Labour and Social Affairs of the SR in the drafting of a comprehensive amendment to the Old-Age Pension Saving Scheme Act (No 183/2014 Coll.). This major amendment has reformulated numerous provisions of the Act in the section concerning the preparation and payment of annuities. The payment of old-age pensions under the second pillar of the pension scheme commenced on 1 January 2015. Old-age pensions are paid by life insurance companies (pension for life and temporary pension) and by pension asset management companies (in the form of scheduled withdrawals). For savers with low savings, schedules withdrawals or temporary pension payments under a regulated regime maximising the payment period are available. In this area, NBS also cooperated with the Ministry of Labour and Social Affairs of the SR in the preparation of secondary legislation for changes arising from the said amendment.

In regard to the supplementary pension sector, NBS issued three decrees in 2014. The first decree specifies the elements of an application for prior approval from NBS under the Supplementary Pension Scheme Act, in particular the details that are to be met and reported to NBS as a condition for the granting of prior approval. The second decree specifies how the fulfilment of conditions for the granting of an authorisation to operate as a supplementary pension management company is to be documented. This decree was issued in connection with the coming into force of the amended Supplementary Pension Scheme Act on 1 January 2014. The third decree specifies the due form, scope, and contents of the rules of supplementary pension funds, with the focus being on the investment strategy and investment instruments applied, since the amended Supplementary Pension Scheme Act stipulates the basic principles of investment based on ‘good practices’, which had to be specified in secondary legislation.

At the end of 2014, the FMS Unit issued recommendations on the use of the LEI (legal entity identifier) for institutions of occupational retirement pensions (IORP).

**The financial intermediation and financial counselling sector**
In 2014, two decrees were issued in regard to the reporting obligations of entities under the law on financial intermediation and financial counselling. One of these decrees stipulates requirements for changes in the structure of information reported in statements of financial intermediation and financial counselling activities. These changes are based on practical experiences gained during supervision and on the requirements of European supervisory authorities. The second decree concerns the contents, structure, and submission of reports by the managerial employees of financial intermediation and financial counselling firms. This decree has provided a legal framework for the submission of reports the structure of which was originally laid down in a legally unbinding methodological recommendation.

The syllabuses of financial training courses were also revised at the end of 2014.

**The securities market sector**
In 2014, NBS continued cooperating with the Ministry of Finance of the SR in the preparation of the *Concept of Capital Market Development*, which was approved by the Government in Decision No 191/2014. The basic strategic objective of the Concept is to recover the functionality of the Slovak capital market, in particular to increase the financing of the real economy from the long-term savings of the population. The Concept includes measures for addressing the following range of problems: market liquidity, market infrastructure, the system’s cost-effectiveness, financial education and training, and customer protection. In the context of these measures, NBS cooperated during 2014 with the competent ministries in the preparation of an amendment to the Securities Act, with the aim of improving the legal framework for the issuance of investment certificates and simplifying transi-
tion to the provision of central depository services on the principle of full membership; in the preparation of an amendment to the Collective Investment Act with the aim of enabling the use of new forms of collective investment and related activities, mainly by introducing open-ended collective investment funds (SICAV); and in the preparation of draft legislation for the uniform management of pension funds, supplementary pension funds, and collective investment funds.

The year under review saw the coming into force of an amendment to the Bond Act, which has eased regulation in this area to a significant extent. NBS was involved in the preparation of this amendment, too.

Regarding the securities market, NBS issued four decrees over the course of 2014. Two of these decrees concern reporting and information disclosure by investment firms, one decree specifies the due form of an application for the granting of approval for securities prospectuses, and one amends an existing decree on the due form of an application for the granting of prior approval by NBS under the Collective Investment Act.

In the preparation of the MiFID II\(^\text{12}\) and MAD II\(^\text{13}\) directives and MiFIR\(^\text{14}\) and MAR\(^\text{15}\) regulations, which were promulgated in the Official Journal of the EU on 12 June 2014, NBS cooperated closely with the Ministry of Finance of the SR. In 2015, the Ministry of Finance will again expect assistance from NBS in the transposition of the MiFID II directive into the Slovak legal system.

In the insurance sector, the submissions received in 2014, as in the previous years, concerned mostly motor third-party liability insurance (almost 21%), while almost one third of this figure was represented by claims for compensation for damaged windscreens on motor vehicles. Another large group was, as in the previous year, formed by submissions concerning life-insurance products (16%). The complaints submitted in this area have confirmed that financial consumers to NBS continued to increase in 2014. During the year, NBS received a total of 1,474 submissions from financial consumers. Among the financial market sectors, most submissions concerned the insurance sector (829 submissions, or 56% of all submissions). The insurance sector was followed by the banking sector with 450 submissions delivered (31%). In other sectors, the number of submissions as a percentage of all submissions ranged from 0.3% to 5%.

In terms of the justification of submissions, most submissions concerned the insurance sector (41%). A more detailed overview of submissions by justification is shown in Chart 23.

In the preparation of draft legislation for the uniform management of pension funds, supplementary pension funds, and collective investment funds (SICAV); and in the First-Instance Proceedings and Methodology Section. This indicates that, starting from 2015, NBS will be authorised to verify whether entities subject to supervision meet their obligations arising from the legal regulations pertaining to consumer protection.

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### 2.4 FINANCIAL CONSUMER PROTECTION

The **Concept of Financial Consumer Protection** approved by the Government of the SR was implemented in 2014, through the preparation of an amendment to the Financial Market Supervision Act, authorising NBS to act as a competent authority in charge of financial consumer protection (as from 1 January 2015). In this connection, NBS established a new department with effect from 1 September 2014, the Financial Consumer Protection Department, comprising three sections: the Financial Consumer Complaints Section (the former Financial Consumer Protection Section), the Financial Consumer Protection Supervision Section, and the First-Instance Proceedings and Methodology Section. This indicates that, starting from 2015, NBS will be authorised to verify whether entities subject to supervision meet their obligations arising from the legal regulations pertaining to consumer protection.

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### Chart 23 Overview of submissions by justification and by sector (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Submissions processed</th>
<th>Unjustified submissions</th>
<th>Justified submissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>450</td>
<td>31%</td>
<td>16%</td>
</tr>
<tr>
<td>Banking</td>
<td>390</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Capital market</td>
<td>140</td>
<td>41%</td>
<td>59%</td>
</tr>
<tr>
<td>Supplementary pension funds</td>
<td>30</td>
<td>21%</td>
<td>79%</td>
</tr>
<tr>
<td>Collective investment funds</td>
<td>12</td>
<td>41%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Source: NBS.
ers perceive life insurance as a form of saving but they do not consider it a long-term product.

Most submissions in the area of banking concerned, as in 2013, mortgage loans and other loans provided for housing purposes, specifically the amount of bank charges, early loan repayment charges, and interest rate changes. A relatively large part of the submissions concerned charges payable for the administration and cancellation of current accounts, including complaints about the non-transparency of this process.

The number of submissions regarding financial intermediation remained virtually unchanged during 2010–2014. These submissions concerned the method, range, and quality of the information supplied to financial consumers before the financial service was actually provided.

In 2014, the submissions of customers under supervision represented the main source of information about the provision of financial services, which NBS used in conducting on-site inspections in specific companies.

An overview of the number of submissions delivered to NBS in 2010–2014 is shown in Chart 24.

### 3 Issuing Activity and Currency Circulation

#### 3.1 Cumulative Net Issuance

The cumulative net issuance (CNI)\(^{16}\) of euro banknotes and coins in Slovakia had a total value of €9.5 billion as at 31 December 2014, with euro banknotes accounting for €9.4 billion of that amount. The annual growth rate of the CNI was lower in 2014 than in 2013, at 6.6% (or €589 million)\(^{17}\). The value of the item currency in circulation, corresponding to Národná banka Slovenska’s allocated share in the Eurosystem’s production of euro banknotes (Banknote Allocation Key), amounted to around €10.3 billion\(^{18}\).

Looking at the CNI’s development on a daily basis, it was virtually the same in 2014 as in previous years (except during the dual circulation period), with the year-on-year difference ranging approximately between €0.4 billion and €0.8 billion. The peak daily CNI in 2014 was

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\(^{16}\) Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself has put into and withdrawn from circulation.

\(^{17}\) The CNI increased by 7.5% in 2013, 12.7% in 2012, 21.6% in 2011 and 30.8% in 2010.

\(^{18}\) The value of currency in circulation throughout the euro area as at 31 December 2014 was €1,016.5 billion, and the share of that currency issued in Slovakia according to the banknote allocation key was 1.0155%, or around €10.3 billion.
### Table 6 Composition of the cumulative net issuance of euro banknotes and coins

<table>
<thead>
<tr>
<th>denomination</th>
<th>CNI as at 31 December 2014</th>
<th>Share in %</th>
<th>Difference vis-à-vis 31 December 2013</th>
<th>Share as at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number</td>
<td>value (€)</td>
<td>number</td>
<td>value (€)</td>
</tr>
<tr>
<td>€500 ES1</td>
<td>7,367,009</td>
<td>3,683,504,500.00</td>
<td>732,981</td>
<td>366,490,500.00</td>
</tr>
<tr>
<td>€200 ES1</td>
<td>430,127</td>
<td>86,025,400.00</td>
<td>-100,957</td>
<td>-20,191,400.00</td>
</tr>
<tr>
<td>€100 ES1</td>
<td>26,701,760</td>
<td>2,670,176,000.00</td>
<td>2,385,243</td>
<td>238,524,300.00</td>
</tr>
<tr>
<td>€50 ES1</td>
<td>38,642,808</td>
<td>1,932,140,400.00</td>
<td>-1,599,031</td>
<td>-79,951,550.00</td>
</tr>
<tr>
<td>€20 ES1</td>
<td>32,673,767</td>
<td>653,475,340.00</td>
<td>1,656,218</td>
<td>33,124,360.00</td>
</tr>
<tr>
<td>€10 ES1</td>
<td>16,737,929</td>
<td>167,379,290.00</td>
<td>-7,446,452</td>
<td>-74,464,520.00</td>
</tr>
<tr>
<td>€5 ES1</td>
<td>11,722,859</td>
<td>117,228,590.00</td>
<td>11,722,859</td>
<td>117,228,590.00</td>
</tr>
<tr>
<td>€5 ES2</td>
<td>2,220,040</td>
<td>11,100,200.00</td>
<td>-3,953,503</td>
<td>-19,767,515.00</td>
</tr>
<tr>
<td>total banknotes</td>
<td>143,745,177</td>
<td>9,357,274,110.00</td>
<td>7,203,621</td>
<td>580,024,080.00</td>
</tr>
<tr>
<td>€2</td>
<td>41,008,351</td>
<td>82,016,702.00</td>
<td>3,730,785</td>
<td>7,461,570.00</td>
</tr>
<tr>
<td>€1</td>
<td>20,902,855</td>
<td>20,902,855.00</td>
<td>-118,569</td>
<td>-118,569.00</td>
</tr>
<tr>
<td>50 cent</td>
<td>25,905,590</td>
<td>12,952,795.00</td>
<td>325,552</td>
<td>162,776.00</td>
</tr>
<tr>
<td>20 cent</td>
<td>33,093,049</td>
<td>6,618,609.80</td>
<td>93,580</td>
<td>18,716.00</td>
</tr>
<tr>
<td>10 cent</td>
<td>49,979,150</td>
<td>4,997,915.00</td>
<td>2,824,364</td>
<td>282,436.40</td>
</tr>
<tr>
<td>5 cent</td>
<td>64,724,984</td>
<td>3,236,249.20</td>
<td>4,456,165</td>
<td>222,808.25</td>
</tr>
<tr>
<td>2 cent</td>
<td>139,800,992</td>
<td>2,796,019.84</td>
<td>11,043,282</td>
<td>220,865.64</td>
</tr>
<tr>
<td>1 cent</td>
<td>178,786,116</td>
<td>1,787,861.16</td>
<td>22,420,775</td>
<td>224,207.75</td>
</tr>
<tr>
<td>total coins</td>
<td>554,201,087</td>
<td>135,309,007.00</td>
<td>44,775,934</td>
<td>8,474,811.04</td>
</tr>
<tr>
<td>Collector coins</td>
<td>313,462</td>
<td>6,318,390.00</td>
<td>22,278</td>
<td>674,900.00</td>
</tr>
<tr>
<td>Total</td>
<td>698,259,726</td>
<td>9,498,901,507.00</td>
<td>52,001,833</td>
<td>589,173,791.04</td>
</tr>
</tbody>
</table>

Source: NBS.

Note: ES1 – euro banknote of the first series; ES2 – euro banknote of the second series. The second series will replace the first series, with the other banknotes in the second series to be introduced gradually over several years in ascending order of denomination.

Recorded during the pre-Christmas period on 22 December (€9.7 billion).

Euro banknotes accounted for almost the entire value of the CNI (98.5%), but only for 21% of the CNI in terms of volume. Euro coins (including euro collector coins) made up the remaining 79%.

The cumulative net issuance as at 31 December 2014 comprised more than 143 million euro banknotes and approximately 554 million euro coins (including collector coins). The €50 denomination accounted for the largest share of the total number of banknotes included in the CNI, almost 27%. The most-issued euro coins were the two lowest denominations (1 and 2 cent). They made up more than half (57%) of all the coins in the CNI and their share is increasing year by year. In value terms, however, these two denominations had a combined share of only 3%.

NBS has long recorded a negative net issuance of the €200 euro banknote, meaning that Slovakia is a net recipient of these banknotes.

On average, per capita, the number of euro banknotes in circulation in Slovakia in 2014 was 25 with a value of around €1,663. As for coins (including collector coins) the corresponding figures were 97 and €25. The average per capita value of the CNI was €1,688.

19 In other words, the number of banknotes of the given denomination which NBS puts into circulation is lower than the number it withdraws from circulation (by receiving them from commercial banks or the public).

20 The population of Slovakia was 5,421,034 as at 30 September 2014 (source: SO SR). The average values are based on the average CNI, which in 2014 was €9.2 billion.
The most common euro banknotes and coins in circulation in Slovakia in 2014 were the €50 banknote (around seven per capita), the 1 cent coin (31) and the 2 cent coin (25).

**ISSUANCE OF THE SECOND SERIES OF EURO BANKNOTES (ES2)**

On 23 September 2014 a new €10 banknote began circulating, the second banknote of the Europa series (ES2) to be launched.

By 31 December 2014 a total of 11.7 million of the ES2 €10 banknotes were included in the CNI. The share of ES2 €10 banknotes in the total volume of €10 banknotes in the CNI was 41%.

**SLOVAK KORUNA BANKNOTES AND COINS**

By 31 December 2014, unredeemed Slovak koruna banknotes and commemorative coins totalled, respectively, 19.0 million (including 10.1 million 20 koruna banknotes) and approximately 933,000. Their combined value was around SKK 3.01 billion (almost €100 million), or around 2% of the total value of banknotes and commemorative coins issued.

Unredeemed koruna banknotes number around three per capita (almost two for the 20 koruna banknote alone) with a face value of SKK 426. The per capita value of unredeemed commemorative koruna coins is SKK 129, and that of the banknotes and coins combined is SKK 555.

### 3.2 PRODUCTION OF EURO BANKNOTES AND COINS

In 2014 Národná banka Slovenska commissioned for the Eurosystem the production and supply of 50.04 million €10 banknotes of the second series of euro banknotes (production/allocation from 2013). The banknotes were produced by the French printing company Oberthur Fiduciaire SAS. NBS also commissioned the production of 82.08 million €50 banknotes (ES1) by the German company Bundesdruckerei GmbH. In addition, the central bank participated in the pilot production of ES2 €50 banknotes by Oberthur Fiduciaire SAS, as part of the gradual introduction of the second series of euro banknotes (ES2).

Also in 2014, NBS commissioned the production and supply of 26.25 million 1 cent euro coins and five million 2 cent euro coins. On 1 April 2014 NBS also issued one million €2 commemorative coins featuring the 10th anniversary of the accession of the Slovak Republic to the European Union.

All the euro coins commissioned by NBS are produced by the state-owned mint Mincovňa Kremnica. The coins minted in 2014 included 25,000 euro coins of each denomination that were used in the four annual collector sets of Slovak euro coins.

In accordance with its issue plan for commemorative and collector euro coins, NBS also issued three collector coins in 2014, including two silver coins and one gold coin. Additionally, in September 2014 the state-owned mint Mincovňa Kremnica produced 8,900 €10 silver collector coins featuring *World Natural Heritage – Primeval Beech Forests of the Carpathians*, which are to be issued in March 2015. NBS arranges the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

---

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Theme</th>
<th>Issuing volume</th>
<th>NBS notification of coin issuance</th>
</tr>
</thead>
<tbody>
<tr>
<td>€10</td>
<td>150th anniversary of the birth of Jozef Murgaš</td>
<td>9,700 (6,300)</td>
<td>386/2013 Coll.</td>
</tr>
<tr>
<td>€20</td>
<td>Conservation area of the Dubník opal mines</td>
<td>8,050 (5,300)</td>
<td>87/2014 Coll.</td>
</tr>
<tr>
<td>€100</td>
<td>Prince Rastislav of Great Moravia</td>
<td>4,000 (4,000)</td>
<td>249/2014 Coll.</td>
</tr>
</tbody>
</table>

Source: NBS.
1) Silver collector coin.
2) Gold collector coin.
3.3 PROCESSING OF EURO BANKNOTES AND COINS

In 2014 more than 374.3 million euro banknotes were put into circulation by Národná banka Slovenska (via sixteen banks, and partly to the public directly), while €367.1 million were returned to NBS from circulation.

During the year NBS processed over 368 million euro banknotes in accordance with the common procedures laid down by the ECB for all national central banks in the euro area. The total number of euro banknotes returned to NBS was approximately three times higher than the average number of euro banknotes issued by NBS. Therefore each euro banknote issued by NBS was returned to it once every four months on average. In order to maintain the high quality of banknotes and coins, and, consequently, the integrity of the currency and the public confidence in euro banknotes, NBS checks returned banknotes for both authenticity and fitness for circulation. Public satisfaction with the quality of euro banknotes circulating in Slovakia is confirmed by a survey conducted each year in euro area countries. In the latest survey, around 93% of respondents expressed satisfaction with the quality of euro banknotes.

The €50 banknote was the most frequently processed denomination in 2014, being the most common euro banknote in circulation and the most frequently issued via cash dispensers.

In the processing of euro banknotes during 2014, 51 million banknotes were identified as being unfit for circulation and subsequently destroyed. The number of unfit banknotes destroyed by NBS was around 19% higher in 2014 than in 2013, mainly because €5 and €10 banknotes of the first series were sorted as unfit following the introduction of their second-series versions. The higher volume of banknotes sorted as unfit was reflected in the average unfit rate for euro banknotes, which increased year-on-year by 1.4 percentage point, to 14.0%.

In 2014 more than 331 million euro coins were put into circulation by NBS, and more than 286 million euro coins were returned to NBS from circulation. The coins were processed in automated coin processing machines, which checked the coins for both authenticity and fitness for circulation. Since coins have a longer lifespan than banknotes, only around 469,000 of the 286.6 million processed were sorted as unfit. The number of euro coins that NBS processed did not vary significantly between denominations.

The processing and recirculation of euro banknotes and coins is performed not only by NBS, but also by commercial banks and other cash handlers which have received approval from NBS to process euro cash. The activities of these cash handlers are subject to regular supervision by NBS.

3.4 COUNTERFEIT BANKNOTES AND COINS RECOVERED IN SLOVAKIA

A total of 6,425 counterfeit banknotes and coins were recovered in Slovakia in 2014, including 3,701 banknotes and 2,724 coins. The vast majority (96.3%) of these counterfeits were euro counterfeits. The number of counterfeits recov-
The number of counterfeit euro banknotes and coins recovered in Slovakia in 2014 was 6,190 and they had total face value of €77,848.50.

The counterfeit euro banknotes numbered 3,466, including 2,071 (59.8%) removed from circulation. Of that total, the €500 denomination accounted for 37.1%, most of them being detected before they entered circulation. The next most common denomination in the counterfeit banknotes were the €50 (30%) and €100 (17.4%) banknotes.

As for euro coins, the number removed from circulation in 2014 was 2,724, which compared with the previous year was 53% lower. Counterfeit €2 coins accounted for 74.8% of that total. The ratio of counterfeits to the overall number of euro coins in circulation remains very low.

