



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



# ANNUAL REPORT 2016

Published by:  
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<http://www.nbs.sk>

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The cut-off date for the data included in this report was 23 March 2016.

ISBN 978-80-8043-222-5 (online)  
ISBN 978-80-8043-223-2 (epub)



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## FOREWORD

Several unexpected scenarios materialised in 2016. The surprising results of the United Kingdom's referendum on EU membership and of the presidential election in the United States had a profound impact on perceptions of future economic developments and on market uncertainty. As for the external economic environment, the tightening of monetary policy in the United States represented a major change. All these external factors are expected to have an indirect impact on the economic situation in Slovakia. Contrary to expectations, the country's economic growth was relatively satisfactory in 2016 and was accompanied by a further decline in consumer prices. Indeed, in contrast to previous concerns that joining the euro could push up domestic prices, Slovakia's headline inflation in 2016 was lower than the average inflation rate for both the euro area and the EU as a whole.

A new experience for Slovakia in 2016, and by extension for Národná banka Slovenska (NBS), was the country's assumption of the Presidency of the Council of the European Union. The central bank's involvement in the Presidency's agenda concerned mainly discussions on the completion of the EU's Banking Union and on the proposed Capital Markets Union. The high point of the Presidency from the view of NBS was September's informal meeting of EU finance ministers (ECOFIN) in Bratislava, which was preceded by a meeting of EU Member States' central bank governors and the President of the European Central Bank (ECB).

The external environment was not supportive to Slovakia's economic growth. Global GDP growth was weak, while euro area growth, affected by financial market uncertainty related to geopolitical developments, slowed to 1.7%. As in previous years, euro area GDP growth was driven largely by household consumption.

Slovakia's annual GDP growth also decelerated, to 3.3%, and was balanced between domestic and foreign demand. Domestic labour market conditions nevertheless remained favourable, with falling unemployment and rising real wages. The annual headline inflation rate became

less negative and then, in December, it turned slightly positive for the first time in three years. Nevertheless, the average price level for the year as a whole continued to fall.

In view of the risk of euro area inflation returning to negative territory and of European financial market conditions deteriorating, the ECB's Governing Council decided in March 2016 to cut the ECB's key interest rates to all-time lows and adopted further non-standard monetary policy measures. The main refinancing rate was reduced to zero, the marginal lending rate to 0.25%, and the deposit facility rate to -0.40%. In line with its forward-guidance policy, the ECB confirmed that the key rates would remain at present or lower levels well past the horizon of its asset purchase programme (APP). At the same time, within the remit of its non-standard measures, the ECB decided to expand the APP to include asset purchases under a new corporate sector purchase programme (CSPP) and decided to launch a new series of four targeted longer-term refinancing operations (TLTRO-II). The Governing Council made further adjustments to its unconventional tools in December 2016.

In response to the continuing sharp growth in lending and the consequent risks to financial stability, NBS adopted several regulatory measures to tighten lending to households. A number of legislative changes in other areas of financial market supervision were also implemented during 2016. With the aim of supporting financial literacy among the public, NBS organised a new event called *Financial Consumer Days*, which included a series of talks and practical exercises. The provision of information to financial consumers was also supported by the launch on the NBS website of a database of financial market participants on the NBS website. As the NBS's supervisory activities gradually expanded, so too did the share of its staff members employed in this area. The total number of NBS employees stood at 1,075 by the end of 2016.

Among the tasks that NBS performs exclusively are those related to the operation of payment systems and to currency circulation. Both the





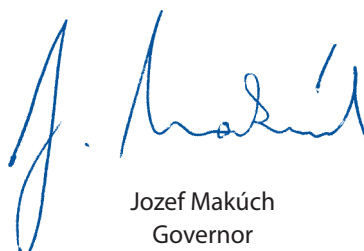
number and value of transactions processed in the Slovak Interbank Payment System were higher in 2016 than in the previous year. As for the TARGET2-SK payment system, the number of transactions increased, year on year, but their overall amount fell. The number of participants in each of these NBS-operated systems increased by one in 2016.

The cumulative net issuance of euro banknotes and coins in Slovakia – meaning the difference between the value of euro cash that NBS has put into circulation and withdrawn from circulation – stood at more than €11 billion by the end

of 2016. NBS was responsible for ensuring the production of a certain tranche of the new €50 banknotes, as well as of circulation euro coins in different denominations. In addition, NBS issued six precious-metal collector coins and a €2 commemorative coin featuring *The first Slovak Presidency of the Council of the European Union*.

Národná banka Slovenska reported a net profit of €147 million for 2016, the largest component being interest income on bonds. Under a decision of the NBS Bank Board, the entire 2016 profit was set off against losses from previous years.

March 2017



Jozef Makúch  
Governor



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

SECTION A

# ECONOMIC, MONETARY AND FINANCIAL DEVELOPMENTS

A





# 1 MACROECONOMIC DEVELOPMENTS

## 1.1 THE EXTERNAL ECONOMIC ENVIRONMENT

### 1.1.1 GLOBAL TRENDS IN OUTPUT AND PRICES

Global economic growth slowed to around 3.0% in 2016, which was down from 3.2% in the previous year and its lowest rate since 2009. Global growth therefore remained below the average rate of 4% recorded over the two decades before the Great Recession. The trends of accelerating GDP growth across advanced economies and decelerating growth across emerging market economies (EMEs) both came to an end in the period under review. While activity growth in the advanced world slowed significantly in 2016, EME growth rates were comparable to those in 2015.

The course of the world economy in 2016 was affected by several factors. These included China's structural slowdown and the gradual rebalancing of the Chinese economy. Thanks to an accommodative monetary policy stance, exchange rate depreciation and investment in state-owned firms, China stabilised its economic performance and achieved its target growth rate. Nevertheless, such steps to support activity indicate that China needs to do more in the adoption of structural reforms that would in future help make the economy more balanced. India's economy grew more moderately in 2016, but nevertheless benefited from buoyant confidence, progress in economic reforms, and robust investment. Furthermore, public sector wage growth and structural reforms in the area of goods and services taxation are expected to sustain activity growth at high levels via business investment. Commodity price developments also had an impact on the world economy in 2016. Most notable was the impact of rebounding oil prices on oil exporting economies. Although the Russian economy continued to contract, its recession was more moderate compared with the previous year, and the upward trend in oil prices bodes well for the economy going forward. In addition, falling inflation reduced the rate of decline in consumption. Monetary policy provided further support to the economy, as rates were lowered in response to the disinflationary trend. In Brazil, a combination

of political uncertainty, tight monetary policy and financial conditions, and planned fiscal consolidation measures weighed on the economy. The economy, still weakened by high unemployment, low levels of business and consumer confidence, and the effects of subdued commodity prices, again contracted. The world economy was also adversely affected by persisting geopolitical tensions in certain parts of the world.

Advanced economies contributed to the slowdown of the world economy in 2016, with growth rates sliding in almost all the major economies. In the United States, economic growth was dampened by the negative impact of energy sector investments as well as by the effects of past appreciation of the US dollar. At the same time, the savings households made during the period of low energy prices did not have a significant upward impact on household consumption. US economic growth was nevertheless starting to be supported towards the year-end by higher household spending and a pick-up in investment demand. The United Kingdom's economy grew more slowly in 2016 than in 2015 since, despite an acceleration in private consumption, investment and net trade dampened the growth rate. Although the financial market volatility that followed the UK's June referendum vote to leave the European Union was short-lived, the uncertainty surrounding the future setting of the country's relations with the EU heightened the downside risk to the global growth outlook. Euro area economic growth also slowed moderately in 2016. The Japanese economy, its growth increased by fiscal stimuli and an accommodative monetary policy stance, had a positive impact on global GDP growth. Another factor that affected the global economy was the divergence between monetary policy in the United States and other advanced countries. In December the Federal Reserve System's Federal Open Market Committee decided to raise the target range for the federal funds rate, in contrast to accommodative monetary policies still being followed by other central banks.

Global headline inflation accelerated in 2016, mainly because the rate of decline in energy prices moderated in response to energy com-



modity price movements. Food prices increased only marginally and their inflation rate was notably lower compared with the previous year. The average inflation rate across advanced economies increased to 0.7% in 2016, from 0.3% in 2015, although core inflation remained muted in an environment of weaker economic growth. Among EMEs, the average headline inflation rate slowed from 4.7% to 4.5% owing to the fading impact of past currency depreciations and to the impact of monetary policies.

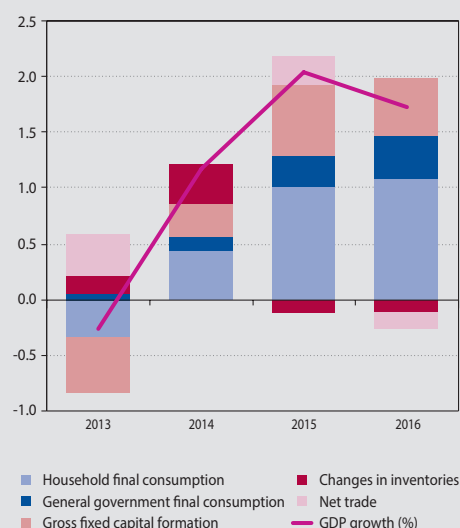
World commodity prices rebounded in 2016. Although global commodity price inflation remained negative for 2016 as a whole, its year-on-year rate during the course of the year became moderately less negative and eventually turned positive. Energy commodity prices had the main impact on the overall rate, due mainly to an increase in oil prices. The average oil price came under upward pressure on the supply side when OPEC and non-OPEC oil producers agreed to cut oil output. On the demand side, the oil price was affected by lower economic growth in China. Coal prices also climbed in 2016 in response to the China's industrial restructuring. As for non-energy commodities, prices of metals and agricultural commodities increased gradually due to falling supply and higher demand, as well as to the rise in oil prices.

## 1.1.2 THE EURO AREA

The euro area economy continued to grow in 2016, although its year-on-year expansion of 1.7% was slightly lower compared with 2015. That year's growth rate had been revised up to 2% on the basis of strong growth in Ireland. The largest contribution to last year's growth was made by private consumption, with smaller contributions from investment and government consumption. Private consumption and investment were buoyed significantly by the accommodative monetary policy stance and consequent easing of lending conditions. Export growth was lower in 2016 than in 2015, as was import growth, albeit to a lesser extent. Hence, net trade made a negative contribution to the euro area's annual GDP growth. The strengthening economy had a positive impact on the labour market, with the unemployment rate averaging 10.0 % in 2016, down from 10.9% in 2015.