The counterfeit euro banknotes and coins recovered in Slovakia represented only 0.35% of the total number of such counterfeits recovered in the euro area as a whole in 2014. Thus the probability of a natural or legal person re-

### Table 8 Number of counterfeit banknotes and coins recovered in Slovakia

<table>
<thead>
<tr>
<th>Year</th>
<th>EUR</th>
<th>SKK</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>2,837</td>
<td>14</td>
<td>83</td>
<td>2,934</td>
</tr>
<tr>
<td>2011</td>
<td>7,888</td>
<td>15</td>
<td>64</td>
<td>7,967</td>
</tr>
<tr>
<td>2012</td>
<td>4,451</td>
<td>22</td>
<td>65</td>
<td>4,538</td>
</tr>
<tr>
<td>2013</td>
<td>35,202</td>
<td>19</td>
<td>67</td>
<td>35,288</td>
</tr>
<tr>
<td>2014</td>
<td>6,190</td>
<td>21</td>
<td>214</td>
<td>6,425</td>
</tr>
</tbody>
</table>

Source: NBS.

1) SKK – Slovak koruna.

The number of counterfeits removed from circulation was 4,913 (76.5% of the total). As for the regional breakdown of the counterfeits recovered, the most were in Nitra Region (27.2%) and Bratislava Region (26.8%), and the fewest were in Trenčín Region (2.1%).

Of the total counterfeits recovered in Slovakia in 2014, NBS removed almost one-fifth (18.2%; mostly coins), commercial banks 42.7%, the police 30.1%, and cash handlers and other non-bank entities 9%.

A moderate improvement in the quality of counterfeits was observed in 2014, especially in counterfeits of euro banknotes and coins. Nevertheless, neither the number of counterfeits removed, nor the technical level of their production posed a serious risk to the integrity and smooth operation of cash circulation in Slovakia.

### Table 9 Number of euro counterfeits recovered in Slovakia

<table>
<thead>
<tr>
<th>Denomination</th>
<th>50 cent</th>
<th>€1</th>
<th>€2</th>
<th>€5</th>
<th>€10</th>
<th>€20</th>
<th>€50</th>
<th>€100</th>
<th>€200</th>
<th>€500</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>208</td>
<td>224</td>
<td>977</td>
<td>35</td>
<td>38</td>
<td>313</td>
<td>503</td>
<td>392</td>
<td>91</td>
<td>56</td>
<td>2,837</td>
</tr>
<tr>
<td>2011</td>
<td>348</td>
<td>239</td>
<td>1,041</td>
<td>29</td>
<td>31</td>
<td>425</td>
<td>495</td>
<td>4,103</td>
<td>91</td>
<td>1,086</td>
<td>7,888</td>
</tr>
<tr>
<td>2012</td>
<td>476</td>
<td>244</td>
<td>2,286</td>
<td>16</td>
<td>28</td>
<td>400</td>
<td>359</td>
<td>289</td>
<td>254</td>
<td>98</td>
<td>4,451</td>
</tr>
<tr>
<td>2013</td>
<td>580</td>
<td>247</td>
<td>31,660</td>
<td>9</td>
<td>59</td>
<td>412</td>
<td>481</td>
<td>1,341</td>
<td>123</td>
<td>290</td>
<td>35,202</td>
</tr>
<tr>
<td>2014</td>
<td>463</td>
<td>224</td>
<td>2,037</td>
<td>22</td>
<td>39</td>
<td>405</td>
<td>1,037</td>
<td>604</td>
<td>73</td>
<td>1,286</td>
<td>6,190</td>
</tr>
</tbody>
</table>

Source: NBS.
receiving a counterfeit euro banknote or coin in Slovakia is very low.

**Slovak koruna counterfeits**
Following the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply. Only 21 Slovak koruna counterfeits were recovered in 2014. Although the period in which Slovak koruna banknotes can be exchanged for the euro is indefinite, further incidence of koruna counterfeits is expected to be only sporadic.

**Counterfeits of other foreign currency**
Compared to 2013, the number of US dollar counterfeits recovered in Slovakia was higher in 2014, totalling 93. As in 2013 the $100 dollar banknote was the most counterfeited denomination, accounting for 95.7% of the total. The number of counterfeits of other foreign currencies also increased, to 121, including 60 Czech koruna and 41 British pound counterfeits.

## 4 Payment Services and Payment Systems

### 4.1 Payment Services

The principal legal regulation governing payment services and payment systems in Slovakia is Act No 492/2009 on payment services and on amendments to certain laws (hereinafter ‘the Payment Services Act’), which transposes into Slovak law Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market.

Slovak law in the area of payment services also includes the following Regulations of the European Parliament and of the Council:

- Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds; and
4.2 Payment systems of the Slovak Republic

4.2.1 TARGET2 and TARGET2-SK
Since Slovakia joined the euro area in 2009, Národná banka Slovenska has operated the TARGET2 component system known as TARGET2-SK (T2-SK). In 2014 the system functioned well and without problems. During the year T2-SK did not record any serious incidents such that would jeopardise the system and its participants or disrupt the system’s smooth processing of payments or operation.

Besides the daily operation of T2-SK, providing its participants with advice and support, and performing regular testing of recovery procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing, and implementation of software releases for the Single Shared Platform (SSP) that forms the technical infrastructure of TARGET2. New software releases, approved by the Eurosyst em in response to the requirements of the system’s users, bring enhanced functionalities and modifications to the SSP and also rectify any deficiencies identified in the previous version.

4.2.2 Payments executed via TARGET2-SK
By the end of 2014 T2-SK had 33 participants, comprising 30 direct participants (one more than at end-2013) and three ancillary systems, namely: the Slovak Interbank Payment System (SIPS), Slovakia’s central securities depository – Centrálny depozitár cenných papierov (CDCP), and the company First Data Slovakia, s.r.o.

In 2014 T2-SK processed almost 256,000 transactions with a total value of over €667 billion. In comparison with 2013, T2-SK traffic decreased in volume by 20% (or 64,000 transactions) and increased in value by 5.7% (€37.6 billion). Charts 29 and 30 show, respectively, the number and value of transactions processed in T2-SK in each month of 2013 and 2014.

T2-SK had 255 operating days in 2014, and its average daily traffic by volume and value was almost €2,619 million.

Looking at the payment traffic in 2014 broken down into customer and interbank transactions, customer payments had the higher share by number (73:27), while interbank payments predominated in terms of value (7:93).

At the end of 2014 there were 24 EU central banks connected to TARGET2. As regards the number
of outgoing payments executed by T2-SK participants in 2014, 43.26% were domestic, 51.82% were cross-border within the EU, and 4.92% were cross-border outside the EU. In terms of value, however, domestic payments accounted for 58% and cross-border payments 42% (with those outside the EU constituting just 0.23% of the total value).
4.2.3 The Slovak Interbank Payment System (SIPS)

The SIPS is used mainly for the processing and clearing of retail payments in euro. These comprise mostly domestic payments, but also cross-border SEPA credit transfers and SEPA direct debits in the XML message standard. Cross-border SEPA payments (credit transfers and direct debits) are processed by STEP2, a pan-European automated clearing house, in which NBS is a direct participant.

In 2014 the SIPS continued to process and clear payments through multiple clearing cycles on each business day. The resulting cash positions in this ancillary system undergo final settlement in T2-SK. In 2014 the SIPS did not experience any serious incidents that would jeopardise the processing and clearing of payments or disrupt the system’s operation.

After significant changes implemented in late 2013 (processing of SEPA credit transfers and SEPA direct debits, migration to the XML standard, connection to STEP2), 2014 was a period of stabilisation for the SIPS. By 1 February, when the Slovak banking sector completed its migration to SEPA payment instruments, the SIPS had already for several months been fully compatible with SEPA standards. By its timely compliance with the requirements of Regulation (EU) 260/2012, the SIPS contributed significantly to the success of the migration to SEPA payment instruments.

In response to the requirements of the banking sector and based on a decision of the NBS Bank Board, preparations began for the introduction of a new clearing cycle within the SIPS, which from 1 January 2015 will extend for SIPS participants, by 2.5 hours, the deadline for making same-day domestic payments and cross-border SEPA payments.

NBS continued maintaining the Register of Creditor Identifiers (Register of CID) in 2014, after assuming this task from the Slovak Banking Association in 2013.

4.2.4 Payments executed via SIPS

The SIPS had a total of 25 direct participants at the end of 2014, three fewer than it had at the end of 2013. This drop was related to the implementation of SEPA payments in the system (completed by 1 February 2014), as four direct participants became inactive from 1 February and one foreign payment services provider joined the system on 1 March.

The SIPS processed almost 193,491,000 transactions in 2014, with a total value of more than €185,881 billion. The volume of transactions increased year-on-year by 1.21% and the value rose by 4.2%. This growth to some extent follows the previous trend, although it should be noted that the value increase in particular was partly caused by the expansion of the SIPS’s functionality to include the processing of cross-border payments (through STEP2, to which the SIPS was connected as part of the SEPA implementation). Cross-border transactions accounted for 4.52% of the total number of transactions executed via the SIPS in 2014. Nevertheless, in terms of value, their share was much higher, 15.36%.

4.2.5 Payment cards

In 2014 the number of payment cards in circulation increased by 5.2% year-on-year, to 5.04 million, as their moderate upward trend of recent years continued. The number of contactless cards increased by almost 50%, and by the end of 2013.
year-end accounted for 64% (3.22 million) of all payment cards.

As for contactless transactions, their number was almost 2.5 times higher in 2014 (at 50.5 million) than in 2013 (21 million).

The number of cash dispensers and point-of-sale (POS) terminals in Slovakia increased in 2014 by, respectively, 118 and 5,783 (to 2,708 and 46,822). Almost 57% of these terminals are compatible with contactless payment cards.

### 4.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE PAYMENT SYSTEMS FIELD

**The Single European Payments Area (SEPA) – the ECB and European Payments Council**

A significant milestone was reached on 1 August 2014 when, based on the efforts of the European Central Bank and national central banks, the Single European Payments Area was successfully implemented for credit transfers (CTs) and direct debits (DDs) in the euro area.

Slovakia’s migration to SEPA payment instruments was completed as from 1 February 2014. The country’s success in this regard was noted by ECB President Mario Draghi in a press conference on 9 January 2014.

Following the completion of the migration of CTs and DDs to SEPA, the Eurosystem is now turning its attention to the harmonisation of card payments. In April 2014 the ECB published a new report on ‘Card payments in Europe – a renewed focus on SEPA for cards’, which sets out the opin-
ions and positions of the Eurosystem with respect to SEPA for cards.

The new Euro Retail Payments Board (ERPB) began operation in 2014, as the entity replacing the SEPA Council. The purpose of the ERPB is to help foster the development of an integrated, innovative and competitive market for retail payments in the European Union.

In 2014 the European Banking Authority (EBA) and the ECB, along with national central banks, stepped up their cooperation to increase the security of retail payments, on the basis of technical work developed in the European Forum for the Security of Retail Payments (SecuRe Pay). A key step to this end was the publication in December 2014 of the EBA's Guidelines on the security of internet payments. These guidelines set the minimum security requirements that payment services providers in the EU will be expected to implement by 1 August 2015.

The European Payments Council (EPC), as the decision-making and coordination body of the European banking industry in relation to payment services, periodically updates the rules for SEPA payment instruments. On 25 November 2014 the EPC published updated versions of the SEPA Credit Transfer (SCT) and SEPA Direct DEBIT (SDD) Rulebooks, namely: the SCT Rulebook version 8.0, SDD Core Rulebook version 8.0, and SDD B2B Rulebook version 6.0. These standards will take effect on 22 November 2015.

In accordance with payment scheme rules, payment service providers have a one-year lead time to address rulebook updates prior to them taking effect.

As regards payment card requirements, in January 2014 the EPC published version 7.0 of the SEPA Cards Standardisation Volume. The most recent update of the SEPA Cards Framework is version 2.1 of December 2009.

**Assessment of securities settlement systems (SSSs) and the links between them**

In September 2013 the ECB published a ‘Framework for the assessment of securities settlement systems and links to determine their eligibility for use in Eurosystem credit operations’.

On the basis of this new user assessment framework (UAF), a third comprehensive assessment of SSSs and the links between them began in January 2014. As part of this process, Slovakia’s central securities depository – Centrálny depozitár cenných papierov (CDCP) – was assessed against the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) and against the requirements set out in the UAF’s user addendum. After the assessment report is approved by the ECB in 2015, its recommendation will be sent to CDCP.

In 2014 Národná banka Slovenska acted as second assessor in the assessment of MaltaClear, and in the assessment of the links between LuxCSD and OeKB (via Clearstream Luxembourg), Clearstream Luxembourg and CDCP, Clearstream Banking AG – Creation and CDCP (via Clearstream Luxembourg), and Euroclear Bank and CDCP.

**The Eurosystem – TARGET2-Securities**

In 2014 the Eurosystem continued its work on the TARGET2-Securities (T2S) project under the T2S Programme Plan, with the aim of ensuring that T2S meets the needs of the market. At the end of March 2014 the T2S programme entered the Eurosystem Acceptance Testing (EAT) phase. During internal testing and EAT, the T2S platform proved itself to be sufficiently stable to allow user testing to begin in October 2014. User testing was preceded by pilot testing that started at the beginning of July 2014. From 1 October the T2S platform was opened to testing by all national central banks and central securities depositories, in accordance with the plan. In the first phase, these stakeholders are testing the interaction of their application with T2S. In the next phase, due to commence at the beginning of 2015, they will test their mutual interactions. The CSDs are divided into four migration waves. The start of NCB testing will depend on the interest among payment banks in opening a dedicated cash account. NBS has begun testing T2S connectivity.

Meeting between NBS and Slovakia’s T2S National User Group (NUG-SK) were held at
the central bank during 2014, as in previous years. In addition to attending these meetings, NUG-SK members provided feedback within the Eurosystem’s T2S consultation process, which is designed to maximise T2S harmonisation by obtaining the views of national markets on T2S issues as well as information on national practices in post-trade services. Market representatives continue to implement harmonised standards into national practices so as to ensure the harmonisation of T2S settlement processes.

## 5 Statistics

Národná banka Slovenska develops, collects, compiles and disseminates a wide range of statistics which support the monetary policy of the euro area, the stability of the financial system in Slovakia, and other tasks of the European System of Central Banks (ESCB), the European Systemic Risk Board (ESRB), the Bank for International Settlements (BIS), and other international institutions. Based on data reported by financial and non-financial agents, the statistics serve internal users at Národná banka Slovenska and are also used by financial market participants, public sector entities, the media and the general public.

### 5.1 Monetary and Financial Statistics

A key development in 2014 in the area of monetary and financial statistics was the implementation of new standards according to the European System of Accounts (ESA 2010) and to the ECB regulation on monetary financial institutions’ balance sheet and interest rate statistics, investment funds’ statistics, other financial intermediaries’ statistics (firms specialising in leasing factoring or hire-purchase), and payments statistics. These standards were transposed to the NBS regulatory framework via decrees. In 2014 NBS participated in ECB projects concerning, for example, the database of granular credit data that will be shared between Eurosystem members; money market statistics; and the Register of Institutions and Affiliates Database (RIAD). NBS operating activities were also related to supporting the participation of credit institutions in the ECB’s new monetary policy instruments known as targeted long-term refinancing operations LTROs.

During 2014 the data base of aggregated outputs, as well as individual datasets, were flexibly adapted to the requirements of users in the areas of monetary policy implementation, financial stability, banking operations, and payment systems. In addition, 2014 saw preparatory work on the provision of statistical data for the ECB’s new role within the Single Supervisory Mechanism.

As regards securities statistics, tasks centred on increasing the quality of data held in the ECB’s securities databases. The Centralised Securities Database (CSDB) underwent three significant updates in 2014, entailing, for example, besides technical improvements, the addition of securities attributes concerning the classification of financial instruments and institutional instruments according to ESA 2010. The database of holdings of securities by economic sectors entered its second phase of development in 2014, and preparatory work began on modules for securities holdings of national central banks and for securities holdings of large banking groups.

The improving quality of these databases is indicated by the rising number of applications for access to their data, from users in such areas as monetary policy and banking transactions, as well as in financial market supervisory authorities.

### 5.2 Quarterly Financial Accounts

The main purpose of producing quarterly financial accounts (QFAs) is to record all financial flows in the economy, i.e. in what amount and 

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21 The meeting agendas and issues addressed are published on the NBS website at: http://www.nbs.sk/sk/platobne-systemy/target2-securities/nug-sk
22 The latest information on T2S may be found on the T2S Online page of the ECB’s website at: http://www.ecb.europa.eu/paym/t2s/about/t2sonline/html/index.en.html
form funds are provided, recorded, spent and claimed by non-financial corporations, financial institutions, general government, and households. In addition to financial transactions, the QFAs provide information about stocks of assets and levels of debt in individual sectors. QFAs are a key analytical tool for monitoring the monetary policy transmission mechanism and analysing financial stability.

In compiling the QFAs, Národná banka Slovenska cooperates with the Statistical Office of the Slovak Republic (which is responsible for general government sector data per quarter and for annual financial accounts for the economy as a whole) and with the Ministry of Finance of the Slovak Republic.

The implementation of the revised system of national accounts (ESA 2010) into the QFAs was completed in 2014, with emphasis placed on improving the quality of data not only in the reporting of stocks and flows, but also in the reporting of revaluations and other adjustments. The new ESA 2010 methodology provides a more detailed classification of economic sectors and clearer specification of particular financial instruments. Data in the new required format were transmitted from NBS to the ECB for the first time in September 2014, along with the retrospective reclassification of data for the period from 2012 to that time. Furthermore, in accordance with the ECB’s requirement for the earlier reporting of data, the deadline for transmitting data was shortened from T+110 days to T+100 days.

In the first half of 2014 development work continued on the new Statistics Collection Portal (SCP) – a system for the collecting, processing and storing of data for statistical purposes and financial market supervision. In the second half of the year the SCP was tested with the participation of several reporting agents. In parallel with these activities there were several meetings organised on a regular basis aimed on the creation of a new data model for the SCP, which will enable higher-quality processing of the data collected, as well as their analysis and publication, on the basis of a distinct economic definition.

5.3 STATISTICS ON THE INSURANCE, CAPITAL MARKET AND PENSION SECTORS

Data reported by agents in the insurance, capital market and pension sectors were used for supervisory and statistical purposes, for both national and supranational institutions. Data quality in terms of timeliness, accuracy and comparability was maintained. At the end of 2014 there were 217 registered reporting agents, including 39 in the insurance sector, 133 in the capital market sector and 45 in the pension sector.

In the field of insurance statistics, preparatory work on the introduction of the EU’s Solvency II Directive continued in 2014. Due to come into effect in 2016, Solvency II is intended to harmonise data release conditions and to ensure the transparency and consistency of insurance data within the European Union. In November 2014 the ECB adopted Regulation No 1374/2014 on statistical reporting requirements for insurance corporations, which entered into force in January 2015. So as to minimise the future burden on insurance companies related to reporting for supervisory and statistical purposes, the extent of overlap between this ECB Regulation and the Solvency 2 Directive was examined. Requirements in the Regulation additional to those in Solvency 2 were identified as ‘add-ons’, and NBS began the process of implementing them in the Slovak insurance market.

During the year NBS cooperated closely with insurers and pension companies in order to increase the quality of statistical data reported by these agents pursuant to NBS Decree No 10/2013, which entered into force on 1 January 2014. The Decree reclassified sectors and financial instruments according to ESA 2010, and in addition increased demands on the scope of data to be reported.

Looking ahead to 2015, when payments under Pillar 2 of the pension system are due to begin and life insurance companies are to become direct participants in the system, NBS issued Decree No 21/2014, which extended the requirements for the submission of statements by insurance
companies and branches of foreign insurance companies.

As regards the capital market, the Securities and Investment Services Act (No 566/2001 Coll.) was amended in 2014 by Act No 213/2014 – mainly in order to transpose certain provisions of the EU’s CRR and CRD IV legislation. This Act also amended the Collective Investment Act (203/2011 Coll.) for the purpose of improving investment quality in respect of alternative investment funds and standard investment funds. The amending law requires risk assessment to be conducted in such a way that avoids exclusive or automatic reliance on credit ratings.

5.4 STATISTICS ON NON-BANK ENTITIES

Statistics on non-bank entities are collected and processed from statistical reports submitted by legal entities other than banks and branches of foreign banks, for the compilation of balance of payments statistics, international investment position statistics, foreign direct investment statistics, and for the requirements of the SO SR.


The structure, scope and content of the reports, the deadlines for their submission, and the method, procedure and place of submission are laid down in NBS Decree No 452/2013 Coll. of 10 December 2013 amending NBS Decree No 467/2010 Coll. on the submission of reports pursuant to the Foreign Exchange Act, as amended by Decree No 332/2012 Coll. The reports are collected on a monthly, quarterly and annual basis. The amending decree was required for the collection of data on the import and export of services, so that claims and liabilities related to services are included in individual reports on foreign assets and liabilities. The decree also updates the lists of euro area countries in individual reports on foreign assets and liabilities, following the entry of Latvia into the euro area.

The harmonisation of statistics on non-bank entities continued in 2014 in line with recommendations of international institutions (primarily the ECB) concerning the compilation methodology for balance of payments (b.o.p.) statistics, international investment position statistics and foreign direct investment (FDI) statistics.

In 2014 NBS continued collecting and processing the quarterly report ‘SLUZ(NBS)1-04’, in which the reporting entity enters data on services received from non-residents and services provided to non-residents. This report states only figures for the quarter under review, not cumulative figures from the beginning of the year.

5.5 BALANCE OF PAYMENTS STATISTICS

Balance of payments statistics provide information about Slovakia’s stocks and flows with the rest of the world, and cover the balance of payments, international investment position, foreign exchange reserves, gross external debt, and foreign direct investment. The processing of b.o.p. statistics in 2014 included the implementation of standards according to the sixth edition of the IMF’s Balance of Payments and International Investment Positions Manual (BPM6). The BMP6 was drafted in parallel with the System of National Accounts 2008 (2008 SNA) and the European System of Accounts 2010 (ESA 2010) in order to ensure alignment between external and domestic macroeconomic statistics. Along with the implementation of BPM6, the reporting of data to the ECB and Eurostat took into account and satisfied the requirements of these institutions in this area. Also implemented in 2014 were the OECD’s requirements concerning FDI statistics. Statistics according to BPM6, including retrospective time series, were first published by NBS in December 2014.
6 Economic research

Národná banka Slovenska is among the leading institutions of economic research in Slovakia. The prevailing focus of its research activities is applied research, the results of which may have practical applications. Although the Research Department is responsible for most of the research performed at the bank, it often works in cooperation with other NBS departments as well as with experts from other institutions in Slovakia and abroad. Research based on such broad cooperation is in its function and content better able to complement various analytical activities related to the bank’s core operations. The bank’s research work often employs non-standard approaches and provides more comprehensive answers to difficult economic, monetary and financial questions related to the domestic and external economic environment.

The priority areas of research are determined in accordance with the medium-term research strategy approved by the NBS Bank Board. They comprise: monetary policy, fiscal policy, financial stability, the labour market and real economy, economic modelling, and the functioning of monetary union. At the same time, specific research tasks take into account the central bank’s information requirements. Professional oversight of the research agenda is ensured by the NBS Research Committee, composed of experts from Slovakia and abroad. The Committee influences the NBS research agenda mainly by approving the research objectives of individual researchers and by monitoring their outputs on a regular basis.

International cooperation, especially within the framework of the European System of Central Banks (ESCB), is crucial to ensuring that research is up to date and relevant, in terms of both its subject-matter and methodology. In 2014 NBS researchers continued to participate in the work of four Eurosystem/ESCB research networks.

One of these networks, the Macro-prudential Research Network (MaRs), concluded its four-year work with an international research conference at which its most important findings were presented. NBS’s cooperation with the MaRs centred mainly on the development of early warning systems and systemic risk indicators.

Another network, the Household Finance and Consumption Network (HFCN), completed a new household survey wave, which provided datasets on the current financial situation and expenditure of households in the euro area (including Slovakia). The information obtained will enhance understanding of how different macroeconomic shocks, as well as monetary policy and institutional changes, affect the financial situation of households.

A third network, the Competitiveness Network (CompNet), focuses on developing a consistent analytical framework for assessing competitiveness, one that takes into account both macroeconomic and microeconomic information. The NBS researchers involved in this network in 2014 worked mainly on the use of firm-level indicators.

As for the fourth network, the Wage Dynamics Network (WDN), national research teams completed preparations for, and then conducted, the WDN survey on firms. The survey results will allow detailed analysis of changes in wage and price formation, and in approaches to employment, in the wake of the global economic crisis.

The organisation of research seminars and participation in research conferences are integral to the process by which new ideas are put into practice. Thus, the domestic research community benefited from many research and discussion seminars held at Národná banka Slovenska. In 2014 NBS organised or co-organised more than 40 seminars. Eight were conducted as part of the series entitled Bratislava Economic Seminars, organised jointly by NBS, the Department of Economic Policy at the University of Economics in Bratislava, and the Centre for Economics and Finance of the Faculty of Mathematics,
Physics and Informatics at Comenius University in Bratislava.

In 2014 the most prominent economic research event involving NBS was an international conference that the central bank co-organised with the Institute for the Study of Labor (IZA) and the Central European Labour Studies Institute (CELSI). Entitled ‘European Labour Markets and the Euro Area during the Great Recession: Adjustment, Transmission, Interactions’, the conference focused on labour market developments during the Great Recession. Altogether 27 researchers, Slovak and foreign, from universities, central banks and international institutions presented results of their work. The keynote speakers were Klaus F. Zimmerman, Director of the Institute for the Study of Labor, and Jordi Gali, from the Centre de Recerca en Economia Internacional (CREI) and Universitat Pompeu Fabra. At the conference, the NBS Governor presented awards for outstanding dissertations or doctoral theses in the field of economics to three Slovak university students who had entered the competition entitled ‘NBS Governor’s Award’ in 2014.

The main conduit between new economic research findings and their application in practice is the publication of research analyses, papers and articles in academic journals. The more extensive outputs are typically published as peer-reviewed NBS working papers, or as discussion papers or policy papers. Work of transnational importance, usually the results of joint dissertations or doctoral theses in the field of economics to three Slovak university students who had entered the competition entitled ‘NBS Governor’s Award’ in 2014.

The list of research papers published on the NBS website was extended in 2014 by contributions related to almost all the core research areas, and in particular fiscal policy, financial stability, the real economy, and economic modelling.

In assessing the results of economic policy, it is necessary to heed the impact of the business cycle, and to that end NBS research in 2014 included analyses of potential output and the output gap (i.e. the difference between potential and actual output) in the Slovak economy. In conjunction with the Council for Budget Responsibility, NBS researchers examined different techniques for estimating potential output in Slovakia and proposed a more robust approach that delivers more stable projections both over short-term and longer-term horizons.

NBS research in 2014 also addressed the impact of fiscal policy on the business cycle. In the case of the Visegrad Four (V4) countries, it was demonstrated that the impact of fiscal policy is contingent on which stage of the business cycle the given economy is at, and that the impact is far higher during recessions than during periods of expansion.

Analysis of the real and nominal convergence of the Slovak economy revealed a hiatus in the catch-up process with respect to real economy indicators. By contrast, nominal convergence indicators showed a significant narrowing of differences between Slovakia and the EU average. Detailed analysis of long-term developments in absolute and conditional convergence in the EU confirms that, owing to a number of external factors, the pace of catch-up is higher than that generally stated in the literature.

The Slovakia-wide survey conducted as part of the Eurosystem’s Household Finance and Consumption Survey revealed that almost every household in Slovakia owns some assets. Fully 90% of households owned housing assets, which made up the largest share of their real assets. The proportion of indebted households is lower than 30% on average. Another noteworthy finding is that Slovak households spend approximately 30% of their income on food. The survey also shed light on differences between regions.

Research in the area of financial stability is highly topical at present, especially given the continuing uncertainty in financial markets. This line of inquiry encompasses macro stress testing, in other words testing of the impact that specified adverse developments in financial markets or the real economy have on the banking sector as a whole. The main results of the research confirmed that the banking sector in Slovakia appears to be relatively resilient to adverse developments.

23 Full texts of NBS research analyses and papers can be found on the NBS website, at http://www.nbs.sk/sk/publikacie/vyskumne-studie
Several results of research projects conducted jointly with staff from other ESCB central banks were disseminated in ECB papers. One paper studied the impact of institutional factors on the indebtedness of euro area households\textsuperscript{24}. Another paper concerned a new approach to the measurement of competitiveness and described the establishment and utilisation of a new database\textsuperscript{25}. A third paper examined financial stability in EU acceding and candidate countries\textsuperscript{26}.

The most notable results of NBS research in 2014 were published in academic journals, mostly in Slovakia, but some also in international refereed journals\textsuperscript{27}.

7 EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION

7.1 EUROPEAN AFFAIRS

EUROSYSTEM AND SINGLE SUPERVISORY MECHANISM
The Eurosystem comprises the ECB and the national central banks of all the EU Member States that have adopted the euro. The NBS Governor is, by virtue of his position, a member of the ECB’s main decision-making body, the Governing Council, which is responsible for setting monetary policy for the euro area. In 2014 the Governing Council also began adopting decisions concerning the Single Supervisory Mechanism (SSM), which is responsible for the supervision of credit institutions in participating EU Member States. The Governor is also a member of the ECB’s General Council, a transitional decision-making body that will cease to exist once all EU Member States have adopted the single currency. The ECB’s decision-making bodies are assisted in their tasks by the committees of the Eurosystem, European System of Central Banks (ESCB) and SSM, established for all the principal areas of central bank activities. During 2014 more than 80 NBS employees participated directly in the work of these committees and their working groups. The NBS departments’ work on Eurosystem tasks constitutes a substantial part of the central bank’s activities.

EUROPEAN UNION
In 2014 the financial sphere saw several changes initiated by EU legal acts. For NBS, the most important changes concerned the first and second pillars of the banking union and the area of cashless payments, specifically the migration to the new SEPA payment instruments.

In April the NBS Governor, Jozef Makúch, attended the informal ECOFIN Council meeting in Athens. The issues addressed at the meeting were the SSM, the Single Resolution Mechanism, banking structural reform, and the enhancement of financing for small and medium-sized enterprises.

In September Governor Makúch attended the informal ECOFIN Council meeting in Milan. The meeting focused on international cooperation in the area of financial services and on the SSM.

7.2 COOPERATION WITH INTERNATIONAL INSTITUTIONS

INTERNATIONAL MONETARY FUND AND WORLD BANK
The main events of the IMF and the World Bank in 2014 were the IMF/WB Spring Meeting in April and Annual Meeting in October, both held in Washington DC.

Slovakia’s commitments to the IMF increased in 2014. As at 31 December 2014 the country’s commitments to the IMF under the Financial Transactions Plan (FTP) and bilateral loan agreement were, respectively, SDR 142.2 million and SDR 27.8 million. In September 2014, after consultation between Slovakia and the IMF, the 2013 bilateral loan agreement between the two sides was extended to cover the period up to 2016.

In June 2014 the IMF conducted its annual Article IV Consultation Mission to Slovakia, in

\textsuperscript{24} Working Paper 1639: The distribution of debt across euro area countries: the role of individual characteristics, institutions and credit conditions.


\textsuperscript{26} Occasional Paper 136: Report on financial stability challenges in EU candidate and potential candidate countries.

\textsuperscript{27} Economic Letters; Journal of Risk and Insurance; Czech Journal of Economics and Finance.
accordance with Article IV of the IMF’s Articles of Agreement. In its concluding statement, the IMF Mission said that the recovery in domestic demand would support stronger and more balanced growth and that identifying growth-friendly fiscal measures and improving the business environment would help reduce high unemployment and regional disparities. Consultations also took place during an IMF Staff Visit to Slovakia in December 2014.

Organisation for Economic Co-operation and Development
For the OECD’s Economic Survey of the Slovak Republic in 2014, OECD staff held meetings with staff members of NBS’s Economic and Monetary Analyses Department concerning the country’s macroeconomic situation, and also with members of the Macroprudential Policy Department, to evaluate the health of the banking sector in Slovakia. The recommendations and conclusions of the Survey were presented in Bratislava on 5 November.

European Bank for Reconstruction and Development
In May 2014 the Board of Governors of the EBRD held its 23rd Annual Meeting in the Polish capital, Warsaw. With regard to EBRD investment in the Southern and Eastern Mediterranean (SEMED) region, the Annual Meeting approved a net income allocation of €500 million in favour of the EBRD SEMED Investment Special Fund. It was also decided to begin investing in Cyprus (making it a recipient country) and to approve Libya as a member of the EBRD.

Bank for International Settlements
The NBS Governor attends the regular BIS meetings of central bank governors. In 2014 there were five of these All Governors’ Meetings, held in Basel, Switzerland, and among the main issues discussed were: increased capital requirements, the maintenance of high capital ratios; analysis of domestic and global factors affecting inflation; virtual currencies and global demographic developments and their implications for central banking; and profitability and profit trends in central banking and their impact on central banks’ policy.

The Governor also attended the 84th Annual General Meeting of the BIS, in Basel. The main items on the agenda were the approval of the BIS’s financial results and the distribution of its profit and dividends.

7.3 INTERNATIONAL ACTIVITIES IN THE FIELD OF SUPERVISION

European Systemic Risk Board
In 2014 the meetings of the ESRB’s General Board (attended by NBS representatives), dealt not only with systemic risk factors and intensity, but also with several other issues: (i) the operationalising of macroprudential policy, which involves in particular the classification of macroprudential policy instruments in accordance with the ESRB’s procedural framework; (ii) cooperation with the EIOPA and the EBA in the design of stress test scenarios; and (iii) ESRB recommendations. In June the General Board approved a Recommendation on guidance to EU Member States for setting countercyclical buffer rates, and it also discussed the implementation of Recommendation ESRB/2011/3 on the macro-prudential mandate of national authorities. Slovakia has been assessed to be ‘fully compliant’ with this Recommendation.

European Banking Authority
As a member of the EBA, NBS helps to ensure the fulfilment of tasks laid down by the EBA Management Board. In 2014 the cooperation between NBS and the EBA, conducted through EBA committees, centred on the drafting of technical and regulatory standards in accordance with the EU’s Capital Requirements Regulation and Directive (CRR / CRD IV). NBS was actively involved in this agenda at all levels of competence, from working groups to the highest approval bodies. NBS was involved in the drafting of new technical standards on supervisory reporting for banks and investment firms. It was also engaged in drafting technical and regulatory standards for the implementation of specific articles of the CRR, and in elaborating guidelines on, and interpretations of, the two basic acts, the CRR and CRD IV.

European Insurance and Occupational Pensions Authority
2014 was an important year for the EIOPA, mainly because work progressed on preparing the Solvency II Directive for transposition into the
laws of EU Member States. This Directive will transform the regulation of the insurance sector in Slovakia to an extent not seen in recent decades. Close cooperation with the EIOPA is essential, given its responsibility for drafting implementing acts and issuing guidelines that will be critical to how the new Solvency II regime is interpreted and applied in practice. In this connection, delegated acts were issued in late 2014 in order to specify further details about key areas of the Solvency II Directive, in particular the valuation of assets and liabilities (including technical provisions), the calculation of capital and minimum capital requirements for ensuring solvency, the approval of internal models, own funds, disclosure, governance, and group solvency. In addition, the EIOPA adopted implementing technical standards, issued in the form of a regulation. A further part of NBS's work within EIOPA was the preparation of guidelines for this area.

In the field of pensions, the EIOPA continued in 2014 to work on a project for developing an EU-single market in personal pension products.

As a supervisory authority, NBS is represented on EIOPA’s main decision-making body, the Board of Supervisors, and it fully engages in the tasks related to this position. In 2014 it contributed to the Board’s discussions and sought to create synergy between smaller countries on matters of particular importance for this group.

**European Securities and Markets Authority**

Within the forum of the ESMA, staff members of the NBS Financial Market Supervision Unit continued in 2014 to participate in a wide range of regulatory activities undertaken by this EU supervisory authority.

The publication of the MiFID II and MAD II Directives, as well as the MiFR and MAR Regulations, had a significant impact on the focus of the work performed by different ESMA groups, since these texts contain provisions that require the subsequent production of technical standards and/or delegated acts.

The Review Panel is tasked with supporting convergence in the supervisory practice of national competent authorities and consistency in the exercise of supervision. In 2014 it was working on the basis of a new methodology, which among other things provides that for the assessment of a particular aspect of supervisory practice, the assessment group may conduct on-site visits to national competent authorities (NCAs). Last year NBS was not among the NCAs selected to receive such an on-site visit.

In 2014 NBS took part in three assessments of the harmonisation of NCA approaches and procedures, performed with regard to the relevant EU Directives and related implementing standards as well as to the application of particular ESMA guidelines. The assessments concerned the implementation of ESMA guidelines on automated trading and on the supervision of investment service providers with respect to MiFID requirement compliance as regards rules for the provision of clear, transparent and non-misleading information and the execution of orders in the best interests of the client.

### 7.4 Technical Cooperation

Národná bank Slovenska has for several years been involved in ESCB/Eurosystem cooperation with central banks of EU candidate and potential candidate countries. An ECB-coordinated technical cooperation programme with central banks of the Western Balkan region was launched in early 2014, its purpose being to strengthen macroeconomic and financial stability in the region by supporting the central banks’ institutional and operational capacities. The programme should include analysis of shortcomings in the current institutional and operational frameworks of the central banks of Albania and Montenegro, identification of their current needs, and recommendations on how the banks can get closer to, or meet ESCB benchmarks. The programme involves nine partner central banks in the Eurosystem/ESCB, including the ECB and Národná bank Slovenska. For its part, NBS is providing technical assistance to the Bank of Albania and the Central Bank of Montenegro.

In 2014 NBS continued its provision of technical assistance to the National Bank of Ukraine, and as part of this programme it hosted a specialist event in Bratislava.
8 Communication

As a standard part of its activities, Národná banka Slovenska publishes information about developments in the Slovak and European economies and about the activities of banks and other participants in the Slovak financial market. The data, reports and analyses put out by the central bank are an important source of information for economists, research and educational institutions, and the media. They also serve to inform many decisions taken by the Slovak Government and Parliament.

NBS is constantly striving to develop, modernize and improve the quality of its communication tools. Emphasizing openness and transparency, the central bank aims to respond as effectively as possible to the demand for information and to address target groups with maximum efficiency, so as to maintain its high standing in the eyes of the Slovak public.

A central pillar of NBS communication policy is participation in the Eurosystem’s joint communications procedures, which primarily involves regular provision of information about monetary developments in the euro area and about monetary-policy decisions.

Banking supervision in the euro area underwent an overhaul in 2014, as the Single Supervisory Mechanism (SSM) entered into operation on 4 November. This expanded NBS’s communication activities significantly, as the central bank – cooperating and coordinating closely with the ECB – kept Slovak media informed about the SSM and its principles and about the outcome of bank stress tests conducted as part of the SSM preparatory process.

During 2014 NBS provided extensive details about the Single European Payments Area (SEPA) and about the issuance of the new €10 banknote, the second denomination in the new Europa series of euro banknotes28. Other key issues on the communication agenda were the stress testing of insurance companies, consumer protection in the financial market, and the impact of the central bank’s recommendations concerning risks in the retail lending market.

In 2014 NBS via its specialist departments answered 3,405 e-mails from members of the public and the media, including 65 requests for information under the Freedom of Information Act (No 211/2000 Coll.).

Publications

NBS regularly produces specialist publications that provide information on, and analysis of, its main fields of activity. These publications include the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, Medium-Term Forecast, and Statistical Bulletin29. The central bank’s periodical Analytical Reports on selected issues and Flash Reports on specific macroeconomic indicators are valued for their up to date information. In total 142 Flash Reports and ten Analytical Reports were prepared. In 2014 a macroeconomic database was made available, consisting of eight basic groups of macroeconomic indicators (GDP, the labour market, prices, the government sector, the balance of payments, the external environment, monthly indicators, and the financial market), providing information in the form of time series data and charts. On current economic issues, NBS published six research or working papers in 201430. In line with the principles of the Eurosystem/ESCB’s multilingual communication system, NBS participated in the drafting of Slovak language versions of the ECB’s official publications31.