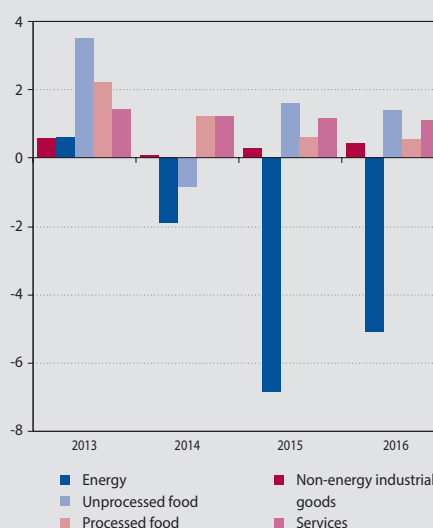
Average annual inflation as measured by the Harmonised Index of Consumer Prices (HICP) increased in 2016 by 0.2 percentage point, year on year, to 0.2%. The headline HICP inflation rate for December 2016 was 1.1%, up from a rate of 0.2% for the previous December. Inflation was in negative territory in the first three months of 2016 and increased only gradually over the second half of the year. Energy commodity price

**Chart 1 Euro area GDP and its composition (quarter-on-quarter percentage changes; percentage point contributions)**



Source: Eurostat.

**Chart 2 HICP components (annual percentage changes)**



Source: Eurostat.



movements had the greatest impact on HICP inflation during the year. They caused the annual rate of change in the energy component to become more negative, before this declining trend began to fade in the second half of the year. Food inflation accelerated towards the end of the year, while core inflation (HICP inflation excluding energy and unprocessed food) remained steady from April after previously increasing slightly. The average core inflation rate was the same in 2016 as in the previous year, at 0.8%.

The euro's exchange rate against the US dollar was weaker at the end of 2016 than at the start of the year, by around 3%. Its initial strengthening tendency gave way, from June, to a broadly stable phase and then, in the last quarter, to notable depreciation. This pattern reflected different cyclical positions and monetary policy stances in major world economies, geopolitical developments, and outlooks for economic growth and inflation in the euro area.

## 1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia's GDP at constant prices increased in 2016 by 3.3%, year on year, after increasing by 3.8% in 2015. The slowdown reflected a drop in domestic demand, particularly in investment. On the other hand, household consumption and net trade contributed positively to GDP growth, even more so than they did in 2015.

The labour market situation remained favourable in 2016. Employment as defined in the ESA 2010 grew in 2016 by 2.4%, year on year, due largely to job growth in the sectors of services and business activities. The average unemployment rate fell from 11.5% in 2015 to 9.7% in 2016. The average monthly nominal wage increased in 2016, as did its year-on-year rate of change. Wages grew in all sectors apart from information and telecommunication technologies.

In the balance of payments, the current account showed a deficit €0.6 billion (after a surplus of €0.2 billion in 2015). The deficit was caused largely by a widening of the deficit in the primary income balance, as well as by a drop in the absorption of EU funds.

The average annual inflation rate was more negative in 2016, at -0.5%, than in 2015 (-0.3%). Headline inflation was strongly affected by the impact of external factors in the form of commodity price shocks.

### 1.2.1 PRICE DEVELOPMENTS

The average annual HICP inflation rate edged further into negative territory in 2016 to stand at -0.5% (the rate for 2015 was -0.3%). This difference between the average year-on-year rates for 2016 and 2015 was caused mainly by external factors (food prices) and to a lesser extent by a slight slowdown in non-energy industrial goods inflation.

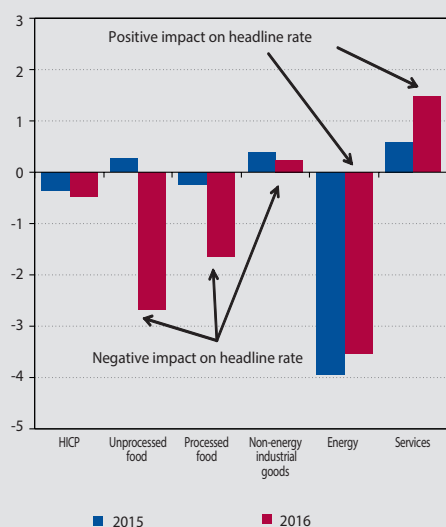
In the first half of 2016 processed food prices were falling, particularly due to falling agricultural commodity prices. Another factor that weighed on headline HICP inflation, through the food component, was the January 2016 reduction in VAT on selected food products.

Oil prices remained very low in 2016 despite rebounding somewhat near the year-end. The average price of automotive fuel fell by almost 7% in 2016. Falling oil prices were one of the causes of the persisting low inflation environment not only in Slovakia, but also in other euro area countries. Low wholesale gas prices in Europe in 2015 and 2016 resulted in reductions in Slovak consumer gas prices in January and July 2016. Electricity prices were also cut at the beginning of the year in response to falling energy commodity prices. Energy prices in 2016 therefore fell by an average of 3.5%, year on year.

Weak imported inflation helped ensure a low rate of non-energy industrial goods inflation (0.2%). Prices of these goods may also have reflected the impact of structural changes in the Slovak retail trade market (technological advances in global production processes and logistics, rapid development of new sales channels).

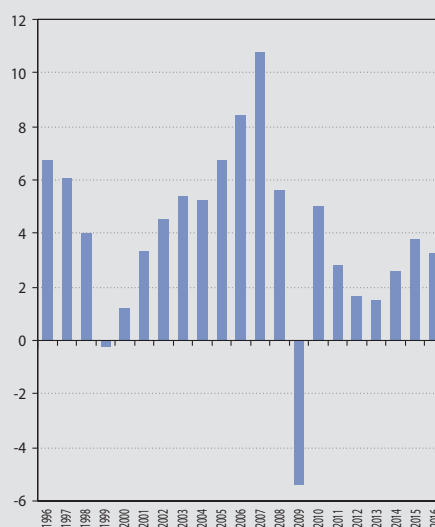
The average rate of annual services inflation was slightly higher in 2016 than in 2015, at 1.5%. This increase reflected the fading impact of train fare reductions and increases in prices of restaurant, personal care, and financial services. Despite favourable trends in the labour market and in household final consumption, services inflation excluding administered prices

**Chart 3 The HICP and its components (annual percentage changes)**



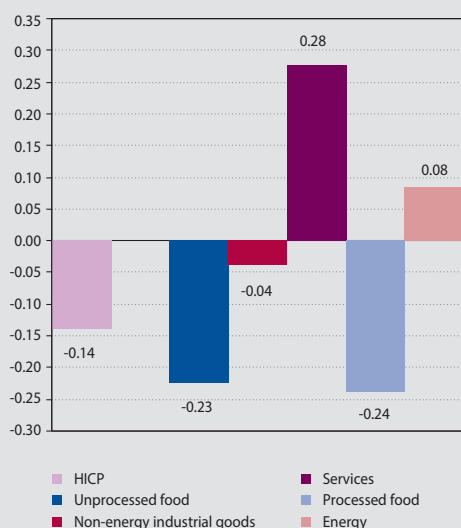
Sources: SO SR and NBS calculations.

**Chart 5 Real GDP (annual percentage changes)**



Source: SO SR.

**Chart 4 Contributions of components to the difference between the average HICP inflation rates for 2016 and 2015 (percentage point contributions)**



Sources: SO SR and NBS calculations.

was notably subdued throughout the year owing to the pass-through of declines in food and energy prices.

### 1.2.2 GROSS DOMESTIC PRODUCT

Slovakia's GDP at constant prices increased in 2016 by 3.3%, year on year, after increasing by

3.8% in 2015. The slowdown stemmed mainly from a drop in domestic demand, particularly in investment. Nominal GDP for the year amounted to €81 billion, which was 2.9% higher compared with 2015. The nominal growth was lower than the real growth owing to a decline in the general price level, as measured by the GDP deflator. The GDP deflator fell by 0.4% year-on-year (after falling by 0.2% in both 2015 and 2014) owing to the downward paths of consumer, producer, import and export prices.

#### GDP – THE EXPENDITURE SIDE

Domestic demand fell by 0.4% in 2016, after growing by 6.1% in the previous year. The decline was attributable to lower investment, which reflected an appreciable drop in the absorption of EU funds. Public investment declined more than other areas of investment (by 44%), owing mainly to a drop in investment in other structures. By contrast, household consumption continued to grow and at an even faster pace compared with 2015. Net trade contributed positively to annual GDP growth, as growth in exports of goods and services (4.8% year-on-year) outperformed import growth (2.9%). In the previous two years net trade had made a negative contribution.

Looking at the components of domestic demand, household consumption showed relatively strong growth, which was caused by an

**Table 1 GDP on the expenditure approach (index: same period a year earlier = 100; constant prices)**

	2015	2016				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Gross domestic product	103.8	103.4	103.8	103.0	103.0	103.3
Final consumption of households and non-profit institutions serving households	102.2	102.6	103.1	102.5	103.2	102.9
Final consumption of general government	105.4	103.6	102.5	102.1	99.0	101.6
Gross fixed capital formation	116.9	101.8	98.9	83.0	85.0	90.7
Exports of goods and services	107.0	100.3	107.8	104.5	106.3	104.8
Imports of goods and services	108.1	100.3	105.9	100.8	104.5	102.9

Source: SO SR.

acceleration in household disposable income. That income growth stemmed from the ongoing improvement in the labour market situation and the decline in inflation. Thus households were able to increase their spending on other, non-essential goods and services (such as recreation, culture, home furnishings). Government consumption grew more slowly than private consumption, and its growth of 1.6% was largely attributable to compensation of employees.

Export performance was responsive to demand trends in Slovakia's trading partners, with export growth accelerating gradually over 2016 and its average annual growth rate for the year standing at 4.8%. In sectoral terms, export growth was strongest in the car industry, while in terms of geographical destinations, exports to EU markets increased the most.

Export performance as measured by the exports-to-GDP ratio increased, year on year, by 0.3 percentage point to around 94%. At the same time, import intensity fell by 1.1 percentage point. As for the openness of the Slovak economy, measured by goods and services exports and imports as a percentage of GDP, it fell by 0.7 percentage point, to 183.9%.

### 1.2.3 THE LABOUR MARKET

The long-running improving trend in the labour market continued in 2016, as a corollary of economic growth. Average nominal wage growth was attributable to the still rising demand for labour and increasing labour force shortages. The unemployment rate fell steadily, and by the year-end it was down to single digits and close to its historical low.