Official publications of NBS are issued in electronic form only. To make its information as easy to access as possible, NBS also produces ePUB versions of its key publications and includes QR codes in its information materials.

The central bank’s Biatec journal plays an important role in communication activities, providing specialist articles in the area of banking, finance and economics. Through Biatec, NBS interacts with authors and readers from the banking and financial sector, academia, and the educational sector. Written in Slovak with English-language summaries of selected articles, Biatec is published ten times per year and the full text is available on the NBS website32.

28 For further details, see Part B, Chapter 3 ‘Issuing activity and currency circulation’.
29 http://www.nbs.sk/sk/publikacie/publikacie-nbs
30 http://www.nbs.sk/sk/publikacie/vyskumne-studie
31 http://www.nbs.sk/sk/publikacie/analyticki-odborny-bankovy-casopis
32 http://www.nbs.sk/sk/publikacie/biatec-odborny-bankovy-casopis
It is mainly through the NBS website that the general public are kept informed about the central bank’s tasks and activities. Besides press releases and regular updates on statistics, financial market supervision, and macroeconomic developments, the general public was informed about the SEPA project, the issuance of the new €10 banknote, and the Generation €uro Students’ Award. For the professional community, the website was expanded to include a new database of macroeconomic indicators and a subsection on macroprudential policy. In addition, the media section was updated. The number of visits to the website increased in 2014 by around 18%.

**Presentations, exhibitions and competitions**

In 2014 NBS organised presentations for schoolchildren and university students, from both Slovakia and abroad, which focused mainly on the central bank’s role in the Eurosystem. More than 2,500 students attended these presentations, where they learned about, among other things, the security features of euro banknotes and coins, the Eurosystem’s monetary policy, and the banking system in Slovakia. For analysts, NBS in cooperation with the ECB hosted a research seminar entitled ‘Banking Union in Europe: Asset quality, Stress testing and Institutional arrangements.’

A new permanent exhibition, ‘Od slovenskej koruny k euru’ (From the Slovak koruna to the euro), was opened at the NBS headquarters in 2014. The exhibition complemented the bank’s presentations and was visited by more than 1,000 students.

The third annual edition of the Generation €uro Students’ Award, a Eurosystem educational competition for secondary schoolchildren, was completed in April 2014. The national winners received their awards at the ECB’s headquarters in Frankfurt am Main. The competition again attracted a high level of participation from schools in Slovakia (the second highest in the euro area), which showed the strong interest in raising students’ awareness of central banking issues. The fourth Generation €uro Students’ Award competition was launched in October 2014, with presentations for participating teachers and students.

The second annual edition of the NBS Governor’s Award for outstanding dissertations or doctoral theses in the field of economics was held in 2014.

**The NBS Archives**

The NBS Archives hold records from the banking and financial sector in Slovakia, which are made publicly available for research purposes. There are 186 fonds in the Archives, with most of the materials originating from the central bank’s predecessor institutions and the oldest dating back to the first half of the 19th century. The Archives also contain collections of particular types of items, such as securities, savings books, and share certificates.

In 2014 the Archives Section produced a collective monograph entitled ‘Central Banking in Central Europe’, which NBS published in cooperation with the Institute of History of the Slovak Academy of Sciences. Including contributions from Slovak, Czech, Austrian, Croatian and Hungarian authors, most of whom work at central banks or universities, the monograph focuses on what has been a relatively neglected subject: central banking in this region from the time of Austria-Hungary to the present. Most of the contributions concerned developments in the territory of what is now Slovakia.

As regards international cooperation, the Archives Section is in regular contact with counterparts across Europe and cooperates particularly closely with archivists at the Czech and Austrian central banks (Česká národní banka and Oesterreichische Nationalbank).

In 2014 the Archives received 40 research visitors and 137 written requests for access to its materials, as well as many other enquiries by telephone and e-mail.

**Documentation Centre**

The Documentation Centre (DC) of NBS continued to expand its specialised library resources and information services, with a range of materials covering such issues as European monetary policy, central and commercial banking, financial market supervision, issuance policy, payment systems, and financial management. The DC provides library, information, research and consultation services, mainly to

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31 [www.generaciaeuro.sk](http://www.generaciaeuro.sk)
35 This publication follows on from an international academic conference entitled ‘The History of Central Banking in Slovakia’, which the NBS held in 2013 as part of events to mark the bank’s 20th anniversary.
36 Further details are available on the NBS website at: [http://www.nbs.sk/sk/publikacie/kniznica-narodnej-banky-slovenska](http://www.nbs.sk/sk/publikacie/kniznica-narodnej-banky-slovenska)
NBS staff members, interns, and other professionals.

The project to digitalise the DC’s materials continued in 2014, in cooperation with the ECB’s Library and with other ESCB libraries and information centres. In 2014 DC staff members took part in the 4th ESCB Information Management Network Meeting in Helsinki, the subject of which was ‘Managing electronic information in a mobile world’.

**The NBS Museum of Coins and Medals in Kremnica**
The Museum of Coins and Medals (MCM) in Kremnica37 administers collections that are rich, varied and include many unique items. The most notable artefacts are on display in the Museum’s two permanent exhibitions. The first, entitled ‘Two sides of money’, documents the history of money and medal-making in the territory of present-day Slovakia – from pre-coinage currencies to today’s banknotes and coins – and also includes interesting items from Kremnica’s history of mining and minting. The second is the exhibition at the Town Castle in Kremnica. A landmark within the grounds of this national heritage site is St Catherine’s Church, which, among other things, has acquired a high reputation as a venue for organ concerts. Other buildings in the castle grounds exhibit historical items and artworks. An outstanding collection of items produced by a former stoneware factory in Kremnica can be seen at the Burgher House in the town centre, as part of a long-term exhibition entitled ‘The charm of stoneware gardens’.

In 2014 the Museum’s Gallery in Kremnica put on the following six exhibitions of artwork:

- **Hra je hra... (The game is the game...)** – Milan Sokol: an exhibition of the newest works by this graphic artist;
- **Kontinuum – Božena Brezinová, Eva Pěč Brezinová, Jana Brezinová:** an exhibition of free artistic works by Božena Brezinová and her two daughters;
- **Continuum Novum – 20th International Symposium of Jewellery Art:** a retrospective exhibition marking the 20th edition of this symposium in Kremnica;
- **Karikaturisti (Caricaturists):** held as part of the regular European Festival of Humour and Satire – Kremnica Gags, this exhibition featured works by caricaturists nominated for the festival’s Golden Gander Award;
- **Od Dunaja, Vltavy a Visly (From the Danube, Vltava and Vistula):** the 12th annual edition of this international medal exhibition, which premiered in Wrocław (Poland) before coming to Kremnica and then Budapest, displayed the work of eight medallists from Visegrad Four countries;
- **EXIT(us) – Alžbeta Malcová:** an exhibition of paintings by a young artist who teaches at the Private School of Applied Arts in Kremnica.

In 2014 the Museum participated in a Slovakia-wide project in which museums exhibited items directly related to the first year of the First World War. The project was called ‘Múzeum v čase, čas v múzeu: Príbeh predmetu. Rok 1914’ (The museum in time, time in the museum: The story of an artefact. 1914), and the Museum’s exhibition was entitled ‘Veľká vojna v pamäti’ (Memories of the Great War). The displayed items from the Museum’s collections were complemented by others loaned by

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37 www.muzeumkremnica.sk
local residents. Alongside the exhibition was a series of educational programmes for primary and secondary schoolchildren. The exhibition was opened on 28 July 2014 – the 100th anniversary of the outbreak of the war – and ran until 31 January 2015.

Most of the Museum’s exhibitions include educational programmes and creative workshops for various target groups. In 2014 the Museum ran several school-group programmes related to the history of money, mining and minting in Slovakia and to regional and cultural education.

In 2014 the Museum again took part in the Night of the Museums, an international museum event, and in the summer it organised a series of family events: Picnic at the Castle, Picnic at the Museum, The Charm of Ceramics, and Summer Night of the Muses. During the spring and summer school holidays, creative workshops for children were held at the Museum’s Gallery. To mark the Month of Respect for the Elderly (Mesíaca úcty k starším), the Museum put on a special programme for seniors entitled ‘Autumn at the museum’. The Museum also organised five concerts in 2013, most of which were held at St Catherine’s Church.

In 2014 the Museum issued a publication entitled ‘Kremnica Town Castle’. Attached to the publication is a CD of a concert performed by the outstanding Slovak Organist Imrich Szabó at St Catherine’s Church in Kremnica.

Last year the various exhibitions and events of the NBS Museum of Coins and Medals in Kremnica attracted more than 41,000 visitors from Slovakia and abroad.

9 Legislation

In 2014 Národná banka Slovenska continued to exercise its competences in the drafting of legislation (including the transposition of relevant EU laws) in accordance with Article 30 of Act No 566/1992 on Národná banka Slovenska, as amended (the NBS Act). Under Article 30(1) of the NBS Act, the central bank submits draft laws on currency circulation to the Slovak Government. Under Article 30(2), draft laws concerning payment systems, payment services or the financial market (including the banking sector and NBS activities) are jointly submitted by NBS and the Slovak Finance Ministry to the Slovak Government. Also as part of its legislative competences, NBS drafts and issues secondary legislation in the form of NBS regulations and decrees. Its authority to issue generally binding legislation is based on Article 56(2) of the Constitution of the Slovak Republic, according to which NBS may issue such legislation where authorised by statutory law to do so.

AMENDMENTS MADE IN 2014 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 371/2014 Coll. on resolution in the financial market (including amendments to certain laws).

Act No 566/1992 Coll. on Národná banka Slovenska, as amended, was amended in 2014 by Act No 373/2014 Coll.


Act No 566/2001 Coll. on securities and investment services (including amendments to certain laws) – the Securities Act – as amended, was amended in 2014 by Act No 213/2014 Coll. and Act No 371/2014 Coll.
Act No 747/2004 Coll. on financial market supervision (including amendments to certain laws), as amended, was amended in 2014 by Act No 213/2014 Coll., Act No 373/2014 Coll., and Act No 374/2014 Coll.

Act No 8/2008 Coll. on insurance (including amendments to certain laws), as amended, was amended in 2014 by Act No 183/2014 Coll.

Act No 203/2011 Coll. on collective investment (including amendments to certain laws) was amended in 2014 by Act No 213/2014 Coll.

Act No 43/2004 Coll. on the old-age pension saving scheme (including amendments to certain laws), as amended, was amended in 2014 by Act No 183/2014 Coll. and Act No 301/2014 Coll.

Act No 650/2004 Coll. on the supplementary pension scheme (including amendments to certain laws), as amended, was amended in 2014 by Act No 301/2014 Coll.

Act No 129/2010 Coll. on consumer credits and on other credits and loans for consumers (including amendments to certain laws), as amended, was amended in 2014 by Act No 102/2014 Coll., Act No 106/2014 Coll., and Act No 373/2014 Coll.

Act No 118/1996 Coll. on deposit protection (including amendments to certain laws), as amended, was amended in 2014 by Act No 213/2014 Coll. and Act No 371/2014 Coll.


Act No 530/1990 Coll. on bonds (including amendments to certain laws) was amended in 2014 by Act No 206/2014 Coll.

Act No 429/2002 Coll. – the Stock Exchange Act (including amendments to certain laws) was amended in 2014 by Act No 206/2014 Coll.

IMPLEMENTING LEGISLATION OF GENERAL APPLICATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2014

DECREES PROMULGATED IN THE COLLECTION OF LAWS OF THE SLOVAK REPUBLIC BY THE PUBLICATION OF A NOTIFICATION OF THEIR ISSUANCE


Decree No 2/2014 of Národná banka Slovenska of 4 February on the elements of an application for approval of a securities prospectus.

Decree No 3/2014 of Národná banka Slovenska of 18 February 2014 that repeals Decree No 1/2000 of Národná banka Slovenska stipulating how foreign exchange places are to proceed in respect of cross-border payments and payments vis-à-vis non-residents.

Decree No 4/2014 of Národná banka Slovenska of 11 March 2014 on the submission of reports on the performance of financial intermediation and of reports on the performance of financial advisory services.


Decree No 6/2014 of Národná banka Slovenska of 15 April 2014 on how to demonstrate compliance with the conditions for the issue of an authorisation to establish and operate a supplementary pension management company.

Decree No 7/2014 of Národná banka Slovenska of 15 April 2014 on the elements of applications for prior approval of Národná banka Slovenska made under Act No 650/2004 Coll. on the supplementary pension scheme (including amendments to certain laws).
Decree No 8/2014 of Národná banka Slovenska of 15 April 2014 on the own funds of financial conglomerates and the methods for calculating capital adequacy at the financial conglomerate level in accordance with the Insurance Act.

Decree No 9/2014 of Národná banka Slovenska of 29 April 2014 amending Decree No 15/2007 of Národná banka Slovenska on the submission of statements, reports, and other disclosures by the Slovak Insurers’ Bureau, as amended by Decree No 24/2008.

Decree No 10/2014 of Národná banka Slovenska of 27 May 2014 on the content, structure, and method of submission of reports produced by senior managers in the area of financial intermediation and financial advisory services.

Decree No 11/2014 of Národná banka Slovenska of 27 May 2014 amending Decree No 18/2008 of Národná banka Slovenska on the liquidity of banks and branches of foreign banks and the liquidity risk management process of banks and branches of foreign banks and on amendments to Decree No 11/2007 of Národná banka Slovenska on the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms, and branches of foreign investment firms for supervision and statistical purposes, as amended.

Decree No 12/2014 of Národná banka Slovenska of 29 July on the submission of statements, reports, and other disclosures by banks and branches of foreign banks for supervision purposes.

Decree No 13/2014 of Národná banka Slovenska of 29 July 2014 on the submission of statements, reports, and other disclosures by investment firms and branches of foreign investment firms for supervision purposes.

Decree No 14/2014 of Národná banka Slovenska of 29 July 2014 on the submission of statements, reports, and other disclosures by banks, branches of foreign banks, investment firms and branches of foreign investment firms for data collection purposes under a separate law.

Decree No 15/2014 of Národná banka Slovenska of 2 September 2014 laying down the elements of the rules of supplementary pension funds and the scope, content and structure of the information contained in such rules.

Decree No 16/2014 of Národná banka Slovenska of 2 September 2014 on the disclosure of information by banks and branches of foreign banks.

Decree No 17/2014 of Národná banka Slovenska of 2 September 2014 on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes.

Decree No 18/2014 of Národná banka Slovenska of 2 September 2014 on the submission of statements by asset management companies on behalf of an investment fund or sub-fund for statistical purposes.

Decree No 19/2014 of Národná banka Slovenska of 2 September 2014 on the submission of reports by factoring companies, consumer credit companies, and leasing companies for statistical purposes.

Decree No 20/2014 of Národná banka Slovenska of 7 October 2014 on the disclosure of information by investment firms and branches of foreign investment firms.

Decree No 21/2014 of Národná banka Slovenska of 2 December 2014 amending Decree No 4/2008 of Národná banka Slovenska on the submission of statements, reports, summaries, and other disclosures by insurance companies and branches of foreign insurance companies, as amended by Decree No 27/2008.

Decree No 22/2014 of Národná banka Slovenska of 9 December 2014 on the submission of statements by payment institutions, branches of foreign payment institutions, electronic money institutions and branches of foreign electronic money institutions for statistical purposes.

Decree No 23/2014 of Národná banka Slovenska of 9 December 2014 stipulating national
discretions for institutions under a separate regulation

Decree No 24/2014 of Národná banka Slovenska of 9 December 2014 on the submission of statements by payment institutions and electronic money institutions.

Decree No 25/2014 of Národná banka Slovenska of 16 December 2014 amending Decree No 12/2014 of Národná banka Slovenska on the submission of statements, reports, and other disclosures by banks and branches of foreign banks for supervision purposes.

10 INSTITUTIONAL DEVELOPMENTS

10.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska (NBS) was established as the independent central bank of the Slovak Republic on 1 January 1993, under Act No 566/1992 Coll. on Národná banka Slovenska.

The primary objective of Národná banka Slovenska is to maintain price stability. To this end the central bank:
• participates in the common monetary policy set for the euro area by the Governing Council of the European Central Bank (ECB);
• issues euro banknotes and euro coins in accordance with separate regulations that apply in the euro area to the issuance of euro banknotes and coins;
• promotes the smooth operation of payment and settlement systems; regulates, coordinates and oversees currency circulation, payment systems, and payment settlements; and ensures that these systems are run efficiently and cost-effectively;
• maintains and manages foreign reserves and conducts foreign exchange operations in accordance with separate regulations applicable to Eurosystem operations;
• performs other activities relating to its participation in the European System of Central Banks;
• performs other tasks, such as those required under the Financial Market Supervision Act.

NBS contributes to the stability of the financial system as well as to the security and smooth functioning of the financial market, with the aim of ensuring financial market credibility, customer protection, and compliance with competition rules. NBS is also the financial supervisory authority in Slovakia, meaning that it exercises supervision over banks, branches of foreign banks, investment firms, stock exchanges, central securities depositories, asset management companies, investment funds, foreign collective investment undertakings, insurance companies, reinsurers, pension funds management companies, pension funds, supplementary pension management companies, supplementary pension funds, payment institutions, credit rating agencies, electronic money institutions, independent financial brokers, financial advisers, the Deposit Protection Fund, the Investment Guarantee Fund, the Slovak Insurers’ Bureau, and other financial market participants which are subject to regulatory supervision.

On 1 January 2009, when Slovakia joined the euro area, NBS became a member of the Eurosystem, which is the central banking system of the euro area within the European System of Central Banks (ESCB).

The Eurosystem comprises:
• the European Central Bank (ECB); and
• the national central banks (NCBs) of the EU Member States whose common currency is the euro.

The Eurosystem is thus a subset of the ESCB. Since the decisions of the ECB’s Governing Council (on, for example, monetary policy) apply only to euro area countries, it is in reality the Eurosystem which carries out the central bank functions for the euro area. Therefore the ECB and the NCBs contribute jointly to attaining the common goals of the Eurosystem.
There are three main reasons for having a system of central banking in Europe:

- The Eurosystem approach builds on the existing competences of the NCBs, their institutional set-up, infrastructure, expertise, and operational capabilities. Moreover, several central banks perform additional tasks besides those of the Eurosystem.
- Given the large geographical size of euro area and the long-established relationships between the national banking communities and their NCBs, it was deemed appropriate to give the credit institutions an access point to central banking in each participating Member State.
- Owing to the multitude of nations, languages and cultures in the euro area, the individual NCBs (rather than a supranational institution) are best located to serve as access points of the Eurosystem.

The euro area NCBs, as an integral part of the Eurosystem, perform the Eurosystem’s tasks in line with the rules set by the decision-making bodies of the ECB. The NCBs contribute to the activities of the Eurosystem and the ESCB by participating in the various Eurosystem/ESCB committees.

**Eurosystem/ESCB Committees**

The Eurosystem/ESCB committees play an important role in assisting the ECB’s decision-making bodies. They provide expertise in their fields of competence and perform specific tasks mandated by the ECB’s Governing Council.

- Accounting and Monetary Income Committee
- Banknote Committee
- Committee on Controlling
- Eurosystem/ESCB Communications Committee
- Financial Stability Committee
- Information Technology Committee
- Internal Auditors Committee
- International Relations Committee
- Legal Committee
- Market Operations Committee
- Monetary Policy Committee
- Organisational Development Committee
- Payment and Settlement Systems Committee
- Risk Management Committee
- Statistics Committee
- Budget Committee
- Eurosystem IT Steering Committee
- Human Resources Conference

**The ECB’s tasks within the banking union**

Regulation (EU) No 1024/2013 confers on the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions, with the aim of contributing to the safety and soundness of credit institutions and the stability of the financial system within the participating EU Member States.

In this context, a new system of financial supervision – the Single Supervisory Mechanism (SSM) – began operation on 4 November 2014. The SSM is based on mutual cooperation between national competent authorities (NCAs). The NCA in Slovakia is Národná banka Slovenska.

The second pillar of the euro area banking union – the Single Resolution Mechanism (SRM) – was completed in 2014. In Slovakia, in accordance with the Act on resolution in the financial market, the Resolution Council was established as from 1 January 2015 as an independent legal entity. Tasks related to the specialist and organisational activities of the Council and of its competencies is performed by NBS.

**10.2 Organisation and Management**

**The Bank Board of Národná banka Slovenska**

The highest governing body of Národná banka Slovenska is the Bank Board. The scope of its powers is laid down in the Act on Národná banka Slovenska (‘the NBS Act’), other generally applicable legislation, and the Organisational Rules of NBS.

The Bank Board had five statutory positions in 2014 (pursuant to the NBS Act), including the Governor and two Deputy Governors. Since one of the Deputy Governor positions remained vacant the Bank Board had four sitting members in 2014.39

The Governor and Deputy Governors are appointed, and may be dismissed, by the President of the Slovak Republic at the proposal of the Government and subject to the approval of the Slovak Parliament. The other two members of the Bank Board are appointed, and may be dismissed, by the Slovak Government at the proposal of the NBS Governor.

The term of office of Bank Board members commences as of the effective date of their appointment and is six years, or five years for those appointed before 1 January 2015.

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38 The operation of this committee was suspended as of 27 November 2014.
39 Under an amendment to the NBS Act, the number of Bank Board positions was increased to six with effect from 1 January 2015. The term of office of Bank Board members is six years, or five years for those appointed before 1 January 2015.
Members of the NBS Bank Board as at 31 December 2014

First row (from the left): Jozef Makúch, Ján Tóth.
Second row (from the left): Vladimír Dvořáček, Karol Mrva.

appointment. There are no term limits for Bank Board members, but no one may serve as Governor or Deputy Governor for more than two terms.

The members of the Bank Board as at 31 December 2014 were:

- doc. Ing. Jozef Makúch, PhD., Governor;
- Mgr. Ján Tóth, M.A., Deputy Governor with responsibility for monetary policy, statistics and research;
- Ing. Vladimír Dvořáček, Executive Director of the Financial Market Supervision Unit;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services.

The following Bank Board member ended his term of office in 2014:
- Ing. Štefan Králik, on 1 April 2014.

The Executive Board of Národná banka Slovenska

The Executive Board of Národná banka Slovenska was established by the NBS Bank Board with effect from 1 August 2012, in accordance with Article 6(2)(i) of the NBS Act. The Executive Board is the managing, executive and coordination authority of NBS.

The Executive Board is composed of the NBS Governor, Executive Directors, and other senior management appointed by the Governor. Meetings of the Executive Board are chaired by the Governor or, in his absence, another member of the Executive Board appointed by the Governor.

The members of the Executive Board as at 31 December 2014 were:

- doc. Ing. Jozef Makúch, PhD., Governor;
- Ing. Štefan Králik, Executive Director for legal services and security;
In line with decisions of the NBS Bank Board, five amendments to the NBS Organisational Rules were approved in 2014, one of which entered into force on 1 March 2015. These amendments resulted in changes to the NBS organisational structure and to the duties and competences of certain senior managers.

### 10.3 Human Resources

Národná banka Slovenska had 1,027 employees as at 31 December 2014. A total of 59 employees left the bank in 2014. During the year the bank conducted 74 recruitment campaigns and hired 83 new employees.
Staff exchanges between ESCB national central banks, the ECB and other international financial institutions support staff mobility within the ESCB, the exchange of experience and know-how, and the development of human resources. A total of ten NBS employees were on secondment to the ECB or European Banking Authority during the whole or part of 2014.

The rules and principles of staff remuneration at the bank are laid down in internal NBS Work Regulation No 28/2008 on the remuneration of NBS employees as amended. The average monthly salary in 2014 was €1,913.18.

The employees who left the bank last year due to organisational reasons received all the payments owed to them under the Labour Code, NBS Collective Agreement, and internal work regulations. Severance payments were made to 22 employees who left the bank on grounds of retirement, early retirement or invalidity.

The number of NBS employees enrolled in the supplementary pension scheme stood at 846 as at 31 December 2014.

10.4 EDUCATION

To support staff in their educational and professional development, the Human Resources Department, in cooperation with NBS’s Institute of Banking Education, arranges staff participation in courses tailored to their identified requirements and the needs of their respective unit.

The courses run in 2014 were attended by 911 employees in total, and they focused on the following areas:

- specialist training,
- management training and development,
- language training,
- IT training,
- social skills training,
- general training.

In 2014 NBS organised three international training projects: *Economics for Non-Economists, English in Legal and Contractual Central Banking Practice, and English of European Law.*

Every year a number of NBS staff members conduct professional training by performing teaching, lecturing, and consultation activities. In 2014 a total of 88 staff members from 20 departments were involved in such work.

Eighteen students completed internships at NBS in 2014, including five from universities in Slovakia and thirteen studying in other European Union countries.

10.5 ENVIRONMENT POLICY

Národná banka Slovenska is an institution that takes a responsible approach to the environment. It complies with Slovak legislation and European Commission recommendations which lay down procedures in regard to ecologically sustainable management.

For its activities in the area of environmental policy, NBS has specified four groups of priorities, and in 2014 it implemented several measures aimed at meeting them.

**Protection of the atmosphere**

Adjustments to the operating regime for NBS technological facilities reduced CO₂ emissions by 12.5% year-on-year. The use of fully halogenated hydrocarbons and halons continued to be reduced in 2014, with the replacement of older air-conditioning systems at two NBS branches.

**Protection and rational use of water**

NBS uses modern technology that enables efficient water management at the end-points of consumption. By replacing one of its water conditioners with a more state-of-the-art mechanism, NBS contributed to improving the quality of incoming water, which in turn was beneficial for equipment and helped reduce energy demands.

**Efficient energy use**

NBS sets itself long-term and short-term energy objectives, with the aim of making the bank’s activities less energy demanding. Energy consumption is reduced by constant monitoring of energy consumption and the use of energy-effective and efficient technologies, IT equipment, and electronic appliances and equipment. In 2014 the exterior lights at one of NBS's buildings
were replaced with energy-saving LED reflector lamps. In addition, the bank is gradually phasing in energy-efficient photocopiers as old machines are replaced. These and other measures ensured energy savings of 5.5% in comparison with 2013.

**Waste Management**

NBS ensures that its waste is sorted and reduces the amount of municipal waste. Great importance is placed on recycling and on the ecological disposal and assessment of electrical waste and other dangerous waste materials.

NBS has for several years been involved in the worldwide Earth Day initiative, which aims to focus attention on the fact that the Earth’s resources are not inexhaustible and need to be protected for future generations.
INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2014
Independent Auditors’ Report

To the Bank Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia (the Bank’), which comprise the balance sheet as at 31 December 2014, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended (‘the ECB Guideline’) and with Act No. 431/2002 Coll. on Accounting, as amended (‘the Act on Accounting’) and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank’s preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank Board of the National Bank of Slovakia, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

10 March 2015
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dailmil Draganovský
SKAU Licence No.693

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT
BALANCE SHEET
of Národná banka Slovenska

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Note</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>EUR '000</td>
<td>EUR '000</td>
</tr>
<tr>
<td>A1</td>
<td>Gold and gold receivables</td>
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<td>Claims on non-euro area residents denominated in foreign currency</td>
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<td>1,819,180</td>
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<tr>
<td>A3</td>
<td>Claims on euro area residents denominated in foreign currency</td>
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<td>103,367</td>
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<td>A4</td>
<td>Claims on non-euro area residents denominated in euro</td>
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<td>3,904,956</td>
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<td>A5</td>
<td>Lending to euro area credit institutions related to monetary policy operations denominated in euro</td>
<td>5</td>
<td>570,326</td>
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<td>A6</td>
<td>Other claims on euro area credit institutions denominated in euro</td>
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<td>55,677</td>
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<tr>
<td>A7</td>
<td>Securities of euro area residents denominated in euro</td>
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<td>6,160,578</td>
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<tr>
<td>A8</td>
<td>General government debt denominated in euro</td>
<td>8</td>
<td>3,973,029</td>
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<tr>
<td>A9</td>
<td>Intra-Eurosystem claims</td>
<td>9</td>
<td>5,480,476</td>
</tr>
<tr>
<td>A10</td>
<td>Items in course of settlement</td>
<td>9</td>
<td>5,480,476</td>
</tr>
<tr>
<td>A11</td>
<td>Other assets</td>
<td>9</td>
<td>5,480,476</td>
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<tr>
<td>A12</td>
<td>Loss for the year</td>
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<td>5,480,476</td>
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</table>

TOTAL ASSETS | 23,074,290 | 22,076,361 |

LIABILITIES

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Note</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
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<tr>
<td>L1</td>
<td>Banknotes in circulation</td>
<td>10</td>
<td>10,322,943</td>
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<td>L2</td>
<td>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</td>
<td>11</td>
<td>751,999</td>
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<td>L3</td>
<td>Other liabilities to euro area credit institutions denominated in euro</td>
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<td>4,601,404</td>
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<td>L4</td>
<td>Debt certificates issued</td>
<td>13</td>
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<td>L5</td>
<td>Liabilities to other euro area residents denominated in euro</td>
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<td>2,942,803</td>
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<tr>
<td>L6</td>
<td>Liabilities to non-euro area residents denominated in euro</td>
<td>15</td>
<td>397,075</td>
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<td>L7</td>
<td>Liabilities to euro area residents denominated in foreign currency</td>
<td>16</td>
<td>260,600</td>
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<tr>
<td>L8</td>
<td>Liabilities to non-euro area residents denominated in foreign currency</td>
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<td>405,987</td>
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<td>L9</td>
<td>Counterpart of special drawing rights allocated by the IMF</td>
<td>18</td>
<td>859,166</td>
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<td>L10</td>
<td>Intra-Eurosystem liabilities</td>
<td>19</td>
<td>524,830</td>
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<tr>
<td>L11</td>
<td>Items in course of settlement</td>
<td>20</td>
<td>519,396</td>
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<td>L12</td>
<td>Other liabilities</td>
<td>21</td>
<td>367,797</td>
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<tr>
<td>L13</td>
<td>Capital and reserves</td>
<td>22</td>
<td>102,193</td>
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<tr>
<td>L14</td>
<td>Profit for the year</td>
<td>23</td>
<td>102,193</td>
</tr>
</tbody>
</table>

TOTAL LIABILITIES | 23,074,290 | 22,076,361 |

This version of the accompanying financial statements is a translation from the original, which was prepared in Slovak, and all due care has been taken to ensure that it is an accurate representation. However, in interpreting information, views or opinions, the original language version of the financial statements takes precedence.
## P R O F I T A N D L O S S A C C O U N T
of Národná banka Slovenska

<table>
<thead>
<tr>
<th>Note</th>
<th>31 Dec 2014 EUR '000</th>
<th>31 Dec 2013 EUR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Interest income</td>
<td>430,245</td>
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<tr>
<td>1.2</td>
<td>Interest expense</td>
<td>(216,183)</td>
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<tr>
<td>1</td>
<td>Net interest income</td>
<td>214,062</td>
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<tr>
<td>2.1</td>
<td>Realized gains arising from financial operations</td>
<td>147,055</td>
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<tr>
<td>2.2</td>
<td>Write-downs on financial assets and positions</td>
<td>(53,677)</td>
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<tr>
<td>2.3</td>
<td>Transfer from provisions for foreign exchange rate, interest rate, credit and gold price risks</td>
<td>(220,000)</td>
</tr>
<tr>
<td>2</td>
<td>Net result of financial operations, write-downs and risk provisions</td>
<td>(126,622)</td>
</tr>
<tr>
<td>3.1</td>
<td>Fees and commissions income</td>
<td>734</td>
</tr>
<tr>
<td>3.2</td>
<td>Fees and commissions expense</td>
<td>(999)</td>
</tr>
<tr>
<td>3</td>
<td>Net income/(expense) from fees and commissions</td>
<td>(266)</td>
</tr>
<tr>
<td>4</td>
<td>Income from equity shares and participating interests</td>
<td>10,575</td>
</tr>
<tr>
<td>5</td>
<td>Net result of pooling of monetary income</td>
<td>47,072</td>
</tr>
<tr>
<td>6</td>
<td>Other income</td>
<td>32,416</td>
</tr>
<tr>
<td></td>
<td>Total net income</td>
<td>177,238</td>
</tr>
<tr>
<td>7</td>
<td>Staff costs</td>
<td>(36,096)</td>
</tr>
<tr>
<td>8</td>
<td>Administrative expenses</td>
<td>(22,463)</td>
</tr>
<tr>
<td>9</td>
<td>Depreciation of tangible and intangible fixed assets</td>
<td>(7,714)</td>
</tr>
<tr>
<td>10</td>
<td>Banknote production services</td>
<td>(6,255)</td>
</tr>
<tr>
<td>11</td>
<td>Other expenses</td>
<td>(3,361)</td>
</tr>
<tr>
<td>12</td>
<td>Income tax and other items decreasing income</td>
<td>(156)</td>
</tr>
<tr>
<td></td>
<td>Profit</td>
<td>102,193</td>
</tr>
</tbody>
</table>

This version of the accompanying financial statements is a translation from the original, which was prepared in Slovak, and all due care has been taken to ensure that it is an accurate representation. However, in interpreting information, views or opinions, the original language version of the financial statements takes precedence.
Národna banka Slovenska
Financial statements as at 31 December 2014 – Notes
(in thousands of EUR)

NOTES
to the financial statements
as at 31 December 2014

Bratislava, 10 March 2015

This version of the accompanying financial statements is a translation from the original, which was prepared in Slovak, and all due care has been taken to ensure that it is an accurate representation. However, in interpreting information, views or opinions, the original language version of the financial statements takes precedence.
A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska ("NBS" or "the Bank") is the independent central bank of the Slovak Republic. The NBS was established in accordance with Act No. 566/1992 Coll. on Národná banka Slovenska as amended ("the NBS Act"). The NBS commenced its activities on 1 January 1993 as the bank issuing the currency of Slovakia.

Upon euro adoption in Slovakia on 1 January 2009, the NBS became a full member of the Eurosystem. The NBS abides by the Protocol on the Statute of the European System of Central Banks and of the European Central Bank ("the Statute").

In accordance with Article 39 (5) of the NBS Act, the NBS submits the annual report on results of its operations to the National Council of the Slovak Republic within three months after the end of the calendar year. In addition to the NBS financial statements and the auditor’s opinion thereon, the report provides information on the NBS’s operating costs. If so requested by the National Council of the Slovak Republic, the NBS is obliged, within six weeks, to supplement the report as requested and/or to provide explanations to the report as submitted.

The supreme governing body of the NBS is the Bank Board. As at 31 December 2014, the Bank Board had the following structure:

<table>
<thead>
<tr>
<th>Name</th>
<th>Term of Office in the Bank Board</th>
<th>Current Position</th>
<th>Date of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doc. Ing. Jozef Makuch, PhD.</td>
<td>1 Jan 2006 - 12 Jan 2015</td>
<td>Governor</td>
<td>12 Jan 2010</td>
</tr>
<tr>
<td>RNDr. Karol Mrva</td>
<td>1 Jun 2012 - 1 Jun 2017</td>
<td>Member</td>
<td>1 Jun 2012</td>
</tr>
<tr>
<td>Ing. Vladimír Dvořák</td>
<td>2 Apr 2014 - 2 Apr 2019</td>
<td>Member</td>
<td>2 Apr 2014</td>
</tr>
</tbody>
</table>

Bank Board member Ing. Štefan Králik’s term ended as at 1 April 2014.

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Legal framework and accounting principles

The Bank applies its accounting principles in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended ("the ECB Guideline"). In recognizing transactions not regulated by the ECB Guideline, the Bank observes International Financial Reporting Standards (IFRS). In other cases, the Bank acts in accordance with Act No. 431/2002 Coll. on Accounting, as amended ("the Act on Accounting"). In accordance with this legal framework, the Bank applies the following basic accounting principles:

- Economic reality and transparency
- Prudence
- Recognition of post-balance-sheet events
- Materiality
- Accrual basis of accounting
- The going-concern assumption
- Consistency and comparability

Assets and liabilities are held on the balance sheet only if it is probable that any future economic benefits attributable to them will flow to the credit or debit of the Bank, any risks and benefits have been transferred to the Bank and the assets or liabilities can be measured reliably.

Foreign exchange transactions and financial instruments, excluding securities and the corresponding accruals, are subject to the economic principle, i.e., transactions are recorded on off-balance sheet accounts.
on the trade date. On the settlement date, off-balance sheet booking entries are reversed and the transactions are recorded on the balance sheet. Other economic transactions, including transactions with debt securities, are recorded in accordance with the cash settlement principle, i.e., no accounting entries are made on the trade date and the transaction is recorded on the balance sheet on the settlement date.

Accruals of interest rates attributable to financial instruments are calculated and recorded on a daily basis. Accruals of premium and discount are recorded using the internal rate of return method (IRR). In other cases, the linear method is applied.

When preparing the financial statements, the Bank acts in accordance with the recommended harmonized procedures for the preparation of disclosures to the financial statements of a national central bank within the Eurosystem.

b) Valuation of assets and liabilities

Financial assets and liabilities, excluding HTM securities, securities held for monetary policy purposes and participating interests, are measured on a monthly basis at mid-rates and market prices. Foreign exchange, including balance sheet and off-balance sheet transactions, is measured for each currency separately; securities are measured for each ISIN separately and interest rate swaps and futures agreements are measured individually. In the case of gold, there is no distinction between price and exchange rate valuation differences.

Securities held for monetary policy purposes are measured at amortized cost and are subject to an impairment test. In the event of impairment, provisions are created as at the end-of-year date and reassessed on an annual basis. The impairment provisions for certain types of securities held for monetary policy purposes are shared within the Eurosystem, based on the shares in the paid-up capital of the ECB, valid at the time of initial impairment.

Participating interests, except the BIS investment Pool Sovereign China fund denominated in CNY (Chinese Yuan Renminbi) (“BISIP CNY”), are measured at historical cost and are subject to an impairment test. Impairment in participating interests is recognized as impairment charges through profit/loss. The BISIP CNY fund is measured at market value on a monthly basis, based on the supporting documentation from the Bank for International Settlements (“BIS”) in Basel, Switzerland.

The exchange rates of key foreign currencies against 1 euro, used to value the assets and liabilities as at 31 December 2014, were as follows:

<table>
<thead>
<tr>
<th>Currency</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP</td>
<td>0.77990</td>
<td>0.83770</td>
<td>(0.0580)</td>
</tr>
<tr>
<td>USD</td>
<td>1.21410</td>
<td>1.37910</td>
<td>(0.16500)</td>
</tr>
<tr>
<td>JPY</td>
<td>145.23000</td>
<td>144.72000</td>
<td>0.51000</td>
</tr>
<tr>
<td>XDR</td>
<td>0.83864</td>
<td>0.89421</td>
<td>(0.05557)</td>
</tr>
<tr>
<td>EUR t oz</td>
<td>987.769</td>
<td>971.220</td>
<td>116.54900</td>
</tr>
</tbody>
</table>

* 1 oz (troy ounce) = 31.1034807 g

(c) Accounting and recognition of revenues

Realized gains and losses are derived from the daily measurement of changes in assets and liabilities and represent the difference between the transaction value and the average value of the respective financial instrument or currency. They are recognized on the face of the profit and loss account.

 Unrealized gains and losses result from the monthly measurement of assets and liabilities and represent the difference between the average value and the month-end market value of the respective financial instrument or currency. Unrealized gains are shown in equity on revaluation accounts (see Note 21). Unrealized losses in excess of unrealized revaluation gains from the given financial instrument or currency are recognized in the profit and loss account. Unrealized losses on one financial instrument or currency are not set
off against unrealized gains made on another financial instrument or currency. In the event of an unrealized loss at year-end, the average acquisition cost is adjusted to the year-end exchange rate or fair value of the measured item. Unrealized revaluation losses on interest rate swaps and marketable securities are amortized to income in the following years.

Premiums and discounts of acquired securities are recognized in the profit and loss account against interest income.

(d) Gold and gold receivables

Gold swap transactions are recognized as repurchase transactions with gold (see Notes 12, 14, and 15). The gold used in such transactions remains in the Bank’s total assets under the item “Gold”.

(e) Debt securities

Securities are recognized together with the accruals of the premium and the discount. Coupons are recorded under “Other assets”.