### EMPLOYMENT

Employment as defined in the ESA 2010 grew in 2016 by 2.4%, year on year, after increasing by 2.0% in 2015. The number of hours worked also rose, by 1.6% (1.7 % in 2015). The sectors accounting for most of the employment growth were services and business activities. The job growth in construction was also worth noting, given that the sector had contributed negatively to the overall rate since 2010. Public sector employment<sup>1</sup> grew by 1.8% (after increasing by 1.3% in 2015), based mainly on job growth in the health care and, to a lesser extent, administration sectors. According to the Labour Force Survey, the number of Slovak citizens working abroad in 2016 rose by 7.9% (11,700 people) on a year-on-year basis, after increasing by 10.5% (14,000 people) in 2015.

### UNEMPLOYMENT

The number of unemployed as measured by the Labour Force Survey fell, year on year, by 15.4% (more than 48,000) and the unemployment rate decreased by 1.8 percentage point, to 9.7%. The average registered unemployment rate, based on labour office data, fell by two percentage points in 2016, to 9.5%. The difference between the increase in employment and decrease in unemployment in terms of number of people was 68,000 (according to the Labour Force Survey, which includes Slovak citizens employed abroad and people on labour activation schemes, but does not fully cover the increase of around 8,000 in the number of foreigners working in Slovakia). That employment growth exceeded the decline in unemployment was due not only to the increased employment of foreign nationals, but also to a rising labour force participation

<sup>1</sup> Including also the health and education sectors.

**Table 2 Labour market indicators**

	2015	2016				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wages (index)	102.9	103.3	102.7	103.3	103.6	103.3
Real wages (index)	103.2	103.8	103.4	104.0	103.7	103.8
Nominal compensation per employee – ESA 2010 (index)	103.1	102.2	101.4	100.8	102.5	101.8
Labour productivity – GDP per employee (index; current prices)	101.6	100.7	101.1	99.9	100.3	100.5
Labour productivity – GDP per employee (index; constant prices)	101.8	101.1	101.5	100.5	100.4	100.9
Employment – ESA 2010 (index)	102.0	102.2	102.3	102.4	102.6	102.4
Unemployment rate – LFS <sup>1)</sup> (%)	11.5	10.4	9.6	9.5	9.1	9.7
Nominal unit labour costs (ULCs) <sup>2)</sup>	101.3	101.0	99.9	100.3	102.1	100.9

Sources: SO SR and NBS calculations.

1) Labour Force Survey.

2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 2010) at constant prices.

rate. The number of people entering the labour market (employment) after being economically inactive was higher than the number leaving the labour force (for example, to retire). The labour force participation rate for the age group 15-64 increased by one percentage point in 2016, to 71.9%.

#### WAGES AND LABOUR PRODUCTIVITY

The average monthly nominal wage in 2016 increased to €912, and its annual growth rate accelerated to 3.3% (from 2.9% in 2015). Wage growth was strengthened by the labour market situation, as labour shortages started being perceived in several sectors and led to wage competition among employers. All sectors reported nominal wage growth in 2016 with the exception of information and telecommunication technologies (-0.7%). Wage growth was highest in agriculture (7.2%), and also robust in mining and quarrying (6.9%), public administration (6.6%), human health services (5.8%), and electricity, gas and steam supply (6.2%). Among the principal sector groupings, industry and services experienced a moderate increase in wage growth. As for the rate of change in real wages, the situation was the same as in 2015, as a year-on-year drop in the overall price level resulted in real wage growth exceeding nominal wage growth. Labour productivity (GDP per employee) increased moderately in 2016, while nominal labour productivity growth continued to trail nominal wage growth.

Such a situation could support price growth in the near term, but if it persisted for a longer time and spread to export-oriented industries, could weigh on the economy's competitiveness.

#### 1.2.4 FINANCIAL RESULTS

The aggregate profit of non-financial and financial corporations in Slovakia increased in 2016 by 7.3%, year on year, to €12,486.53 million (after increasing by 13.6% in 2015), according to the SO SR's preliminary data. Financial corporations contributed positively to the growth as their overall profit increased by 56.3%. Companies classified as other financial intermediaries reported the strongest profit growth, while banks excluding NBS increased their total profit by 15.3% (their profit in 2015 grew by 13.5%). The aggregate profit of non-financial corporations (NFCs) increased by 1.1% (after soaring by 21.6% in 2015).

In absolute terms, the profit of the NFC sector increased by €117.4 million, year on year, to €10,442.9 million. The sectors that accounted for most of the NFC sector's profit growth were real estate activities on a fee or contract basis, and the manufacture of basic metals and fabricated metal products. By contrast, profits fell in agriculture and in the supply of water, electricity, gas and steam.

Also as a result of certain extraordinary effects, the total profit of the financial sector (excluding



NBS) increased in 2016 by €577.5 million, year on year, to €1,878.55 million.

### 1.2.5 BALANCE OF PAYMENTS

#### CURRENT ACCOUNT

In Slovakia's balance of payments for 2016, the current account showed a deficit of €0.6 billion, after a modest surplus in 2015. This deterioration was caused largely by a widening of the deficit in the primary income balance, which reflected a drop in the absorption of EU funds. The ratio of the current account balance to GDP (at current prices) therefore worsened by 0.9 percentage point, to stand at a deficit of 0.7%.

As in the previous year, the car industry had a positive impact on overall export growth. Other sectors that notably supported export growth were metal processing and the supply of gas and electricity. Import growth slowed more, year on year, than export growth, owing to the fading of the impact of higher investment imports that had been supported by the absorption of EU funds. Hence, export growth (3.3%) was higher than import growth (3.0%), resulting in a year-on-year improvement in the trade balance.

The services balance surplus was higher in 2016 than in 2015. The improvement was based on

**Table 3 The current account and capital account balances (EUR billions)**

	2015	2016
Goods	2.1	2.4
Exports	66.1	68.3
Imports	64.0	65.9
Services	0.1	0.3
Primary income balance	-0.9	-2.1
Secondary income balance	-1.1	-1.2
<b>Current account</b>	<b>0.2</b>	<b>-0.6</b>
Current account to GDP ratio (%)	0.2	-0.7
<b>Capital account</b>	<b>2.8</b>	<b>1.6</b>

Sources: SO SR and NBS.

an increase in the *travel and transportation* item, which reflected growth in the number of foreign tourists visiting Slovakia (partly related to concerns about the safety of other destinations). As a result of the lower absorption of EU funds, the deficit in the primary income balance increased.

The capital account in 2016 followed a similar course to the current account. The capital account surplus contracted sharply, year on year, owing mainly to the fact that several major infrastructure projects reached completion at the end of 2015.

#### FINANCIAL ACCOUNT

The balance of payments financial account recorded a net inflow of €0.2 billion in 2016, which compared with 2015 represented an increase of €1.0 billion.

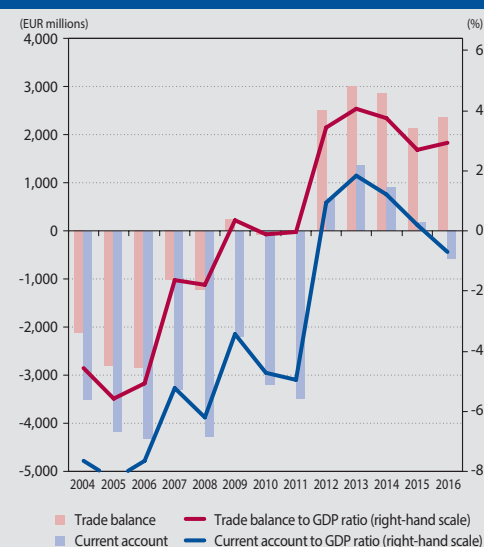
**Table 4 The financial account balance (EUR billions)**

	2015	2016
Direct investment	0.0	0.2
Portfolio investment and financial derivatives	2.1	3.5
Other investment	-1.5	-3.9
Reserve assets	0.2	0.0
<b>Financial account</b>	<b>0.8</b>	<b>-0.2</b>

Sources: NBS.

Note: The figures for the financial account balances are shown in net terms (assets minus liabilities), with a positive value denoting a net outflow and a negative value denoting a net inflow.

**Chart 6 Current account balance and trade balance**



Sources: SO SR and NBS calculations.



In the direct investment balance of the financial account, the net outflow was caused by the outflow of debt capital arising from the activity of economic agents (i.e. the amount of loans provided exceeded the amount of loans received). This outflow exceeded the inflow of funds in the form of non-residents' investments in equity participations. The outflow in the portfolio investment balance was largely attributable to the implementation of NBS's investment policies. The inflow in the other investment balance reflected mainly an increase in the amount of funds deposited with NBS.

#### EXTERNAL DEBT OF SLOVAKIA

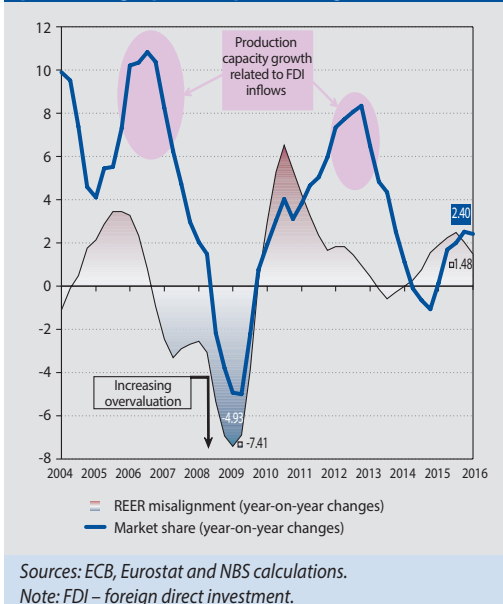
The balance of payments transactions in 2016 resulted in Slovakia's external debt increasing to €73.8 billion as at 31 December 2016, up from €67.2 billion as at the end of 2015. According to preliminary figures, the ratio of Slovakia's total gross external debt to GDP at current prices was 93.1% as at 31 December 2016, which was 7.0 percentage point higher compared with the end of 2015 (86.1%). The ratio of total short-term external debt to total gross external debt as at the end of December 2016 was higher, year-on-year, by 6.6 percentage points, at 38.8%. Debt per capita amounted to €13,605 as at the end of 2016, an increase of €1,207 on its level a year earlier.

#### NOMINAL AND REAL EFFECTIVE EXCHANGE RATES<sup>2</sup>

The nominal effective exchange rate (NEER) appreciated in 2016 by an average of 1.5%, year on year, after depreciating by 1.9% in the previous year. Appreciation vis-à-vis the pound sterling – following the UK's vote to leave the EU – made the largest contribution (0.6 percentage point) to the NEER's increase. Appreciation against the Chinese yuan and Polish zloty also had a positive impact (0.4 percentage point in each case). The main downward pressure on the NEER came from depreciation vis-à-vis the Czech koruna, with a negative contribution of 0.1 percentage point.