The impairment test for bonds held for monetary policy purposes and bonds acquired within the Securities Markets Programme (“SMP”) is carried out centrally by the ECB and is subject to the approval of the Governing Council of the ECB. The impairment test for bonds acquired within the first Covered Bonds Purchase Programme (“CBPP1”) and within the third Covered Bond Purchase Programme (“CBPP3”) is coordinated by the ECB. Based on the decision of the Bank Board, the NBS accepts the results of tests for CBPP1 coordinated by the ECB. The results of tests for CBPP3 are subject to the approval of the Governing Council of the ECB.

(f) Derivatives

For the purposes of calculating the average acquisition cost of currencies and foreign exchange rates gains and losses, spot, forward and swap contracts are included in the net currency positions. They are recognized on off-balance sheet accounts at the spot rate of the transaction on the trade date.

The difference between the spot and forward values of the transaction is considered as interest expense or interest income.

In the case of currency swaps, forward positions are measured together with the corresponding spot position. Therefore, currency positions are only affected by accruals of interest rates in a foreign currency.

In the case of interest rate swaps, the nominal value is recorded on the off-balance sheet from the trade date to the interest rate swap maturity date. They are measured based on generally acceptable valuation models using corresponding yield curves derived from listed interest rates.

In the case of interest rate or currency swaps, if there is an increase or a decrease in the net swap position, a collateral adjustment in the form of deposits with daily extension is agreed upon contractually with selected counterparties. Payment of interest is on a monthly basis (see Notes 9 and 18).

The Bank recognizes futures contracts on off-balance sheet accounts from the trade date to the settlement at the nominal value of the underlying instrument. Initial margins may be provided either in cash or in the form of securities. The initial deposit in the form of securities is not accounted for. The daily settlement of revaluation differences on the margin account is recognized in the profit and loss account.

(g) Reverse transactions

Reverse transactions are those transactions the Bank conducts under reverse repurchase agreements or collateralized loan transactions.

Transactions conducted under a repurchase agreement (repurchase transaction) are recognized as a
collateralized inward deposit on the liabilities side of the balance sheet, while the item provided as collateral remains on the assets side of the balance sheet. Securities provided under a repurchase transaction remain part of the portfolio of the Bank.

Reverse repurchase agreements are recognized as a collateralized outward loan on the assets side of the balance sheet. Securities accepted under a reverse repurchase transaction are not accounted for.

If the collateral value deviates from the respective loan value, representing an increased counterparty credit risk, collateral is required in the form of a deposit. These deposits bear interest and are extended on a daily basis (see Notes 12 and 14).

The Bank does not account for security lending transactions conducted under an automated security lending programme. Revenues from these transactions are recognized in the profit and loss account.

(h) Banknotes in circulation

Pursuant to Decision ECB/2010/29 as amended, euro banknotes are issued jointly by the national central banks within the Eurosystem and the ECB. The total amount of banknotes in circulation is allocated to individual central banks in the Eurosystem on the last working day of each month, according to the Banknote Allocation Key. The ECB’s share in the total amount of banknotes in circulation is 8%. Pursuant to the Decision cited above, the NBS’s share in the total issue of euro banknotes within the Eurosystem is 1.01595%. The share of banknotes in circulation is recognized under liabilities “Banknotes in Circulation” (see Note 10).

The difference between the banknotes allocated according to the Banknote Allocation Key and the banknotes actually in circulation represents an interest-bearing receivable or liability within the Eurosystem. This is disclosed under the item “Net Claims or Liabilities Related to Allocation of Euro Banknotes within the Eurosystem”.

Over a period of five years from the Bank’s transition to euro as cash (1 January 2009), receivables or liabilities relating to the allocation of euro banknotes within the Eurosystem are adjusted in order to eliminate major changes in the yield position of the Bank compared to prior years. The adjustment is based on the average issue of banknotes of the local currency two years prior to accession to the Eurosystem. For the NBS, the period of adjusting banknotes issue ended on 31 December 2014.

Interest income or interest expense from these receivables/liabilities is disclosed in the Bank’s profit and loss account against the item “Net Interest Income” (see Note 23).

(i) ECB profit redistribution

In accordance with Decision ECB/2014/57 as amended, the ECB’s income, consisting of the remuneration of the ECB’s 8% share in euro banknotes issue and net income from securities purchased by the ECB under the SMP, CBPP3 and asset-backed securities programme is re-allocated among the Eurosystem’s individual central banks in the same financial year as accrued in the form of an interim distribution of the ECB’s profit (see Note 26).

Under Article 33 of the Statute, the ECB’s remaining net profit is re-allocated among the central banks within the Eurosystem upon approval of the ECB’s financial statements, i.e. in the following calendar year.

(j) Fixed assets

With effect from 1 January 2010 and pursuant to the ECB’s Guideline, the NBS’s fixed assets include tangible and intangible fixed assets with an input price higher than EUR 10,000 and with a useful life of more than one year. Immovable, works of art, immovable historic landmarks and collections with the exception of those
listed under separate regulations (Act No. 208/2009 Coll. on Museums and Galleries and on the Protection of Cultural Values, as amended by Act No. 39/2014 Coll.) are recognized on the balance sheet irrespective of their input price. The assets listed under separate regulations are recognized on the off-balance sheet and in records maintained for collection items at acquisition cost. Tangible and intangible fixed assets up to EUR 10,000 that were acquired and put in use prior to 1 January 2010 are depreciated as put in use until they are fully depreciated.

Fixed assets held for sale are recognized at cost net of accumulated depreciation and provisions, or at fair value net of cost of sale, whichever amount is lower.

<table>
<thead>
<tr>
<th>Depreciation group</th>
<th>Depreciation period in years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Buildings and structures</td>
<td>30</td>
</tr>
<tr>
<td>2. Utility network</td>
<td>4 - 12</td>
</tr>
<tr>
<td>3. Machines and equipment</td>
<td>20</td>
</tr>
<tr>
<td>4. Transport means</td>
<td>4 - 8</td>
</tr>
<tr>
<td>5. Fittings and fixtures</td>
<td>4 - 12</td>
</tr>
<tr>
<td>6. Software</td>
<td>2 - 4</td>
</tr>
<tr>
<td>7. Other intangible fixed assets</td>
<td>2 - 4</td>
</tr>
<tr>
<td>or as per contract</td>
<td></td>
</tr>
<tr>
<td>8. Fixed property investments</td>
<td>30</td>
</tr>
<tr>
<td>9. Technical improvements of immovable</td>
<td></td>
</tr>
<tr>
<td>historic landscapes</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1

(k) Taxes

In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes as amended, the NBS is not liable to corporate income tax. Only income taxed by withholding tax is subject to taxation.

The NBS has been a registered VAT payer since 1 July 2004, pursuant to Act No. 222/2004 Coll., as amended.

(l) Provisions

The Bank creates a general provision for foreign exchange rate, interest rate and credit risks as well as risk from changes in gold prices (see Note 19 and 24), which is presented in the Bank’s equity. The amount and reasonableness of the general provision is reassessed on an annual basis with the impact on the profit and loss account. The provision is subject to the approval of the Bank Board.

The Bank creates a provision in relation to the impairment of securities acquired as part of the single monetary policy of the Eurosystem (see Section B, Note e).

The Bank also creates provisions in line with the Act on Accounting (see Note 19).

(m) NBS profit redistribution

In accordance with Article 39 (4) of the NBS Act, the financial result of the NBS for a reporting period is the profit it generated or loss it incurred. The profit generated by the Bank is allocated to the reserve fund and other funds created from profit, or it is used to cover accumulated losses from prior years. Any loss incurred in the current reporting period may be settled by the NBS from the reserve fund or from other funds. Alternatively, the Bank Board may decide to carry the accumulated loss forward to the following reporting period.

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

1. Gold and gold receivables

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bars in repo transactions</td>
<td>963,069</td>
<td>840,582</td>
<td>112,487</td>
</tr>
<tr>
<td>Gold on delivery</td>
<td>1,564</td>
<td>1,371</td>
<td>193</td>
</tr>
<tr>
<td>Gold stored in banks</td>
<td>51,098</td>
<td>45,996</td>
<td>5,102</td>
</tr>
<tr>
<td></td>
<td>1,006,001</td>
<td>887,949</td>
<td>118,052</td>
</tr>
</tbody>
</table>

As at 31 December 2014, gold comprised a total of 1,019 thousand t oz. of gold (1,019 thousand t oz. of gold as at 31 December
2013), of which 965 thousand t oz. of gold were used in repurchase transactions, 52 thousand t oz. were deposited in correspondent banks and 2 thousand t oz. of gold were deposited with the Bank.

Changes in the balances of gold and gold receivables were mostly affected by gold revaluation accounts (see Note 20).

### Receivables from the International Monetary Fund

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equivalent</td>
<td>the. EUR</td>
<td>the. EUR</td>
</tr>
<tr>
<td>Receivables from IMF</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Quota</td>
<td>779</td>
<td>928,396</td>
<td>837</td>
</tr>
<tr>
<td>2) Reserve position</td>
<td>268</td>
<td>319,955</td>
<td>273</td>
</tr>
<tr>
<td>3) Foreign exchange part of members’ quotas</td>
<td>160</td>
<td>190,432</td>
<td>155</td>
</tr>
<tr>
<td>- FTP reserve position</td>
<td>18</td>
<td>20,867</td>
<td>18</td>
</tr>
<tr>
<td>4) Nostro account in IMF</td>
<td>323</td>
<td>381,208</td>
<td>355</td>
</tr>
<tr>
<td>5) Bilateral loans</td>
<td>29</td>
<td>33,185</td>
<td>54</td>
</tr>
<tr>
<td>Payables to IMF</td>
<td>268</td>
<td>319,955</td>
<td>273</td>
</tr>
<tr>
<td>1) Loro accounts in IMF</td>
<td>251</td>
<td>295,059</td>
<td>262</td>
</tr>
<tr>
<td>2) Valuation account</td>
<td>17</td>
<td>19,936</td>
<td>9</td>
</tr>
<tr>
<td>Total reported amount (net)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The FTP reverse position represents the receivable of the NBS relating to loans provided to the IMF.

Liabilities in local currency change depending on the IMF representative exchange rate, which is recorded in the currency valuation adjustment account. A significant part of the liabilities on the IMF loro accounts consists of a note in the amount of EUR 297,682 thousand (EUR 312,533 thousand as at 31 December 2013).

The Bank records a liability to the IMF from the allocation disclosed under L9 “Counterpart of special drawing rights allocated by the IMF” (see Note 17).

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

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>484,636</td>
<td>484,636</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>725,053</td>
<td>40,530</td>
<td>684,533</td>
</tr>
<tr>
<td>Total</td>
<td>1,210,349</td>
<td>40,530</td>
<td>1,169,819</td>
</tr>
</tbody>
</table>

As at 31 December 2014, the caption “Debt securities” mainly consists of bonds issued by financial institutions and denominated in USD.

The caption “Other” mainly included cash in foreign currency on nostro accounts.
3. Claims on euro area residents
denominated in foreign currency

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>103,270</td>
<td>36,363</td>
<td>66,907</td>
</tr>
<tr>
<td>Current accounts</td>
<td>97</td>
<td>109</td>
<td>(12)</td>
</tr>
</tbody>
</table>

Debt securities categorized under this caption are denominated in USD. As per security issuers, as at 31 December 2014 the Bank mainly recorded securities of monetary financial institutions.

The increase in the volume of debt securities compared to the preceding period was due to the purchase of securities denominated in USD.

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

As at 31 December 2014, the Bank recognized debt securities of non-euro area residents of EUR 3,904,566 thousand (EUR 2,931,025 thousand as at 31 December 2013). As per the security issuers, the Bank mainly recorded securities of monetary financial institutions.

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

In accordance with the rules for monetary policy operations in the Eurosystem, the NBS recognized longer-term refinancing operations of EUR 385,320 thousand as at 31 December 2014 (EUR 301,900 thousand as at 31 December 2013).

Longer-term refinancing operations are regular liquidity-providing reverse transactions of a longer period; as at 31 December 2014, transactions with a maturity of three to four years were recognized. These transactions are performed through standard tenders and bear interest at the main refinancing rate, which is 0.05% p.a. Under these transactions, the Bank also recognizes targeted longer-term refinancing operations to support bank lending to the non-financial private sector (with the exception of lending to households for the purpose of house purchases). As at 31 December 2014, the targeted longer-term refinancing operations were EUR 215,320 thousand, bearing the main refinancing rate increased by 10bp.

As at 31 December 2014, the Bank recognized the main refinancing transactions of EUR 185,000 thousand (EUR 27,000 thousand as at 31 December 2013) at a 0.05% p.a. rate. The main refinancing transactions are regular liquidity-providing reverse transactions at one week intervals with a current maturity of one week.

As at 31 December 2014, the Bank recognized the marginal lending facilities of EUR 6 thousand (EUR 0 as at 31 December 2013) at a 0.30% p.a. rate. The marginal lending facility is an overnight liquidity-providing transaction, secured by collateral.

The risks arising from monetary policy transactions are subject to sharing with the involved central banks in proportion to their capital key pursuant to Article 32 (4) of the Statute.

6. Other claims on euro area credit institutions denominated in euro

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redistribution loan</td>
<td>28,533</td>
<td>32,416</td>
<td>(3,883)</td>
</tr>
<tr>
<td>Current accounts</td>
<td>27,224</td>
<td>697</td>
<td>26,527</td>
</tr>
<tr>
<td>Deposits to reverse transactions</td>
<td>220</td>
<td>220</td>
<td>0</td>
</tr>
</tbody>
</table>

The redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. As at 31 December 2014, the redistribution loan bore interest of 0.5% p.a. (0.5% p.a. as at 31 December 2013).

As at 31 December 2014, the NBS recorded a state guarantee of EUR 29,722 thousand received for the redistribution loan on the off-balance sheet (EUR 33,830...
thousand as at 31 December 2013). The amount of the state guarantee represents the principal and interest up to the loan maturity.

7. Securities of euro area residents
denominated in euro

<table>
<thead>
<tr>
<th>Debt securities held for monetary policy purposes</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other securities</td>
<td>4,022,402</td>
<td>6,057,188</td>
<td>(2,034,786)</td>
</tr>
<tr>
<td></td>
<td>6,185,576</td>
<td>7,727,375</td>
<td>(1,541,799)</td>
</tr>
</tbody>
</table>

Debt securities held for monetary policy purposes

As at 31 December 2014, under the “Securities held for monetary policy purposes” caption, the Bank disclosed securities purchased under the CBPP1, CBPP3 and SMP, issued mainly by the public authorities and monetary financial institutions of the euro area. The decrease of EUR 311,911 thousand compared to the preceding period was due to the maturity of securities.

CBPP1

Under the CBPP1 programme, the ECB and national central banks have purchased the covered bonds denominated in euro, issued by euro area institutions. The purchases under this programme were fully implemented by the end of June 2010.

CBPP3

In October 2014, the technical parameters of CBPP3 programme were announced by the Governing Council of the ECB. Under the programme, the ECB and national central banks started purchasing covered bonds denominated in euro, issued by euro area institutions with the aim of easing funding conditions for credit institutions. The programme will last at least for two years.

SMP

Under the SMP programme announced in May 2010, the ECB and national central banks purchased public and private debt securities denominated in euro, in order to address malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism. In September 2012, the Governing Council of the ECB decided to immediately close the programme.

The Governing Council of the ECB evaluates the risks related to bonds purchased under the SMP and CBPP3 programmes on a regular basis. The total amount of SMP and CBPP3 securities in the euro area as at 31 December 2014 was EUR 161,490,286 thousand, out of which the NBS recognizes the amount of EUR 1,111,494 thousand. In accordance with Article 32 (4) of the Statute, all risks, if material, are shared by the national central banks of the Eurosystem, according to their capital key.

On the basis of the results of the impairment test for securities acquired under the SMP and CBPP3 conducted as at 31 December 2014 and pursuant to a decision of the Governing Council of the ECB, it is expected that all the future cash flows related to these securities will be received. For this reason, the Bank did not create a provision for impairment losses (see Section B, Note e).

On the basis of the results of the impairment test for securities acquired under the CBPP1, as coordinated by the ECB, the Bank Board decided that it was not necessary to create a provision for impairment losses (see Section B, Note e).

<table>
<thead>
<tr>
<th>Other securities</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face value</td>
<td>310,137</td>
<td>310,137</td>
<td>0</td>
</tr>
<tr>
<td>Market value</td>
<td>310,137</td>
<td>310,137</td>
<td>0</td>
</tr>
<tr>
<td>Appreciation</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>310,137</td>
<td>310,137</td>
<td>0</td>
</tr>
</tbody>
</table>

As at 31 December 2014, under this caption, the Bank recognized trading securities, mainly issued by monetary...
financial institutions and public authorities of the euro area.

The decrease compared to the preceding period of EUR 1,254,786 thousand was mainly caused by the sale of securities.

8. Intra-Eurosystem claims

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participating interest in ECB</td>
<td>262,722</td>
<td>228,701</td>
<td>34,021</td>
</tr>
<tr>
<td>Claims equivalent to the transfer of foreign reserves</td>
<td>447,672</td>
<td>398,761</td>
<td>48,911</td>
</tr>
<tr>
<td>Net claims related to the allocation of euro banknotes within the Eurosystem</td>
<td>965,669</td>
<td>965,669</td>
<td>0</td>
</tr>
<tr>
<td>Other claims within the Eurosystem</td>
<td>2,236,065</td>
<td>2,236,461</td>
<td>(496)</td>
</tr>
<tr>
<td></td>
<td>3,372,029</td>
<td>3,377,282</td>
<td>(5,253)</td>
</tr>
</tbody>
</table>

Participating interest in ECB

As at 31 December 2014, the Bank recorded a participating interest in the ECB’s subscribed capital of EUR 83,623 thousand (EUR 74,487 thousand as at 31 December 2013) and a claim of EUR 24,885 thousand, raised from the changes of its participating interest in the ECB’s net equity. The increase of the NBS’s share in the ECB’s capital and the rise to the claim related to changes of NBS’s participating interest in the ECB’s net equity, was caused by a quinquennial capital key adjustment effective from 1 January 2014.

In accordance with Article 49 (2) of the Statute and the decision of the ECB Governing Council, the NBS contributed EUR 154,214 thousand to the ECB’s provisions to cover credit, foreign exchange, interest rate and gold price risks and to the ECB revaluation accounts.
<table>
<thead>
<tr>
<th>Bank Name</th>
<th>CapitalKey for Subscription of ECB's Capital (%) from 1.1.2014</th>
<th>Paid-up Capital (EUR) until 31.12.2013</th>
<th>Paid-up Capital (EUR) from 1.1.2014</th>
<th>Decrease / Increase (in paid-up capital due to a quinquennial Capital Key adjustment)</th>
<th>Eurosystem Key (%) - share in ECB's paid-up capital from 1.1.2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banque National de Belgique</td>
<td>2.4778</td>
<td>261,705,370.91</td>
<td>268,222,023.17</td>
<td>6,516,654.26</td>
<td>3.5408</td>
</tr>
<tr>
<td>Citi Bank</td>
<td>0.1928</td>
<td>19,268,612.58</td>
<td>20,870,613.85</td>
<td>1,602,101.05</td>
<td>0.2755</td>
</tr>
<tr>
<td>Deutsche Bundesbank</td>
<td>17.9913</td>
<td>3,000,893,901.28</td>
<td>3,048,206,997.34</td>
<td>(82,494,003.94)</td>
<td>25.7184</td>
</tr>
<tr>
<td>Central Bank and Financial</td>
<td>1.7067</td>
<td>120,276,653.55</td>
<td>125,645,857.06</td>
<td>5,369,203.51</td>
<td>1.6587</td>
</tr>
<tr>
<td>Services Authority of Ireland</td>
<td>2.0332</td>
<td>210,003,612.74</td>
<td>220,094,043.74</td>
<td>9,190,431.00</td>
<td>2.9505</td>
</tr>
<tr>
<td>Bank of Greece</td>
<td>8.8409</td>
<td>893,420,306.48</td>
<td>967,028,050.02</td>
<td>63,607,741.54</td>
<td>12.6338</td>
</tr>
<tr>
<td>Banque de France</td>
<td>14.1792</td>
<td>1,520,028,149.23</td>
<td>1,534,896,422.41</td>
<td>4,871,253.18</td>
<td>20.2623</td>
</tr>
<tr>
<td>Banco d'Italia</td>
<td>12.3108</td>
<td>1,348,471,130.66</td>
<td>1,332,644,970.33</td>
<td>(15,826,160.33)</td>
<td>17.5933</td>
</tr>
<tr>
<td>Central Bank of Cyprus</td>
<td>0.1513</td>
<td>14,429,734.42</td>
<td>16,378,235.70</td>
<td>1,948,501.28</td>
<td>0.2162</td>
</tr>
<tr>
<td>Latvijas Bank</td>
<td>0.2821</td>
<td>1,113,061.35</td>
<td>30,537,344.94</td>
<td>29,424,263.59</td>
<td>0.4031</td>
</tr>
<tr>
<td>Banque centrale du Luxembourg</td>
<td>0.2030</td>
<td>18,824,587.29</td>
<td>21,974,764.35</td>
<td>3,150,777.06</td>
<td>0.2901</td>
</tr>
<tr>
<td>Central Bank of Malta</td>
<td>0.0648</td>
<td>6,873,879.49</td>
<td>7,014,604.58</td>
<td>140,725.09</td>
<td>0.0926</td>
</tr>
<tr>
<td>De Nederlandsche Bank</td>
<td>4.0035</td>
<td>429,352,255.40</td>
<td>433,379,158.03</td>
<td>4,026,902.63</td>
<td>5.7210</td>
</tr>
<tr>
<td>Oesegrachetsche Nationalbank</td>
<td>1.9631</td>
<td>209,680,386.94</td>
<td>212,505,713.78</td>
<td>2,825,326.84</td>
<td>2.8003</td>
</tr>
<tr>
<td>Banco de Portugal</td>
<td>1.7434</td>
<td>100,009,824.68</td>
<td>188,723,172.26</td>
<td>(2,186,651.43)</td>
<td>2.4913</td>
</tr>
<tr>
<td>Banka Slovenije</td>
<td>0.3455</td>
<td>39,397,773.12</td>
<td>37,400,399.43</td>
<td>2,002,020.31</td>
<td>0.4937</td>
</tr>
<tr>
<td>Národnej banka Slovenska</td>
<td>0.7725</td>
<td>74,496,873.65</td>
<td>83,623,179.91</td>
<td>9,136,305.96</td>
<td>1.1039</td>
</tr>
<tr>
<td>Suomen Panaki – Finnlands Bank</td>
<td>1.2664</td>
<td>134,836,288.06</td>
<td>136,005,388.82</td>
<td>1,169,100.76</td>
<td>1.7954</td>
</tr>
<tr>
<td>Subtotal-euro area NCBs*</td>
<td>66.9783</td>
<td>7,530,782,323.83</td>
<td>7,575,156,822.19</td>
<td>44,372,698.26</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>Bulgarian National Bank</td>
<td>0.8590</td>
<td>3,506,926.04</td>
<td>3,487,056.40</td>
<td>(21,002.64)</td>
</tr>
<tr>
<td></td>
<td>Česká národní banka</td>
<td>1.5076</td>
<td>5,301,929.17</td>
<td>5,525,449.57</td>
<td>623,520.40</td>
</tr>
<tr>
<td></td>
<td>Danmark Nationalbank</td>
<td>1.4673</td>
<td>5,889,203.79</td>
<td>6,037,612.38</td>
<td>48,306.99</td>
</tr>
<tr>
<td></td>
<td>Litvauk bankas</td>
<td>0.4132</td>
<td>1,661,503.27</td>
<td>1,677,334.85</td>
<td>15,831.58</td>
</tr>
<tr>
<td></td>
<td>Magyar Nemzeti Bank</td>
<td>1.3796</td>
<td>5,577,594.89</td>
<td>5,601,129.28</td>
<td>23,544.39</td>
</tr>
<tr>
<td></td>
<td>Närderby Bank Polski</td>
<td>5.1230</td>
<td>19,720,662.57</td>
<td>20,795,191.71</td>
<td>1,075,329.14</td>
</tr>
<tr>
<td></td>
<td>Banca Natională a României</td>
<td>2.9924</td>
<td>9,924,772.42</td>
<td>10,564,134.40</td>
<td>639,351.98</td>
</tr>
<tr>
<td></td>
<td>Sveriges Riksbank</td>
<td>2.2728</td>
<td>9,179,064.74</td>
<td>9,226,559.46</td>
<td>47,494.72</td>
</tr>
<tr>
<td></td>
<td>Bank of England</td>
<td>13.9743</td>
<td>58,584,938.26</td>
<td>55,509,147.81</td>
<td>(3,075,790.45)</td>
</tr>
<tr>
<td></td>
<td>Česká národná banka</td>
<td>0.6023</td>
<td>2,413,300.01</td>
<td>2,444,963.16</td>
<td>31,663.15</td>
</tr>
<tr>
<td></td>
<td>Subtotal-euro area NCBs*</td>
<td>30.0217</td>
<td>122,403,087.16</td>
<td>121,869,418.02</td>
<td>(593,669.14)</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>100.05</td>
<td><strong>7,653,244,410.99</strong></td>
<td><strong>7,691,025,340.21</strong></td>
<td><strong>43,789,929.22</strong></td>
</tr>
</tbody>
</table>

* Subtotals and totals may not correspond, due to the effect of rounding.
Claims equivalent to the transfer of foreign reserves

The NBS recognizes a claim of EUR 447,672 thousand (EUR 398,781 thousand as at 31 December 2013), equivalent to the transfer of foreign reserves to the ECB, made according to the NBS capital key under Article 30 (1) of the Statute. The claim increased due to a quinquennial capital key adjustment as at 1 January 2014. The receivable bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2014, interest income from the claim, equivalent to the transfer of foreign reserves, amounted to EUR 629 thousand (see Note 23).

Net claims related to allocation of banknotes in the Eurosystem

The caption represents the net claim related to banknotes allocation within the Eurosystem of EUR 965,669 thousand (a liability of EUR 75,966 thousand as at 31 December 2013, see Note 10), bearing the interest rate for the main refinancing operations. For the financial year ending 31 December 2014, the Bank recognized interest income of EUR 457 thousand related to allocation of banknotes in the Eurosystem (see Note 23).

Other intra-Eurosystem claims

Intra-Eurosystem claims and liabilities represent the position of NBS towards other members of the European System of Central Banks ("ESCB") arising from cross-border transactions. The most significant part of this caption represents the claim of the NBS against other central banks and the ECB, arising from operations within TARGET2, which amounted to EUR 2,240,613 thousand as at 31 December 2014 (EUR 2,686,542 thousand as at 31 December 2013). The position bears an interest rate for the main refinancing operations. The total amount of received interest amounted to EUR 8,497 thousand as at 31 December 2014 (see Note 23).
Tangible and intangible fixed assets

This item comprises fixed assets of the NBS as at 31 December 2014 in the following breakdown:

<table>
<thead>
<tr>
<th></th>
<th>TA &amp; advances and assets under construction</th>
<th>IA &amp; advances and assets under construction</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost as at 1 January 2014</td>
<td>282,996</td>
<td>29,481</td>
<td>292,477</td>
</tr>
<tr>
<td>Additions</td>
<td>2,406</td>
<td>4,813</td>
<td>7,219</td>
</tr>
<tr>
<td>Disposals</td>
<td>2,638</td>
<td>1,027</td>
<td>3,666</td>
</tr>
<tr>
<td>Acquisition cost as at 31 December 2014</td>
<td>282,766</td>
<td>33,067</td>
<td>295,832</td>
</tr>
<tr>
<td>Accumulated depreciation as at 1 January 2014</td>
<td>130,916</td>
<td>28,791</td>
<td>159,707</td>
</tr>
<tr>
<td>Additions</td>
<td>6,504</td>
<td>1,210</td>
<td>7,714</td>
</tr>
<tr>
<td>Disposals</td>
<td>1,219</td>
<td></td>
<td>1,219</td>
</tr>
<tr>
<td>Accumulated depreciation and provisions as at 31 December 2014</td>
<td>135,303</td>
<td>26,991</td>
<td>162,294</td>
</tr>
<tr>
<td>Carrying amount of TA and IA as at 1 January 2014</td>
<td>132,978</td>
<td>3,700</td>
<td>136,678</td>
</tr>
<tr>
<td>Carrying amount of TA and IA as at 31 December 2014</td>
<td>127,463</td>
<td>6,076</td>
<td>133,538</td>
</tr>
</tbody>
</table>

As at 31 December 2014, the NBS recognized fixed assets held for sale of EUR 3,963 thousand (EUR 4,876 thousand as at 31 December 2013).

Other financial assets

<table>
<thead>
<tr>
<th>Shares of BISIP</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNY fund</td>
<td>41,012</td>
<td>41,012</td>
<td>0</td>
</tr>
<tr>
<td>Share certificates of RVS, a.s.</td>
<td>3,585</td>
<td>3,585</td>
<td>0</td>
</tr>
<tr>
<td>Shares of BIS</td>
<td>7,008</td>
<td>5,000</td>
<td>438</td>
</tr>
<tr>
<td>Institute of Banking Education</td>
<td>33</td>
<td>33</td>
<td>0</td>
</tr>
<tr>
<td>Shares of SWIFT</td>
<td>23</td>
<td>23</td>
<td>0</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>51,861</strong></td>
<td><strong>51,841</strong></td>
<td><strong>41,856</strong></td>
</tr>
</tbody>
</table>

As at 31 December 2014, the NBS recognized shares within the BISIP CNY programme which represents an indirect form of investing in the on-shore Chinese government bonds market. The purchase of shares was realized in December 2014 and represents a 3.9% share of the fund’s total value.

In accordance with the Commercial Code (Act No. 513/1991 Coll. as amended), the NBS is the controlling entity in the voting rights in RVS, a.s., Bratislava, with a 52% equity share. Despite the significant influence of the NBS in RVS, a.s., in accordance with Article 22 of the Act on Accounting, the Bank does not prepare consolidated financial statements.

The Bank recognizes a participating interest in the Bank for International Settlements in Basel, Switzerland. The Bank’s share on the BIS capital represents 0.51%. The participating interest in BIS is recognized in the amount of paid-up capital (25%). The unpaid proportion of the capital (75%) is payable on demand. Dividends are distributed in euro from the total share of the NBS in BIS as held in XDR (see Note 26).

As at 31 December 2014, the Bank recognized a deposit in the registered capital of the Inštitút bankového vzdelávania NBS, n. o. Bratislava, which was established by NBS on 28 October 2008. The Bank is the only shareholder of the company.

The Bank holds a 0.0063% capital share in SWIFT. The allocation took place in April 2013 based on share reallocation to individual members depending on their financial compensation, paid for using SWIFT services in 2011.

Accruals and prepaid expenditure

This item mainly represents accrued bond coupons of EUR 138,677 thousand (EUR 168,193 thousand as at 31 December 2013) and interest accrued on interest rate swaps of EUR 6,433 thousand (EUR 10,204 thousand as at 31 December 2013). The value of purchased bond coupons of
EUR 16,491 thousand (EUR 6,489 thousand as at 31 December 2013) also represents a significant part of this caption.

Sundry

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits – collateral to derivatives</td>
<td>173,131</td>
<td>297,401</td>
</tr>
<tr>
<td>Claims on foreign entities</td>
<td>16,076</td>
<td>18,079</td>
</tr>
<tr>
<td>FV of interest rate swaps</td>
<td>2,267</td>
<td>15,279</td>
</tr>
<tr>
<td>Interest rate futures</td>
<td>1,690</td>
<td>2,901</td>
</tr>
<tr>
<td>Investment and consumer loans granted to employees</td>
<td>8,492</td>
<td>9,438</td>
</tr>
<tr>
<td>Other</td>
<td>3,295</td>
<td>4,219</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>207,171</strong></td>
<td><strong>320,238</strong></td>
</tr>
</tbody>
</table>

The purpose of the deposits granted – collateral to derivatives – is to secure counterparty credit risk in respect of a decrease in the value of the swap on the part of the NBS. The year-on-year decrease in the volume of deposits is due to a decrease in the volume of interest rate swaps.

10. Banknotes in circulation

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro banknotes in circulation issued by NBS</td>
<td>9,357,274</td>
<td>8,777,260</td>
</tr>
<tr>
<td>Euro banknotes not issued by NBS</td>
<td>965,669</td>
<td>(75,966)</td>
</tr>
<tr>
<td><strong>Total volume of euro banknotes in line with the NBS Banknote Allocation Key</strong></td>
<td><strong>10,322,943</strong></td>
<td><strong>8,701,284</strong></td>
</tr>
</tbody>
</table>

As at 31 December 2014, the Bank issued banknotes amounting to EUR 9,357,274 thousand; down by EUR 965,669 thousand (up by EUR 75,966 thousand as at 31 December 2013) compared to the volume allocated to the NBS by the Banknote Allocation Key (see part B, para h). This difference represents a claim of the NBS on the Eurosystenm (see Note 6). Following the quinquennial capital key adjustment and entry of Latvia into the Eurosystenm, the Banknote Allocation Key for the NBS increased from 0.9100% to 1.0155% as at 1 January 2014.

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

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current accounts covering the minimum reserve system</td>
<td>651,999</td>
<td>1,006,110</td>
</tr>
<tr>
<td>Deposit facility</td>
<td>100,000</td>
<td>6,600</td>
</tr>
<tr>
<td>Fixed-term deposits</td>
<td>140,000</td>
<td>183,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>891,999</strong></td>
<td><strong>1,254,710</strong></td>
</tr>
</tbody>
</table>

Current accounts represent monetary reserves of credit institutions that are subject to the minimum reserve system (MRS) in accordance with the Statute. The MRS enables the average fulfillment of monetary reserves of credit institutions over the maintenance period set, as published by the ECB. The MRS holdings are remunerated at the average rate of the Eurosystenm’s main refinancing operations, valid over the given maintenance period. In accordance with Decision ECB/2014/23 as amended, reserve holdings exceeding the required minimum reserves shall be remunerated at zero per cent or the deposit facility rate, whichever is lower. With effect from 10 September 2014, the ECB applies the negative interest rate 0.20% p.a. for the deposit facility.

The deposit facility represents overnight deposits at a pre-specified interest rate as announced by the ECB. The purpose of such deposits is to provide contracting parties with the option to deposit short-term surplus liquidity. As at 31 December 2014, a negative interest rate 0.20% p.a. was applied for this type of transaction.

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

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tri-party repo transactions</td>
<td>2,490,000</td>
<td>2,150,000</td>
</tr>
<tr>
<td>Liabilities from repo transactions</td>
<td>2,146,318</td>
<td>777,329</td>
</tr>
<tr>
<td>Liability from repo transactions with gold</td>
<td>34,230</td>
<td>30,660</td>
</tr>
<tr>
<td>Deposits received for repo transactions</td>
<td>271</td>
<td>1,242</td>
</tr>
<tr>
<td>Interbank clearing in Slovakia (SPS)</td>
<td>30,625</td>
<td>880</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,617,404</strong></td>
<td><strong>2,946,118</strong></td>
</tr>
</tbody>
</table>
The interest rate applicable to repo transactions is from -0.075 to 0.050% p.a. (from 0.171 to 0.250% p.a. as at 31 December 2013).

The increase in liabilities from repo transactions compared to the preceding period is due to an increase in the volume of repo transactions.

13. Liabilities to other euro area residents denominated in euro

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General government</td>
<td>1,000,917</td>
<td>2,722,663</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>227,122</td>
<td>195,155</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,228,039</strong></td>
<td><strong>2,917,818</strong></td>
</tr>
</tbody>
</table>

### General government

As at 31 December 2014, under this caption, the NBS recognized term deposits from the Ministry of Finance of the Slovak Republic ("MFSR") amounting to EUR 1,000,000 thousand (EUR 1,800,000 thousand as at 31 December 2013), and current accounts of the State Treasury amounting to EUR 977 thousand (EUR 922,653 thousand as at 31 December 2013).

The interest rate applicable to term deposits is 0.357% p.a. (from 0.140 to 0.365% p.a. as at 31 December 2013).

### Other liabilities

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client term deposits</td>
<td>30,070</td>
<td>26,137</td>
</tr>
<tr>
<td>Current accounts of auxiliary financial institutions</td>
<td>815</td>
<td>3,831</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>183,713</strong></td>
<td><strong>151,090</strong></td>
</tr>
</tbody>
</table>

As at 31 December 2014 and 2013, the Bank recognized current accounts and deposits from clients and auxiliary financial institutions (the Deposit Protection Fund and the Investment Guarantee Fund) within this item.

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

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities from term deposits</td>
<td>2,434,102</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Liabilities from repo transactions with gold</td>
<td>513,333</td>
<td>473,407</td>
</tr>
<tr>
<td>Liabilities from repo transactions</td>
<td>180,795</td>
<td>(180,795)</td>
</tr>
<tr>
<td>Liabilities to International financial institutions</td>
<td>5,367</td>
<td>4,794</td>
</tr>
<tr>
<td>Deposits received for repo transactions</td>
<td>20</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>Clients’ loan accounts</strong></td>
<td><strong>1</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,942,662</strong></td>
<td><strong>3,059,616</strong></td>
</tr>
</tbody>
</table>

Liabilities from inward term deposits represent central banks’ deposits with maturity from one day to one month at an interest rate from -0.030 to 0.030% p.a. (0.190% p.a. as at 31 December 2013).

15. Liabilities to euro area residents denominated in foreign currency

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities from repo transactions</td>
<td>295,493</td>
<td>295,493</td>
</tr>
<tr>
<td>Liabilities from repo transactions with gold</td>
<td>101,560</td>
<td>87,890</td>
</tr>
<tr>
<td>Current accounts of the State Treasury in foreign currency</td>
<td>2</td>
<td>28,056</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>397,075</strong></td>
<td><strong>115,946</strong></td>
</tr>
</tbody>
</table>

The interest rate applicable to repo transactions is from 0.250 to 0.330% p.a.

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

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities from repo transactions</td>
<td>188,079</td>
<td>188,079</td>
</tr>
<tr>
<td>Liabilities from repo transactions with gold</td>
<td>72,521</td>
<td>62,995</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>260,600</strong></td>
<td><strong>251,074</strong></td>
</tr>
</tbody>
</table>

The interest rate applicable to repo transactions denominated in USD is from 0.330 to 0.360% p.a.

As at 31 December 2014, the Bank recognized liabilities from long-term repo transactions with gold due in 2015 and 2016.
17. Counterpart of special drawing rights allocated by the IMF

As at 31 December 2014, the Bank recorded a liability to the IMF from the allocation of EUR 405,987 thousand (EUR 380,758 thousand as at 31 December 2013). The liability from the allocation is denominated in XDR. As part of the general allocation and the special allocation, the IMF allocated XDR 265 million and XDR 75 million to Slovakia, as at 31 December 2014 and 31 December 2013, respectively.

18. Other liabilities

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CB balance sheet</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>instruments revaluation differences</td>
<td>15,729</td>
<td>743</td>
<td>14,986</td>
</tr>
<tr>
<td>Accruals and income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>collected in advance</td>
<td>87,796</td>
<td>119,467</td>
<td>(31,671)</td>
</tr>
<tr>
<td>Sundry</td>
<td>560,641</td>
<td>657,520</td>
<td>(96,879)</td>
</tr>
<tr>
<td></td>
<td>659,160</td>
<td>777,770</td>
<td>(118,614)</td>
</tr>
</tbody>
</table>

Off-balance sheet instruments revaluation differences

As at 31 December 2014, this item represented exchange losses from the revaluation of currency swaps of EUR 15,729 thousand (EUR 743 thousand as at 31 December 2013).

Accruals and income collected in advance

As at 31 December 2014, the major part of accruals was represented by interest expense from interest rate swaps in EUR of EUR 78,856 thousand (EUR 113,119 thousand as at 31 December 2013).