The year-on-year depreciation of the real effective exchange rate (REER) based on the producer price index-manufacturing averaged 0.6% in

**Chart 7 Year-on-year changes in the misalignment of REER based on PPI-manufacturing and in market share (centred five-quarter moving average; percentage points; percentages)**



2016, which compared with its depreciation in 2015 was more moderate by 1.8 percentage points. The REER's weakening resulted from the negative inflation differential against Slovakia's most important trading partners. The largest negative inflation differentials were with Russia (-8.5 percentage points), Poland (-3.8 percentage points), the United Kingdom (-3.5 percentage points) and Germany (-2.7 percentage points). After taking into account trading partners' weights in the REER, the negative inflation differentials that contributed the most to the REER's depreciation were those with Germany (-0.8 percentage point) and Poland (-0.3 percentage point). Since the REER's estimated equilibrium path continues to appreciate – due largely to equilibrium labour productivity growth being higher in Slovakia than in the trading partners – the REER's depreciation increased its undervaluation. A more undervalued REER continued to support the price competitiveness of domestic firms, which may have contributed to the pick-up in the share of Slovak exports in world trade.

<sup>2</sup> The methodology used to calculate the effective exchange rate is published on the NBS website at [http://www.nbs.sk/\\_img/Documents/\\_Statistika/VybrMakroUkaz/EER/NEER\\_REER\\_Methodology.pdf](http://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Methodology.pdf)





## 2 EUROSYSTEM MONETARY POLICY

### MONETARY POLICY IS UNDERPINNING EUROSYSTEM STABILITY

The ECB's monetary policy, set by the bank's Governing Council, is implemented in a decentralised manner through the monetary policy operational framework as defined in the General Documentation on Eurosystem monetary policy and instruments. In the period before the financial crisis, monetary policy was implemented solely through standard instruments, namely open market operations, standing facilities, and minimum reserve requirements. Since the start of the financial crisis in 2007 and its subsequent escalation into an economic crisis, the Governing Council has deployed a variety of what are known as non-standard or unconventional monetary policy measures. The implementation of such measures has significantly altered the Eurosystem's monetary policy operational framework. The ECB has also adjusted its communication strategy to include forward guidance about interest rate policy.

In its monetary policy decisions addressing deflationary risks, the ECB had to take into account new policy transmission channels, since the standard transmission mechanism – the steering of short-term interest rates – had ceased to be effective. The reduction of key ECB interest rates to historically low, even negative, levels and the unlimited provision of liquidity through monetary policy operations had failed to have an impact on market interest rates and lending activity, thus illustrating the malfunctioning of the standard policy transmission mechanism and the need for new policy instruments.

To support the economy in an environment of unprecedentedly low interest rates, the ECB introduced targeted longer-term refinancing operations (TLTROs) and an asset purchase programme (APP), and it began providing forward guidance about the specific timing of future monetary policy measures. Forward guidance helped stabilise market expectations about key interest rates and excess liquidity, which had a sizeable upward impact on in-

flation expectations, which are important for price stability<sup>3</sup>.

### MONETARY POLICY DECISIONS IN 2016

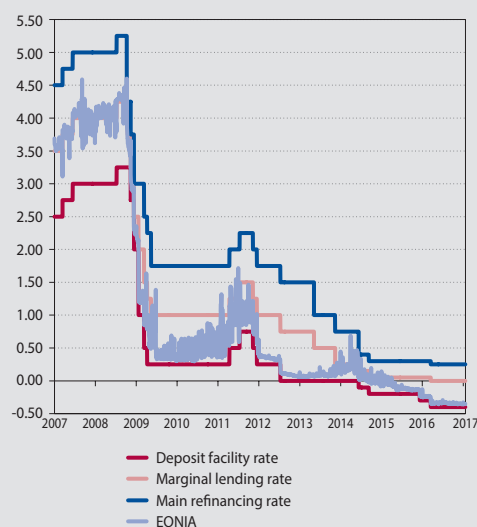
As the prospect of inflation returning to the ECB's target rate deteriorated in 2016 owing mainly to external factors, further monetary policy interventions became necessary. In January 2016 the Governing Council reaffirmed its expectation that the key ECB interest rates would remain at present or lower levels for an extended period of time, and well past the horizon of the ECB's asset purchase programme.

The risk of inflation falling back into negative territory was substantial, due to external factors in conjunction with deteriorating conditions in European financial markets. In March 2016 the ECB conducted a thorough review of its monetary policy stance and, as a result, adopted a set of measures in the pursuit of its price stability objective, as follows: (i) the key rates were reduced to historically low levels, with the deposit facility rate cut to -0.40%, the main refinancing rate to 0.00%, and the marginal lending rate to 0.25%; (ii) monthly purchases under the asset purchase programme were expanded to €80 billion starting in April 2016, and the issuer and issue share limits for the purchases of certain securities were increased; (iii) a corporate sector purchase programme (CSPP) for the purchase of corporate securities was added to the asset purchase programme; (iv) a new series of targeted longer-term refinancing operations (TLTRO-II) was announced; and (v) there was a reaffirmation of the forward guidance that the key rates were expected to remain at present or lower levels for an extended period of time, and, if necessary, well past the March 2017 horizon of the APP.

The new series of targeted longer-term refinancing operations are focused on banks that are actively engaged in lending, and may be seen as a central bank intervention in support of lending to the real economy. Each of the four new operations has a four-year maturity. The first operation was conducted in June 2016 and the last is scheduled for March 2017. At

<sup>3</sup> For further details, see the article entitled "Identifying quantitative easing transmission channels and quantifying their parameters", published in the NBS journal *Biatec*, issue no 2/2016.

**Chart 8 Key ECB interest rates and the EONIA (percentages per annum)**



Source: Bloomberg.

the same time, banks borrowing under TLTRO-I have the option of voluntary repayment to increase cheaper borrowing under TLTRO-II. The interest rate applied to TLTRO-II is fixed for each operation at the rate applied in the main refinancing operations (MROs) prevailing at the time of allotment. A lower interest rate is applied, however, to borrowers whose net lending exceeds a specified benchmark, and it can be as low as the rate on the deposit facility at the time of allotment (the deposit facility rate was negative, at -0.40%, when this measure was announced).<sup>4</sup>

At its December 2016 meeting, the Governing Council decided to adjust its monetary policy settings by: (i) extending the horizon for purchases under the APP to December 2017; (ii) reducing the amount of monthly purchases to €60 billion from April 2017 to December 2017; and (iii) adjusting the parameters of the APP as of January 2017, by decreasing the minimum remaining maturity for eligible securities from two years to one year, and by permitting to the extent necessary purchases of securities with a yield below the deposit facility rate. The ECB reiterated its forward guidance about key interest rates and noted that the APP parameters would be revised if the economic outlook became less favourable.

#### LIQUIDITY PROVIDED TO THE BANKING SECTOR THROUGH MONETARY POLICY OPERATIONS AND PURCHASE PROGRAMMES

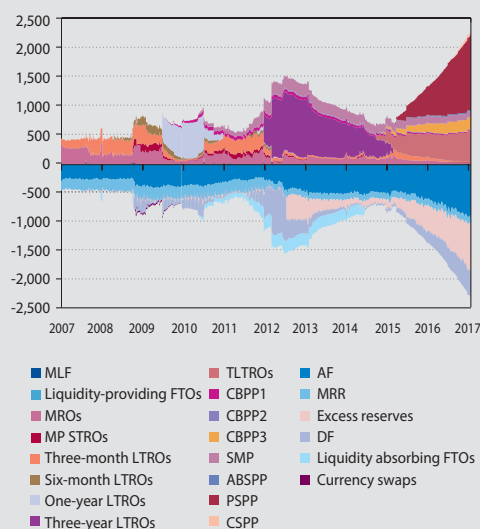
The ECB's purchase programmes had a significant upward impact on the European banking sector's liquidity position in 2016, which reached a historical high of (€2.3 billion). Owing to the predominance of the purchase programmes, the share of MROs in the ECB's overall liquidity provision to banks has fallen from more than 70% in the pre-crisis period, to 2% by the end of 2016. On the other hand, the take-up of TLTRO funding under eventually favourable interest rate terms has increased notably, to 25% of banks' liquidity position or 94% of the total amount of ECB's open market operations. Three out of the four planned TLTRO-II operations were conducted in 2016. Banks' increased demand for longer-term funding reflected to some extent the impact of new regulatory requirements.

The liquidity provided to the banking sector under the APP has been considerable, especially since the programme was expanded in March 2015 to include purchases of public sector securities. The APP now encompasses purchases of a wide range of private and public sector securities under its four sub-programmes: the public sector purchase programme (PSPP), the asset-backed securities purchase programme (ABSPP), the third covered bond purchase programme (CBPP3) and the corporate sector purchase programme (CSPP). The flexibility provided within the APP allowed the combined average monthly purchases to be kept in line with the target, i.e. €60 billion per month from March 2015 to March 2016 and €80 billion for the rest of the year. The purchases were, however, somewhat lower in August and December, months usually characterised by lower market liquidity. The total amount of securities purchased under the expanded APP was €1.5 trillion at the end of 2016 and PSPP purchases accounted for €1.1 trillion of that amount.

With euro area banks reporting excess liquidity and the ECB acting as the almost exclusive provider of liquidity, interbank money market activity was very low in 2016. Commercial banks placed some of their surplus funds into the deposit facility, the average recourse to which has soared, from e.g. €171 million in 2006, to €326 billion in 2016. The amount of autonomous fac-

<sup>4</sup> A negative interest rate on a refinancing operation means that if the bank borrows, for example, €100 at a rate of -0.40% per annum, the total amount it repays will be €99.6.

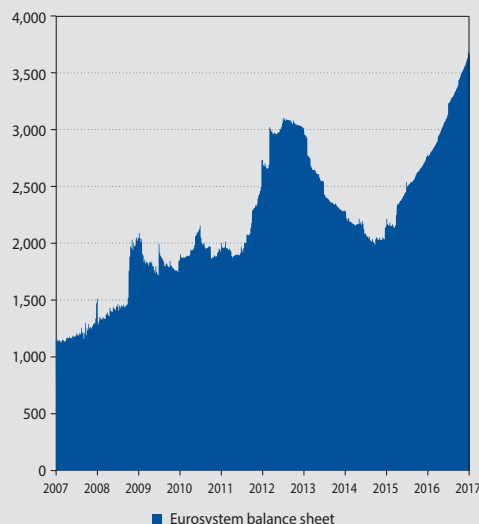
**Chart 9 Liquidity position of the Eurosystem (EUR billions)**



Sources: ECB, Bloomberg and NBS calculations.