Sundry

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>P/L interest rate swaps</td>
<td>88,632</td>
<td>191,224</td>
<td>(102,592)</td>
</tr>
<tr>
<td>Deposits - collaterals to derivatives</td>
<td>218,620</td>
<td>201,820</td>
<td>16,800</td>
</tr>
<tr>
<td>Euro coins in circulation</td>
<td>141,637</td>
<td>132,478</td>
<td>9,159</td>
</tr>
<tr>
<td>SKK banknotes in circulation</td>
<td>75,755</td>
<td>75,256</td>
<td>(500)</td>
</tr>
<tr>
<td>SKK coins in circulation</td>
<td>23,193</td>
<td>46,866</td>
<td>(23,673)</td>
</tr>
<tr>
<td>Other</td>
<td>4,034</td>
<td>5,828</td>
<td>(1,794)</td>
</tr>
<tr>
<td></td>
<td>560,541</td>
<td>650,370</td>
<td>(90,829)</td>
</tr>
</tbody>
</table>

The value of interest rate swaps as at 31 December 2014 represented the cumulative year-end revaluation loss which is gradually amortized to the profit/loss under net realized gains on interest rate swaps in accordance with the ECB Guideline (see Note 24).

The purpose of deposits received – collateral for derivatives – is to secure the NBS credit risk in respect of a decrease in the value of the swap on the part of the counterparty.

The year-on-year decrease of SKK coins in circulation mainly reflects the extraordinary issuance gain related to old Slovak coins that remained in circulation after their expiration as at 2 January 2014 in accordance with legal requirements (see Note 28).


<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General provision for financial risks</td>
<td>323,000</td>
<td>300,000</td>
<td>22,000</td>
</tr>
<tr>
<td>Provisions for payable to employees</td>
<td>3,005</td>
<td>3,715</td>
<td>(709)</td>
</tr>
<tr>
<td>Provisions for legal disputes</td>
<td>340</td>
<td>301</td>
<td>39</td>
</tr>
<tr>
<td>Provisions for unbilled supplies</td>
<td>685</td>
<td>638</td>
<td>47</td>
</tr>
<tr>
<td></td>
<td>324,639</td>
<td>294,054</td>
<td>29,585</td>
</tr>
</tbody>
</table>

The Bank created a general provision for financial risks in order to protect against foreign exchange, interest rate, credit risks and risk from changes in gold prices. The amount of provision is reassessed on an annual basis, and corresponds to an estimate of potential loss from the total investment reserves and gold of the NBS, taking into account historical scenarios of financial market development. In accordance with the decision of the Bank Board, the provision will be used to cover future realized and unrealized losses from financial activities. The potential negative development on the financial markets in the subsequent period has been taken into account in creating the provision.
Národná banka Slovenska
Financial statements as at 31 December 2014 – Notes
(In thousands of EUR)

20. Revaluation accounts

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revaluation accounts of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>gold</td>
<td>375,157</td>
<td>254,418</td>
<td>120,740</td>
</tr>
<tr>
<td>securities</td>
<td>125,537</td>
<td>306,307</td>
<td>(180,770)</td>
</tr>
<tr>
<td>derivatives</td>
<td>2,307</td>
<td>10,279</td>
<td>(7,972)</td>
</tr>
<tr>
<td>foreign currency</td>
<td>10,139</td>
<td>11,539</td>
<td>(1,400)</td>
</tr>
<tr>
<td>shares of BIS/P CNY</td>
<td>195</td>
<td>196</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>519,395</strong></td>
<td><strong>587,603</strong></td>
<td><strong>(68,207)</strong></td>
</tr>
</tbody>
</table>

The increase in the revaluation accounts of gold compared to the prior year is due to increased gold prices. The year-on-year decrease in the revaluation accounts of securities is linked to the development in the financial markets.

21. Capital and reserves

This item includes the statutory fund representing the paid-up capital assumed from separation of the balance sheet of the former State Bank of Czechoslovakia, which has been in the amount of EUR 15,490 thousand since the establishment of the NBS, and the assumed registered capital of the Financial Market Authority (Úrad pre finančný trh, “ÚFT”) of EUR 551 thousand. With effect from 1 January 2006, the ÚFT was dissolved and merged with the NBS in accordance with the applicable law.

Reserves consist of general reserves and capital reserves.

As at 31 December 2014, the closing balance of the NBS’s general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2013). The general reserves consist of contributions from profits of EUR 337,412 thousand generated from previous years. As at 1 January 2006, following the merger of the ÚFT with the NBS, the ÚFT’s reserve fund of EUR 3,462 thousand was transferred to the NBS reserves.

As at 31 December 2014, the closing balance of the NBS’s capital reserves amounted to EUR 882 thousand (EUR 882 thousand as at 31 December 2013).
Summary of changes in equity and accumulated losses

<table>
<thead>
<tr>
<th>Description</th>
<th>Statutory fund</th>
<th>Capital reserves</th>
<th>General reserves</th>
<th>General provision for financial risks</th>
<th>Revaluation accounts profit/(losses)</th>
<th>Accumulated (losses) from previous years</th>
<th>Profit/(loss) of current year</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance as at 31 December 2013</td>
<td>16,041</td>
<td>882</td>
<td>340,874</td>
<td>300,000</td>
<td>587,603</td>
<td>(5,406,453)</td>
<td>489,846</td>
<td></td>
</tr>
<tr>
<td>2. Transfer of profit for 2013 to accumulated loss from previous years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>489,846</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Transfer to statutory fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Transfer to general reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Change in the general provision for financial risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Change in revaluation accounts of securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(180,830)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Change in revaluation accounts of derivatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(12,912)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Change in revaluation accounts of gold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>118,149</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Change in revaluation accounts of foreign currencies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6,590</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Change in revaluation accounts of shares in BISIP CNY fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>196</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Profit for the current reporting period</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>102,193</td>
<td></td>
</tr>
<tr>
<td>12. Change for the reporting period</td>
<td>220,000</td>
<td></td>
<td></td>
<td></td>
<td>489,846</td>
<td>(587,603)</td>
<td>253,566</td>
<td></td>
</tr>
<tr>
<td>Balance as at 31 December 2014</td>
<td>16,041</td>
<td>882</td>
<td>340,874</td>
<td>320,000</td>
<td>519,396</td>
<td>(4,916,667)</td>
<td>102,193</td>
<td>(3,417,221)</td>
</tr>
</tbody>
</table>

22. Off-balance sheet instruments

<table>
<thead>
<tr>
<th>Description</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>Liabilities</td>
<td>Receivables</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Currency swaps in EUR (forward leg)</td>
<td>1,176,057</td>
<td>358,768</td>
<td>817,289</td>
</tr>
<tr>
<td>Currency swaps in USD (forward leg)</td>
<td>357,878</td>
<td>429,454</td>
<td>(71,576)</td>
</tr>
<tr>
<td>Currency swaps in JPY (forward leg)</td>
<td>2,327</td>
<td>614,080</td>
<td>(591,753)</td>
</tr>
<tr>
<td>Currency swaps in GBP (forward leg)</td>
<td>1,708</td>
<td>27,089</td>
<td>(1,431,990)</td>
</tr>
<tr>
<td>Currency swaps in CHF (forward leg)</td>
<td>124,755</td>
<td></td>
<td>(124,755)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,554,145</td>
<td>1,433,730</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>Liabilities</td>
<td>Receivables</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Interest rate futures in EUR</td>
<td>45,700</td>
<td></td>
<td>(45,700)</td>
</tr>
<tr>
<td>Interest rate futures in USD</td>
<td>5,271</td>
<td></td>
<td>(5,271)</td>
</tr>
<tr>
<td>Total</td>
<td>50,971</td>
<td>35,000</td>
<td>15,971</td>
</tr>
</tbody>
</table>
23. Net interest income

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in EUR</td>
<td>142,631</td>
<td>191,081</td>
</tr>
<tr>
<td>Investments in foreign currency</td>
<td>1,176</td>
<td>1,688</td>
</tr>
<tr>
<td>Monetary operations</td>
<td>60,872</td>
<td>92,120</td>
</tr>
<tr>
<td>Net interest income from securities</td>
<td>61,151</td>
<td>89,527</td>
</tr>
<tr>
<td>Net interest (expense)/income from loans and deposits</td>
<td>(73)</td>
<td>4,650</td>
</tr>
<tr>
<td>Net interest expense from BRS</td>
<td>(479)</td>
<td>(2,007)</td>
</tr>
<tr>
<td>Remuneration of claim from transfer of foreign currency reserves</td>
<td>629</td>
<td>1,904</td>
</tr>
<tr>
<td>Remuneration of eurobanknotes</td>
<td>457</td>
<td>(4,650)</td>
</tr>
<tr>
<td>Remuneration of TARGET 2</td>
<td>5,497</td>
<td>30,205</td>
</tr>
<tr>
<td>214,042</td>
<td>312,343</td>
<td>(98,291)</td>
</tr>
</tbody>
</table>

The decrease in net interest income from investments in EUR is mainly linked to the decrease in the net interest income from securities. The lower interest income from securities is due to the decrease of the ECB’s basic interest rate and volume of securities portfolio (see Note 7).

The decrease of the ECB’s basic interest rate has led to a decrease of interest income from remuneration of claims within the Eurosystem (see Note 8).

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

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gains realized from financial operations</td>
<td>147,055</td>
<td>220,717</td>
</tr>
<tr>
<td>Net gains from interest rate swaps</td>
<td>126,346</td>
<td>196,210</td>
</tr>
<tr>
<td>Net gains from sale of securities</td>
<td>16,950</td>
<td>21,138</td>
</tr>
<tr>
<td>Net gains from other operations</td>
<td>2,179</td>
<td>1,346</td>
</tr>
<tr>
<td>Write-downs on financial assets and positions</td>
<td>(53,677)</td>
<td>(6,892)</td>
</tr>
<tr>
<td>Losses from interest rate swaps valuation</td>
<td>(43,362)</td>
<td>(1,229)</td>
</tr>
<tr>
<td>Losses from securities valuation</td>
<td>(1,473)</td>
<td>(2,469)</td>
</tr>
<tr>
<td>Losses from foreign currency valuation</td>
<td>(8,812)</td>
<td>(3,104)</td>
</tr>
<tr>
<td>Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risk</td>
<td>(220,000)</td>
<td>(50,000)</td>
</tr>
<tr>
<td>General provision for financial risks</td>
<td>(220,600)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>126,022</td>
<td>163,015</td>
<td>(36,993)</td>
</tr>
</tbody>
</table>

25. Net result from fees and commissions

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees and commissions from investment portfolio:</td>
<td>(246)</td>
<td>(396)</td>
</tr>
<tr>
<td>Net profit from operations with securities</td>
<td>179</td>
<td>106</td>
</tr>
<tr>
<td>Net profit from operations with clients</td>
<td>216</td>
<td>247</td>
</tr>
<tr>
<td>Net loss from securities</td>
<td>(599)</td>
<td>(701)</td>
</tr>
<tr>
<td>Net loss from interest rates</td>
<td>(52)</td>
<td>(58)</td>
</tr>
<tr>
<td>Other</td>
<td>(13)</td>
<td>(12)</td>
</tr>
<tr>
<td>Fees and commissions from monetary operations:</td>
<td>(71)</td>
<td>(129)</td>
</tr>
<tr>
<td>Net loss from operations with banks</td>
<td>(106)</td>
<td>(188)</td>
</tr>
<tr>
<td>Net profit from operations with securities</td>
<td>37</td>
<td>59</td>
</tr>
<tr>
<td>Net profit from exchange of euro coins</td>
<td>54</td>
<td>58</td>
</tr>
<tr>
<td>(265)</td>
<td>(467)</td>
<td>202</td>
</tr>
</tbody>
</table>

26. Income from equity shares and participating interests

<table>
<thead>
<tr>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim ECB’s profit distribution</td>
<td>9,281</td>
<td>13,650</td>
</tr>
<tr>
<td>Participating share in the ECB’s net profit from previous year</td>
<td>599</td>
<td>4,196</td>
</tr>
<tr>
<td>Share on the ECB’s net equity</td>
<td>438</td>
<td>(438)</td>
</tr>
<tr>
<td>Dividends from BIS shares</td>
<td>695</td>
<td>1,040</td>
</tr>
<tr>
<td>15,575</td>
<td>19,224</td>
<td>(3,649)</td>
</tr>
</tbody>
</table>

27. Net result of pooling of monetary income

Monetary income in accordance with Article 32 (1) of the Statute and Decision ECB/2010/23 as amended represents the net annual income derived from the assets of the national central bank, held against its banknotes in circulation and deposit liabilities to credit institutions. Monetary income is the income accruing in the performance of the monetary policy function of the ESCB.

Monetary income is distributed to the NBS in proportion to its paid-up shares in the capital of the ECB at the end of each financial year (1.1039%).

Monetary income pooled by the NBS for 2014 into the common pool of monetary income of the Eurosystem amounted to EUR 64,684 thousand. The monetary income equivalent to the 1.1039% share of
the NBS amounted to EUR 108,803 thousand. The difference of EUR 45,119 thousand (EUR 50,381 thousand as at 31 December 2013) represents the net result of the pooling of monetary income. The additional net income of the NBS in the amount of EUR 1,953 thousand resulted from revisions of monetary income for the period 2009-2013.

28. Other income and other expenses

As at 31 December 2014, the most significant part of the Bank’s “Other Income” was mainly represented by extraordinary gain from issuance of Slovak coins of EUR 23,778 thousand (see Note 18), income from fees and contributions from financial market entities of EUR 4,203 thousand (EUR 4,027 thousand as at 31 December 2013), earned fees from participation in settlement systems of EUR 2,643 thousand (EUR 2,701 thousand as at 31 December 2013), and income from sale of commemorative coins and coins in circulation of EUR 1,269 thousand (EUR 1,749 thousand as at 31 December 2013).

As at 31 December 2014, the Bank’s “Other Expenses” mainly represented costs of the minting of general circulation and collector coins, including costs of related services, of EUR 2,409 thousand (EUR 2,776 thousand as at 31 December 2013).

29. Staff costs

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>22,237</td>
<td>22,340</td>
<td>103</td>
</tr>
<tr>
<td>Social security costs</td>
<td>8,364</td>
<td>8,153</td>
<td>211</td>
</tr>
<tr>
<td>Other employee costs</td>
<td>1,473</td>
<td>2,371</td>
<td>898</td>
</tr>
<tr>
<td>Total expenses</td>
<td>32,074</td>
<td>33,776</td>
<td>-1,702</td>
</tr>
</tbody>
</table>

As at 31 December 2014, the average FTE number of employees was 1,008 (1,005 as at 31 December 2013), of whom 97 were managers (93 as at 31 December 2013).

Wages and employee benefits of the Bank Board’s members for 2014 amounted to EUR 642 thousand (EUR 635 thousand in 2013). As at 31 December 2014 and 2013, the Bank recorded no outstanding loans to the members of the Bank Board.

The Bank has created a supplemental pension plan for its employees in cooperation with supplementary pension management companies. Contributions to the supplemental pension plans are recognized under “Other employee costs”.

30. Administrative expenses

As at 31 December 2014, this item mainly included the costs of complex assessments of three major credit institutions in the Slovak Republic by external audit firms that resulted from the Single Supervisory Mechanism in the Eurosystem, costs of technical support and IS maintenance, repairs and maintenance, energy consumption and telecommunications costs totaling EUR 13,861 thousand (EUR 9,397 thousand as at 31 December 2013).

Costs of audit and verification of the financial statements by the auditor amounted to EUR 71 thousand as at 31 December 2014 (EUR 71 thousand as at 31 December 2013). As at 31 December 2014, the Bank did not record any costs of assurance and audit services and tax consulting as per Article 18 (6) of the Act on Accounting.

31. Depreciation of tangible and intangible fixed assets

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>31 Dec 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation of tangible fixed assets</td>
<td>(5,504)</td>
<td>(6,630)</td>
<td>126</td>
</tr>
<tr>
<td>Depreciation of intangible fixed assets</td>
<td>(1,210)</td>
<td>(2,377)</td>
<td>1,167</td>
</tr>
<tr>
<td>Total</td>
<td>(6,714)</td>
<td>(9,007)</td>
<td>2,293</td>
</tr>
</tbody>
</table>

32. Banknote production services

As at 31 December 2014, the cost of printing euro banknotes amounted to EUR 6,255 thousand (EUR 3,585 thousand as at 31 December 2013).

33. Profit for the year

The overall financial result of the Bank as at 31 December 2014 was a profit of EUR 102,193 thousand (profit of EUR 489,846
D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 18 February 2015, the ECB Governing Council decided to distribute the ECB’s net profit for 2014 to individual central banks based on the key on the ECB’s paid-up capital. The NBS income of EUR 1,635 thousand from the distribution of profit is accounted for in the 2015 reporting period.

In connection with the entry of Lithuania into the Eurosystem, the Eurosystem keys of the national central banks were adjusted accordingly in line with Decision ECB/2014/61. As at 1 January 2015, the Eurosystem key of NBS was adjusted to 1.0974% (1.0399% until 31 December 2014). The Banknote Allocation Key was adjusted to 1.0095% (1.0185% until 31 December 2014).

On 12 January 2015, doc. Ing. Jozef Makúch, PhD. was reappointed for a second term as the Governor of Národná banka Slovenska by the President of the Slovak Republic. The Government of the Slovak Republic on 11 February 2015 appointed a member of the Bank Board prof. Luboš Pástor, PhD. with effect from 15 March 2015.

No significant events occurred subsequent to 31 December 2014 that would require any adjustments to the 2014 financial statements.

Bratislava, 10 March 2015

[Signatures]

doc. Ing. Jozef Makúch, PhD.  
Governor

Ing. Miroslav Uhrin  
Executive Director  
Division for Financial Management, Information Technology and Facility Services

Ing. Katarína Taragelová  
Director  
Financial Management Department

25
Appendix to the independent auditor’s report
on the consistency of annual report with audited financial statements
in accordance with Act No. 540/2007 Z.z. § 23 par. 5

To the Bank Board of the National Bank of Slovakia:

We have audited the financial statements of the National Bank of Slovakia (“the Bank”) as at 31 December 2014 presented in the annual report on pages 68 – 92. We issued the following audit report dated 10 March 2015 on the financial statements:

“Independent Auditors’ Report

To the Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia (‘the Bank’), which comprise the balance sheet as at 31 December 2014, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2010/20, as amended (‘the ECB Guideline’) and with Act No. 431/2002 Coll. on Accounting, as amended (‘the Act on Accounting’) and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank’s preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank Board of The National Bank of Slovakia, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2014 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

10 March 2015

Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.          Ing. Dalimil Draganovský
SKAU Licence No. 257                               SKAU Licence No. 893

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT
II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of the National Bank of Slovakia is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2014. We have not audited information that has not been derived from audited financial statements or Bank accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Bank as at 31 December 2014 and is in accordance with the Act No 565/1992 Coll. on the National Bank of Slovakia, as amended and special regulations valid for the Eurosystem.

28 April 2015
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dalimil Draganovsky
SKAU Licence No. 993

THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT
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ABBREVIATIONS

BCPB, a.s. Bratislava stock exchange “Burza cenných papierov v Bratislave, a. s.”
BIS Bank for International Settlement
CDCP Central securities depositary “Centrálny depozitár cenných papierov SR, a. s.”
EBA European Banking Authority
EC European Commission
ECB European Central Bank
ECOFIN Economic and Financial Affairs Council
EIOPA European Insurance and Occupational Pensions Authority
EONIA Euro OverNight Index Average
ESCB European System of Central Banks
ESMA European Securities and Markets Authority
ESRB European Systemic Risk Board
EU European Union
EUR euro/€
GDP Gross Domestic Product
HICP Harmonised Index of Consumer Prices
ISIN International Securities Identification Number
IMF International Monetary Fund
MF SR Ministry of Finance of the Slovak Republic
NAV net asset value
NBS Národná banka Slovenska
NCB national central bank
OECD Organisation for Economic Co-operation and Development
ORS A Own Risk and Solvency Assessment
p.a. per annum
PFMC pension fund management company
p.p. percentage point
SEPA Single Euro Payments Area
SKK Slovak koruna
SPMC supplementary pension management company
SR Slovak Republic
SRM Single Resolution Mechanism
SSM Single Supervisory Mechanism
SO SR Statistical Office of the Slovak Republic
TARGET2 Trans-European Automated Real-time Gross Settlement Express Transfer in Euro
UCITS undertakings for collective investment in transferable securities
USD United States dollar