Note: MLF – marginal lending facility; FTO – fine-tuning operation; MRO – main refinancing operation; MP STROs – special-term refinancing operation with a maturity of one maintenance period; LTRO – longer-term refinancing operation; TLTRO – targeted longer-term refinancing operation; CBPP – covered bond purchase programme; SMP – Securities Markets Programme; ABSPP – asset-backed securities purchase programme; PSPP – public sector purchase programme; CSPP – corporate sector purchase programme; AF – autonomous factors; MRR – minimum reserve requirement; DF – deposit facility.

**Chart 10 Total assets of the Eurosystem (EUR billions)**



Sources: Bloomberg and NBS calculations.

tors has also increased significantly, the largest such factor being government funds held with central banks.

#### IMPACT OF MONETARY POLICY OPERATIONS ON THE EUROSYSTEM BALANCE SHEET

Since the crisis started in 2007, the ECB has been expanding the Eurosystem balance sheet and

started using it to support monetary policy implementation. The balance sheet has been used to perform a variety of monetary policy interventions, with the extension in particular of balance-sheet tools on the asset side. Owing to the implementation of non-standard monetary policy measures, the total assets on the Eurosystem balance sheet increased from €1 trillion in 2007 to a historical high of €3.7 trillion in 2016. Monetary policy instruments increased to 60% of the assets side of the balance sheet at the end of 2016, while the size of the other financial assets remained relatively stable. On the liabilities side, counterparties' surplus reserve holdings increased significantly, by €1 trillion, and represented 35% of total liabilities at the end of 2016.

## 3 FINANCIAL MARKET DEVELOPMENTS<sup>5</sup>

The euro area economy showed relatively strong resilience in 2016, with quarter-on-quarter GDP growth accelerating moderately in the second half of the year, despite headwinds such as the United Kingdom's vote to leave the EU, banking sector stress, and geopolitical events. Household consumption remained the mainstay of growth. Financial markets experienced bouts of highly

elevated volatility and uncertainty, interspersed with periods of relative calm. From autumn 2016, however, the markets experienced a return of optimism grounded on improving macroeconomic conditions, the inflation rate's turnaround from a downward trend, and expectations for growth-friendly policies in the United States. Perceptions of risk related to the banking sector

<sup>5</sup> The text on financial market developments in 2016 uses preliminary data as at 31 December 2016, where available. For the insurance sector, the only data available were older, as at 30 September 2016.

became stronger in 2016. Additional, ongoing risks to financial stability in the euro area include increasing risk aversion in financial markets, concerns about the sustainability of public finances, and the rising importance of the shadow banking sector. Uncertainty about the future situation mounted towards the year-end, in response to the commencement of the new US administration and heightening of political risk.

Favourable labour market developments, together with real wage growth, had a positive impact on household consumption. The domestic economy's upswing supported household and business sentiment, as was evident from the increasing credit demand among both households and firms.

The Slovak banking sector made an aggregate profit of €750 million for 2016, which was 20% higher than its profit for 2015. The sector faced several adverse trends that weighed on its profitability, and the final result was only achieved by virtue of an exceptional one-off factor (a sale of shares in the company VISA Europe). The most significant adverse factor was a further decline in interest income, and that trend is expected to continue in the next period. Hence, in the cur-

rent low interest rate environment, banks will find it increasingly difficult to maintain adequate profitability. The sector's aggregate total capital ratio increased to 18.0%. On the other hand, the measure of the level of the highest quality capital – the common equity Tier 1 ratio – fell from 16.0% to 15.7%. The leverage ratio fell slightly in 2016, to 8.1%.

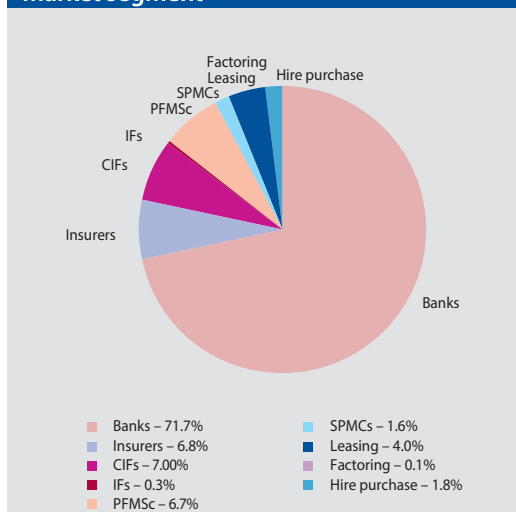
As regards lending activity, lending to households continued to show significant growth. The stock of retail loans maintained stable year-on-year growth of between 12% and 13%, which was among the highest in the European Union. Demand was stoked mainly by strong inter-bank competition, which was further heightened by the introduction of a statutory cap on early repayment fees for housing loans. Falling interest rates and margins on new loans also contributed substantially to the strengthening of demand for retail loans. In response to these trends, NBS issued Decree No 10/2016 laying down detailed provisions on the assessment of borrowers' ability to repay housing loans, which entered into force on 1 January 2017. This decree implements into law principles contained in NBS Recommendation No 1/2014.

Lending to non-financial corporations (NFCs) was relatively stable during 2016, with the annual growth rate in the stock of NFC loans slowing slightly to 5.3% but still remaining well above the EU average. Demand for loans was supported by robust macroeconomic trends that resulted in significant business expansion, particularly in the private sector. The improving situation in the corporate sector was also evident from the growth in loans to small and medium-sized enterprises and the growth in loans with a maturity of over five years, which are predominantly used for investment purposes. Lending conditions and credit standards eased slightly in 2016, mainly in the first half of the year.

In response to prolonged growth in lending to both the household and NFC sectors, the NBS Bank Board, under a decision issued on 26 July 2016, set a non-zero countercyclical capital buffer (CCB) rate of 0.5% with effect from 1 August 2017.

Banks' investments in securities maintained their downward trend in 2016. The share of do-

**Chart 11 Financial sector assets as at 31 December 2016 – broken down by market segment**



Source: NBS.

Note: CIFs – collective investment funds; IFs – investment firms; PFMSc – pension fund management companies; SPMCs – supplementary pension management companies. The data for insurance undertakings are as at September 2016, the most recent available.



mestic government bonds in the banking sector's total assets was the fourth highest in the EU, down from its previous ranking. At the same time, banks' increased their investments in bank bonds and foreign government bonds, although these continued to constitute only a small share of the aggregate securities portfolio.

With credit risk still the most significant risk in the Slovak banking sector, the fall in the non-performing loan (NPL) ratio in 2016 was a favourable development. The NPL ratio for household loans edged down from 3.9% to 3.7%, but whereas the ratio for housing loans fell, the ratio for consumer loans increased. The quality of the aggregate NFC loan book also improved, with the NPL ratio falling from 7.3% at the end of 2015 to 6.5% at the end of 2016, which was significantly lower than the post-crisis average.

Total profits in the insurance sector climbed by 64%, although that growth was largely caused by one-off effects. Adjusting for these effects, the year-on-year profit growth was a more modest 21% and most of that was attributable to a single undertaking. The overall profit of the other undertakings fell by 10%. The sector's profit growth reflected improvements in the technical result of both non-life insurance and life insurance. The insurance sector successfully managed the transition to the Solvency II regime, effective from the beginning of 2016. All insurance undertakings comfortably met the solvency capital requirement and minimum capital requirement. Among the principal risks to the insurance sector were the persisting low interest rate environment and competition for compulsory motor insurance business.

In the second pillar of the pension system, operated by pension fund management companies (PFMCs), the net asset value of pension funds increased in 2016 to an all-time high of €6.94 billion and the number of savers also reach a record level. Looking at the aggregate assets of bond pension funds, the share of securities increased at the expense of bank deposits, and there was also a slight increase in the duration of the securities component. The growth profile of equity pension funds was accentuated in 2016,

as the share of equities in their total assets continued to rise. As for the breakdown of pension funds' assets by origin of counterparty, the share of Slovak counterparties decreased, mainly due to a falling share of domestic bank deposits. Index funds recorded the highest average annual nominal return in 2016, at 9%, ahead of equity funds (7.5%), mixed funds (5%) and bond funds (1.8%).

In the third pillar of the pension system, the net asset value of supplementary pension funds (SPFs) – managed by supplementary pension management companies (SPMCs) – increased in 2016 by a historically high 7%, year on year. The composition of SPFs' assets underwent further changes in 2016. Among SPFs with a growth-focused investment strategy, the equity and bond components of their assets increased at the expense of bank deposits. Balanced SPFs also saw the equity share of their assets increase, while conservative and distribution SPFs registered rising shares of bank deposits. The average nominal return on assets in 2016 was 4.7% for growth SPFs, 2.6% for balanced SPFs, 0.8% for conservative SPFs and 0.1% for distribution SPFs.

In the investment fund sector, the net value of assets under management increased more slowly than in previous years, by 3% or €341 million. Domestic investment funds accounted for €189 million of that increase, and foreign investment funds for €152. For domestic funds, 2016 was a weaker year, while for foreign funds it was third most successful since 2007. In contrast to the trend in previous years, the nominal return on assets accounted for most of the increase in net asset value, and net sales for less than half. Fund redemptions by financial institutions had a negative impact on the net asset value of investment funds at the beginning of the year. The main factor thereafter was the inflow of investment from households. Among domestic funds, the two biggest-selling types of fund were real estate funds and mixed funds, while among foreign funds they were equity funds and bond funds. The average annual nominal return on domestic and foreign funds in total was 2.7% in 2016.





NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

SECTION B

# NBS ACTIVITIES

B



# 1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

## 1.1 MINIMUM RESERVE REQUIREMENTS

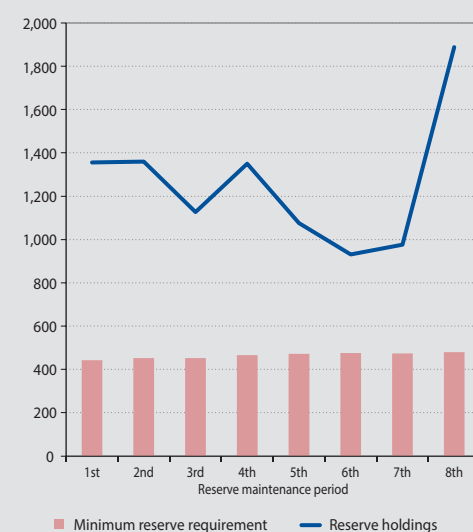
Under Eurosystem rules, all euro area credit institutions are required to hold a certain amount of funds as minimum reserves in their current accounts at their national central bank (NCB). Institutions currently have to hold a minimum of 1% of the sum of eligible balance sheet items that constitute the basis for calculating the reserve requirement ('the reserve base'). The minimum reserve requirement must be met on average over the maintenance period for which the requirement is set.

At the beginning of 2016 a total of 27 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 13 banks incorporated in Slovakia (including three home savings banks) and 14 branches of foreign credit institutions. When BNP Paribas Personal Finance SA began operation in Slovakia on 1 July 2016, the number of branches of foreign credit institutions increased to 15 and the total number of credit institutions increased to 28. Those numbers were the same at the year-end, although in December one foreign bank branch ceased operation in Slovakia and was replaced by another, BANCO COFIDIS S. A. being replaced by COFIDIS SA.

Excess reserves continued to be remunerated at a negative rate in 2016, as they had been since 11 June 2014. The deposit facility rate stood at -0.30% from the beginning of 2016 until 15 March, and at -0.40% from 16 March until the year-end.

The ECB's Governing Council decided in 2014 that its meetings dedicated to monetary policy would be held every six weeks, instead of once a month, starting in 2015. As a consequence, the reserve maintenance periods were extended to about six weeks. In the calendar of maintenance periods in 2016, the start dates of the periods continued to be aligned with the possible implementation of monetary policy decisions.

Chart 12 Reserve holdings and minimum reserve requirements in 2016 (EUR millions)



Source: NBS.

When the length of the reserve maintenance periods was extended in 2015 to 42 or 49 days, the number of periods per year fell to eight. That continued to be the case in 2016.

The average amount of reserves that banks were required to hold with Národná banka Slovenska in 2016 was €464.83 million, around 10.6% more than in 2015. In 2016 the amount of banks' actual reserve holdings at NBS was, on average, 170.7% higher than the reserve requirement, while in 2015 it had been 92.0% higher. The aggregate reserve holdings were highest in the eighth and second maintenance periods.

## 1.2 ELIGIBLE ASSETS

The collateral eligibility criteria for Eurosystem credit operations underwent several changes in 2016. The most important change was the introduction of a new way of applying valuation haircuts to covered bonds that are own-used, allowing two different haircuts to be applied



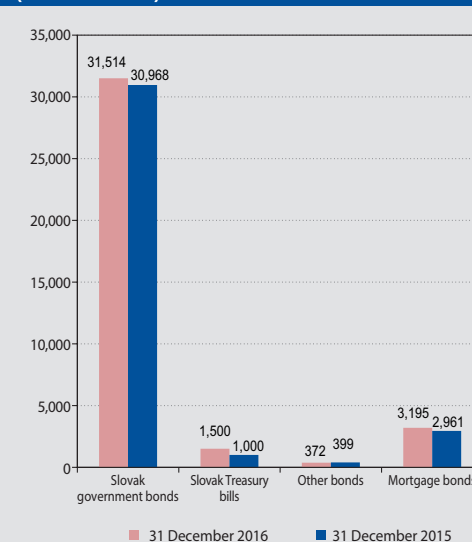


to a single asset. Other modifications were also made to the eligibility criteria, risk control measures and usage rules for certain types of asset, in response to current developments in the implementation of Eurosystem monetary policy.

The value of Slovak marketable eligible assets was, on average, 5% higher in 2016 than in 2015. The total nominal value of these assets at the end of 2016 was €36,581 million, which compared to its level at the end of 2015 was higher by €1,253 million. Slovak government bonds constituted almost 86.2% of these eligible assets, and mortgage bonds 9%. The amount of Slovak Treasury bills included in the list of eligible assets was €1,500 million at the end of 2016, up from €1,000 million a year earlier.

The value of collateral pledged by domestic banks in Eurosystem operations was 14% higher at the end of 2016 than at the end of 2015, and on average during 2016 it was higher, year on year, by 19%. Government debt securities were by far the largest component of the total collateral, with an average share of 91%, similar to the previous year. The most notable change was in the use of credit claims, with their share of the total collateral increasing from 2% at the end of

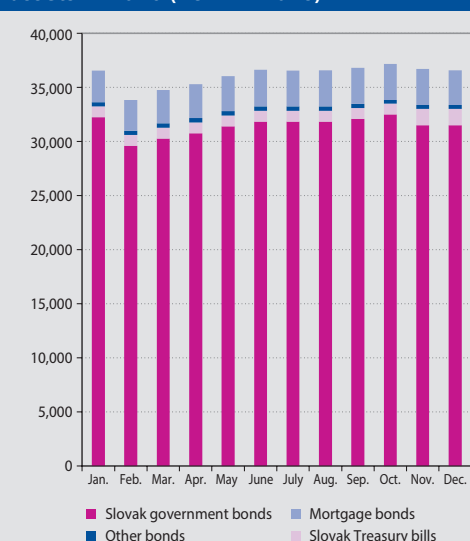
**Chart 14 Composition of Slovak eligible assets on 31 December 2015 and 31 December 2016 (EUR millions)**



Source: NBS.

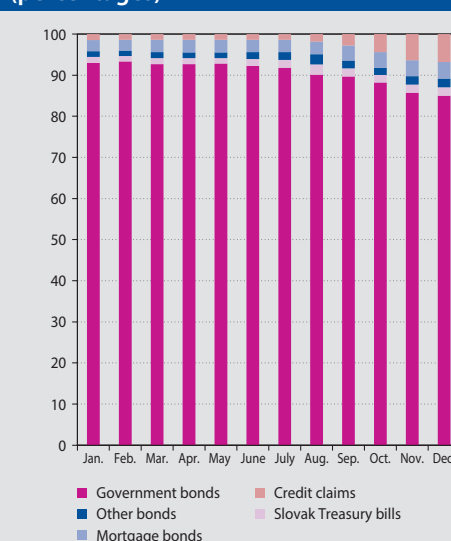
2015 to almost 7% at the end of 2016. Collateral issued in the domestic market accounted for more than 93% of the total collateral, a similar share to that recorded in 2015. Slovak counterparties used a collateral pool to manage their collateral.

**Chart 13 Composition of Slovak eligible assets in 2016 (EUR millions)**



Source: NBS.

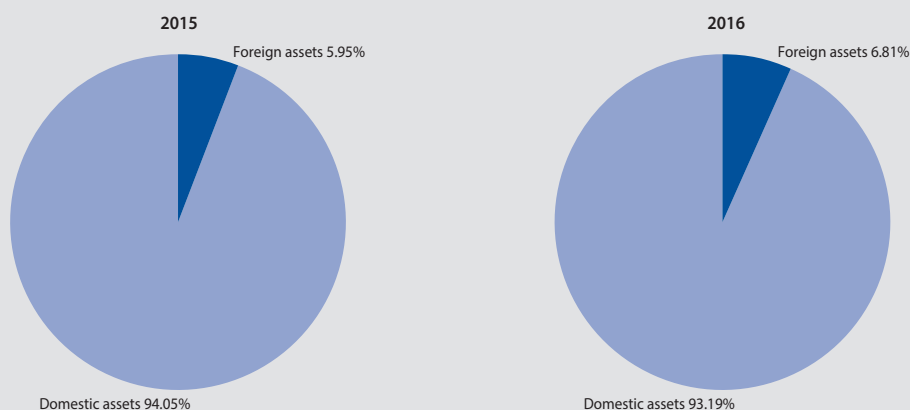
**Chart 15 Use of eligible assets in 2016 (percentages)**



Source: NBS.



Chart 16 Use of domestic and foreign eligible assets



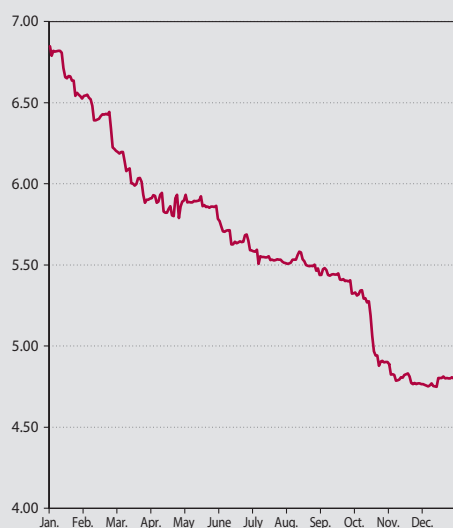
Source: NBS.

### 1.3 INVESTMENT PORTFOLIO MANAGEMENT

Národná banka Slovenska manages its investment assets with the aim of ensuring that its investment portfolios contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at

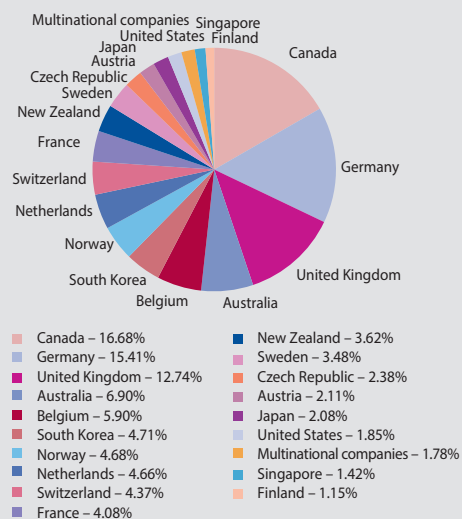
31 December 2016 was €4.8 billion (at corresponding exchange rates and with securities at nominal value). Chart 6 shows how the total value of these portfolios changed during the year, while Chart 7 provides a geographical breakdown of the portfolio assets. In managing its portfolios, NBS applies the principles laid down in the NBS investment strategy ap-

Chart 17 Total value of NBS investment portfolios in 2016 (EUR billions)



Source: NBS.

Chart 18 Total value of NBS investment portfolios as at 30 December 2016 broken down by country of issuer



Source: NBS.



proved in 2008 and updated in 2014. In the case of the euro-denominated and US dollar-denominated portfolios, interest rate risk is managed in a standard way through interest rate swaps and futures contracts. Taking into

account hedging costs and net proceeds on the liabilities side, the return on the euro-denominated portfolio in 2016 was 0.45% and the return on the US dollar-denominated portfolio was 0.74%.

## 2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION<sup>6</sup>

### 2.1 FINANCIAL STABILITY

In 2016 NBS issued seven macroprudential policy decisions concerning financial stability from the perspective of cyclical and structural systemic risks. Four of these decisions were regular quarterly decisions on the setting of the countercyclical capital buffer rate. A significant decision for financial stability was NBS Decision No 20/2016, in which the NBS Bank Board decided to increase the countercyclical capital buffer rate to 0.5%, with effect from 1 August 2017, in response to the financial cycle's expansionary phase and the persisting pressures in the credit market.

Another two decisions were related to banks categorised as other systemically important institutions (O-SIIs) and a further decision dealt with NBS's reciprocation of a buffer set by another Member State (Eesti Pank approved a systemic risk buffer of 1% of total risk exposure for all domestic exposures). The 2016 annual review of the list of O-SIIs operating in Slovakia did not result in any changes to its composition. The minimum capital requirement for these banks will be gradually increased between 1 January 2017 and 1 January 2018 through increases in their O-SII buffers and systemic risk buffers in the amounts defined in the respective NBS decisions.

Important macroprudential policy measures adopted in 2016 included the Housing Loan Act, the amendment to the Consumer Credit Act and NBS Decree No 10/2016 laying down detailed provisions on the assessment of borrowers' ability to repay housing loans. These acts and the

decree facilitated the transformation of NBS Recommendation No 1/2014 on risks related to market developments in retail lending into legislation governing housing loans, enabled the recalibration of certain parameters, and created a legal framework for supervising whether housing loans are being provided in compliance with prudential rules.

### 2.2 FINANCIAL MARKET SUPERVISION

#### THE BANKING SECTOR

As at 31 December 2016 there were 13 banks and 15 branches of foreign banks operating in the Slovak banking sector.

Under the Single Supervision Mechanism (SSM), consisting of the ECB and the national competent authorities of participating Member States, all banks and their branches operating in Slovakia are categorised into:

- significant banks – supervised directly by the ECB (Tatra banka, a.s.; Všeobecná úverová banka, a.s.; Slovenská sporiteľňa, a.s.; Československá obchodná banka, a.s. and ČSOB stavebná sporiteľňa, a.s., both belonging to the KBC Group; UniCredit Bank Czech Republic and Slovakia, a.s., pobočka zahraničnej banky, belonging to the UniCredit Bank banking group); and
- less significant banks (other banks with a registered office in Slovakia) – supervised directly by NBS.

Within the scope of the SSM, the ECB has exclusive power to issue or revoke banking authorisations to/from credit institutions, as well as to

<sup>6</sup> A detailed Report on the activities of the Financial Market Supervision Unit of NBS for 2016 is available (in Slovak language only) on the NBS website at <http://www.nbs.sk/sk/publikacie/publikacie-dohladu/sprava-o-cinnosti-udf>



assess notifications of the acquisition or transfer of qualifying holdings in credit institutions, with the exceptions related to resolution and Article 15 of Regulation (EU) No 1024/2013. Authorisation proceedings relating to credit institutions established in Slovakia are conducted with close cooperation between the ECB and NBS. ECB may also evaluate the suitability of members of the board of directors or supervisory board, but only for significant banks.

All applications for an authorisation to conduct business or for the assessment of qualifying holdings are submitted to NBS. In such cases, NBS assesses the applications according to Slovak law, while the ECB does so according to EU law. In the period under review NBS initiated 22 proceedings falling within the competence of the ECB, which mainly concerned the assessment of suitability of new members of the boards of directors and supervisory boards of significant banks.

Within its area of competence NBS issued a total of 73 decisions relating to authorisation proceedings in the banking sector, mostly concerning the granting of prior approval to appoint members to the boards of directors or supervisory boards of banks, and managerial employees, general proxies, and heads of the internal control and internal audit units of banks.

In one case in 2016, sanction proceedings were initiated against a banking institution.

In 2016 BNP Paribas Personal Finance S.A., pobočka zahraničnej banky began operating in Slovakia. Following a cross-border merger of the French credit institution COFIDIS SA and the Portuguese credit institution BANCO COFIDIS, SA, the foreign bank BANCO COFIDIS, SA, operating in Slovakia through its organisational unit BANCO COFIDIS, SA, pobočka zahraničnej banky (previous name: Banco Banif Mais, S.A., pobočka zahraničnej banky), ceased to exist as of 1 December 2016. As of 1 December 2016 the successor foreign credit institution COFIDIS SA began carrying out banking activities in Slovakia through its organisational unit COFIDS SA, pobočka zahraničnej banky.

NBS registered 21 foreign credit institutions that started to provide banking services in Slovakia

without establishing a branch. NBS notified a foreign supervisory authority about the intention of Poštová banka, a.s. to provide banking services in Germany without establishing a branch.

In 2016 a total of eleven thematic on-site inspections were conducted in banks and branches of foreign banks. The on-site inspections focused mainly on the effectiveness of banks' risk management systems with particular attention paid to credit risk and interest rate risk in the banking book, as well as on operational risk management systems, the provision of payment services, banks' internal governance, and their level of protection against money laundering and terrorist financing.

As the national supervisory authority NBS participated in the conduct of the ECB's supervisory tasks through its employees' direct participation in the work of Joint Supervisory Teams (JSTs) and by drafting decisions within the ECB's decision-making processes. All on-site inspections at significant banks under the ECB's direct supervision were conducted by NBS staff acting under ECB authorisation.

In addition to the regular examination of statements and reports, monitoring of prudential business indicators, analytical activities, communication with the supervised entities and their domestic supervision, the conduct of off-site supervision of banks and branches of foreign banks also includes joint activities under the ECB's direct and indirect supervision and work in supervisory colleges for individual banks.

In regard to the banks under the ECB's direct supervision, the annual assessment of banks was conducted in accordance with the SSM processes thanks to the continuing cooperation in JSTs, whose members included employees of NBS. Off-site supervision was used to review the assessment of ex ante and ex post notifications in accordance with Commission Delegated Regulation (EU) No 529/2014. Next, the validation reports on banks' internal models and internal audits were reviewed and compliance with requirements and recommendations stemming from decisions on the use of internal models was evaluated.



Communication with the ECB concerning banks under direct NBS supervision included topics such as the gradual harmonisation of supervisory practices, assessment of these banks and exchange of information between NBS and the ECB.

#### THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

As at 31 December 2016 there were eleven payment institutions operating in the Slovak financial market, seven of which were authorised to provide payment services without limitation and four were authorised to provide payment services in a limited scope.

One electronic money institution was active in the Slovak financial market in 2016.

A total of 33 decisions were issued during 2016 in regard of payment services, with 32 of them entering into force in the same year. These decisions included the authorisation of Pay Solution, a.s. to provide payment services without limitation, authorisation of SWAN Mobile, a.s. to provide payment services in a limited scope and the granting of prior approval to CETELEM SLOVENSKO a.s. to return its licence to provide payment services.

A total of seven decisions to grant prior approval concerning electronic money issuance were issued in 2016.

In 2016 NBS registered 37 foreign payment institutions intending to provide payment services and 34 foreign electronic money institutions intending to issue, offer and exchange electronic money or provide payment services in Slovakia without establishing a branch.

Based on a foreign supervisory authority's notification of its intention to provide payment services in Slovakia through a branch, NBS registered the branch of a foreign payment institution Global Payments, s.r.o., organizačná zložka in 2016.

One comprehensive on-site inspection at an electronic money institution (started in 2015) was completed in 2016. The year under review also saw three comprehensive on-site inspec-

tions at payment institutions, the purpose being to review and assess the institutions' payment services systems, compliance with the conditions stipulated for their business, internal control and internal audit mechanisms, risk management systems and selected risks, as well as their systems for the prevention of money laundering and terrorist financing, their fulfilment of obligations in this area and their compliance with other acts of general application.

#### THE FOREIGN EXCHANGE SECTOR

As at 31 December 2016 there were 1,155 entities in Slovakia holding a foreign exchange authorisation. During 2016 NBS issued 15 decisions, 11 of which concerned the granting of a foreign exchange authorisation.

Eleven sanction proceedings were conducted and completed in 2016. Two of these proceedings were initiated in 2016, while the other nine commenced in 2015.

Twelve on-site inspections focusing on compliance with the Foreign Exchange Act were carried out in 2016.

#### THE NON-BANK CREDITORS SECTOR

As at 31 December 2016 there were 34 non-bank creditors in the Slovak financial market, 31 of which were authorised to provide consumer loans without limitation, one was authorised to provide consumer loans in a limited scope and two were other creditor authorised to provide credits or loans which were not consumer loans.

In 2016 a total of 86 decisions were issued concerning non-bank creditors. Noteworthy decisions included 13 authorisations to provide consumer loans and other credits to consumers, three rejected applications for authorisation to provide consumer loans, and 54 prior approvals to elect or appoint members of the statutory body and supervisory board and heads of the internal control units.

In 2016 four comprehensive on-site inspections of non-bank creditors were carried out with the following objectives: to review their compliance with the Consumer Credit Act in the provision of consumer loans and compli-



ance with the conditions stipulated for their business, to verify information provided during the proceedings for authorisation to provide consumer loans, to assess their internal control and internal audit mechanisms, their risk management systems together with selected risks, and their systems for the prevention of money laundering and terrorist financing.

#### THE INSURANCE SECTOR

As at 31 December 2016 the Slovak financial market included 16 insurance companies with a registered office in Slovakia and 23 branches of insurance or reinsurance companies established in another EU Member State. A total of 45 notifications were issued in 2016 concerning the activities of branches of insurers and reinsurers established in other EU Member States.

Decisions issued by the Financial Market Supervision (FMS) Unit in 2016 mainly concerned changes (extensions) in the authorisations of financial institutions to conduct insurance business and financial intermediation in accordance with separate regulations.

In 2016 there was one case of the FMS Unit conducting sanction proceedings, while three first-instance decisions to impose a sanction entered into force.

In the context of the insurance sector's new regulatory regime effective from 1 January 2016 (Solvency II), NBS decided that the main aim of its prudential supervision activities in the insurance sector in the first two years following the implementation of the new regulation requirements would be to increase significantly its contacts with insurance undertakings, primarily by offering them consultation services and by guiding their activities. NBS concentrated its activities on preparing and implementing multi-day meetings for senior executives and staff members performing key functions at all 15 insurance undertakings operating under the Solvency II regime.

Off-site supervision was used to review the regular reports and statements of insurance companies and the Slovak Insurers' Bureau for the

year 2015 (audited) and for all quarters of 2016 (interim), as well as ad hoc notifications submitted through the STATUS DFT information system and the Statistics Collection Portal. In 2016, in connection with the new Solvency II framework, the FMS Unit conducted off-site supervision to analyse information and documentation submitted by the insurance companies certifying the competence, fitness and propriety of the persons managing the insurance company or holding key positions, and to review outsourced activities.

Moreover, two thematic on-site inspections were completed, verifying the preparedness of insurers for the use of a partial internal model for calculating the capital requirements under the Solvency II regime.

#### THE PENSION FUND SECTOR

In 2016 the Slovak financial market included six old-age pension fund management companies (PFCMs) managing a total of 20 pension funds (the second pillar of the pension system), and four supplementary pension management companies (SPMCs) managing a total of 17 supplementary pension funds (the third pillar). Depository activities under the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act were performed by five banking institutions.

In 2016 the FMS Unit issued 17 decisions concerning the supplementary pension scheme.

No sanction proceedings concerning the old-age pension scheme were initiated or conducted by the FMS Unit in 2016. In the year under review, the FMS Unit initiated two sanction proceedings concerning the supplementary pension scheme under the Supplementary Pension Scheme Act.

In 2016 off-site supervision was exercised over the six PFCMs and four banking institutions performing depository activities under the Old-Age Pension Scheme Act. The purpose of this supervision was to verify the compliance of PFCMs, SPMCs, and the pension fund depositories with their reporting duties to NBS. The outcomes of these inspections were used to assess the riskiness of completed transactions and their effect





on the overall risk exposure of pension fund portfolios.

The year under review saw the completion of six thematic on-site inspections at PFMCs, each focused on reviewing the company's work in preparing and maintaining an efficient internal control system for both itself and the pension funds it manages.

#### THE FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES SECTOR

As at 31 December 2016 there were 42,039 entities registered in the Register of Financial Agents and Advisers (REGFAP). In 2016 a total of 36 new entities from different sectors were entered into REGFAP, with the FMS Unit granting authorisations to act as independent financial agent to 33 legal persons and authorisations to act as financial adviser to three legal persons. During the year 88 independent financial agents or financial advisors were removed from REGFAP. In addition, 259 financial intermediaries from other Member States were entered into REGFAP, mostly intermediaries authorised to provide insurance and reinsurance services in Slovakia pursuant to the principle of free provision of services without establishing an organisational unit, as well as four financial intermediaries with an established organisational unit. In 2016 NBS accepted and processed 6,867 electronic proposals from applicants to register, deregister or change the registration of their affiliated entities in REGFAP.

In 2016 the FMS Unit conducted a total of 80 proceedings concerning financial intermediation and financial advisory services, with 63 of these being newly initiated sanction proceedings (60 in the financial intermediation sector and three in the financial advisory services sector). A total of 51 first-instance decisions in the financial intermediation and financial counselling sector came into effect in the year.

In 2016 off-site supervision in the sector of financial intermediation and financial advisory services was used to evaluate the compliance of the supervised entities with the statutory reporting requirement towards NBS via an internet application or in writing, as well as to check the professional qualification of inde-

pendent financial agents and financial advisers (especially the repeating of professional examination for upper/mid-level professional qualification) and to examine enquiries and other requests received from legal entities and natural persons.

A total of six thematic on-site inspections of legal persons performing the activities of independent financial agents were carried out. One comprehensive on-site inspection of an independent financial agent (started in 2015) was formally completed at the beginning of 2016. Thematic inspections focused on compliance with the provisions of the Financial Intermediation and Financial Advisory Services Act relating to the competence, fitness and propriety of personnel, reporting requirements towards NBS under this Act and compliance with the requirements and obligations set out in the decisions issued by NBS, especially changes of information in comparison with the information submitted in applications for authorisation to perform the activities of an independent financial agent.

#### THE SECURITIES MARKET SECTOR

As at the end of 2016 there were 15 investment firms operating in the Slovak financial market. During 2016 the FMS Unit approved 43 securities prospectuses and one registration document, eight supplements to securities prospectuses and three supplements to investment certificate prospectuses.

The FMS Unit issued 18 decisions concerning investment firms in 2016, most of them concerning authorisations to provide investment services, changes in authorisations to provide investment services and in prior approvals, e.g. for the appointment of members to the board of directors or for the relocation of a firm's head office.

Out of the 43 approved prospectuses, four prospectuses were created as basic prospectuses for the purposes of a potential public offer and/or potential admission to trading on a regulated market (i.e. in the maximum scope of purpose) for three issuers. One of the approved basic prospectuses was intended for the investment certificate issuances, one for





bond issuances, one for the issuances of mortgage bonds and one for the issuances of both bonds and mortgage bonds. The FMS Unit approved: 14 prospectuses and ten supplements to prospectuses for the purposes of a public offer and the subsequent admission to trading on a regulated market; 16 prospectuses and one supplement to a prospect exclusively for the purposes of admission of the respective securities to trading on a regulated market (securities were not issued on the basis of a public offer); 13 prospectuses for the purposes of securities' public offer without the subsequent request for their admission to trading on a regulated market. In 2016, the FMS Unit received 71 notifications from the supervisory authorities of other EU Member States concerning the approval of securities' prospectuses or of supplements to such prospectuses, and sent four such notifications to the supervisory authorities of other EU Member States.

The FMS Unit issued ten authorisation decisions for the performance of depository activities in 2016.

No authorisation proceedings were conducted in 2016 concerning the Investment Guarantee Fund.

Within the scope of authorisations relating to the segment of issuers of shares traded on a regulated market of the Bratislava Stock Exchange (BCPB, a.s.), the FMS Unit issued one decision in 2016, which ended the approval proceeding of a mandatory takeover bid. In 2016, the FMS Unit issued one authorisation decision on the approval of change in stock exchange rules relating to BCPB, a.s.

The FMS Unit conducted 14 sanction proceedings concerning securities markets in 2016, nine of which were initiated in that year. In 2016 eight first-instance decisions entered into force.

In 2016 off-site supervision was exercised over the 15 domestic investment firms, five investment firms operating in Slovakia through their branches under the MiFID Directive, and 13 banks authorised to provide investment services. Off-site supervision was used primarily

to monitor the supervised entities' compliance with prudential rules, as well as to assess their financial situation and risk profiles. It also covered the activities of BCPB, a.s. and Central Securities Depository of the SR, a.s. (CDCP SR, a.s.), as well as the compliance with the reporting requirement by 78 issuers of securities admitted to trading on the regulated market of BCPB, a.s. via the Central Register of Regulated Information (CERI), which is maintained by NBS. They numbered 71 as at 31 December 2016. Proceedings concerning the non-provision of complete mid-year financial reports for the first half of 2015 were initiated against three issuers of securities admitted to trading on a regulated market of BCPB, a.s.

Two comprehensive on-site inspections were completed in 2016. One of them was initiated in 2015, while the other was both a comprehensive inspection and follow-up inspection to assess the implementation of measures and recommendations adopted to remedy the deficiencies identified during a comprehensive on-site inspection in 2013. A further six thematic on-site inspections in six investment firms were carried out in 2016. One of them, focusing on the provision of investment services, investment activities and auxiliary services to clients, was started in 2015. The remaining five thematic on-site inspections were used to review the compliance of individual companies and their employees with procedures for the prevention of money laundering and terrorist financing.

In the third quarter of 2016 a thematic on-site inspection was initiated at one banking institution, its focus being on the provision of investment services, investment activities and auxiliary services to clients in accordance with the Securities Act, as well as on depository activities for supplementary pension funds and investment funds.

#### THE INVESTMENT FUND SECTOR

In 2016 there were seven asset management companies (AMCs) operating in the Slovak market. In the second half of the year one of them was issued an authorisation to establish and manage alternative investment funds and foreign alternative investment funds. Two AMCs were issued an authorisations to estab-



lish a standard investment fund and one was issued an authorisation to establish a special public fund. The entry into force of Commission Delegated Regulation (EU) No 2016/438 was reflected in changes in the composition of AMCs supervisory boards, preceded by the issuance of seven prior approvals for the appointment of new board members.

In 2016 the FMS Unit did not initiate or conduct any sanction proceedings concerning the investment fund sector.

In 2016 off-site supervision was exercised over the seven domestic asset management companies, managing a total of 70 standard investment funds and 20 alternative investment funds, and five banking institutions performing depository activities under the Collective Investment Act. One of the off-site supervision priorities was to verify the compliance of AMCs and investment fund depositories with their reporting duties to NBS. The collected information was used to evaluate the riskiness of completed transactions and their effect on the overall risk exposure of investment fund portfolios. Special emphasis was placed on the verification of the correct independent valuation of financial instruments in investment fund assets, as well as on the acquisition of such financial instruments into the investment fund assets and its compliance with the Collective Investment Act.

In 2016 three thematic on-site inspections were initiated to review the application of remuneration principles and compliance with the Guidelines on sound remuneration policies under the Alternative Investment Fund Managers Directive, as well as to evaluate the implementation of measures, strategies and procedures for the identification of risks and for internal audit.

The second quarter of 2016 saw the completion of a thematic on-site inspection at a banking institution. Initiated in 2015, the inspection focused on the institution's depository activities for investment funds and pension funds under the Collective Investment Act and Old-Age Pension Scheme Act. In the third quarter of 2016 a thematic on-site inspection was initiated at an-

other banking institution, focusing on its depository activities for supplementary pension funds and investment funds, as well as on its provision of investment services, investment activities and auxiliary services to clients under the Securities Act.

## 2.3 FINANCIAL MARKET REGULATION

### THE BANKING SECTOR

At the beginning of 2016 the Housing Loan Act, drafted by NBS and the Ministry of Finance of the Slovak Republic was published in the Collection of Laws of the Slovak Republic. It enacted the EU's Mortgage Credit Directive into Slovak law and created a legal framework for more effective functioning of the housing loan market within the EU's harmonised internal market.

During 2016 NBS cooperated with the Ministry of Finance in drafting an amendment to the Consumer Credit Act, which was published in the Collection of Laws of the Slovak Republic in November 2016. The purpose of the amendment was to determine the minimum set of regulatory requirements needed to ensure prudential provision of consumer loans by the creditors and to account for the deficiencies identified during application of the Act in practice. The provisions of the amendment were aimed at preventing negative trends in the provision of consumer loans, which could potentially lead to increased risks for creditors, consumers, and the wider economy.

NBS also cooperated with the Ministry of Finance in drafting a new Act on the implementation of international sanctions, which concerns the freezing of terrorists' financial resources and assets.

In addition, NBS drafted other legal regulations, mainly NBS decrees, which needed to be prepared or adopted in response to current developments in the banking sector. Among the most important of these were a decree on the Housing Loan Act, an amendment to a decree on the Register of Bank Loans and Guarantees (RBLG), and a decree laying down the elements of an application to register a representative office of a foreign bank.



The decree concerning the Housing Loan Act laid down prudential rules for the provision of housing loans (mainly in regard to the assessment of borrowers' ability to repay housing loans) and for real estate collateral, as well as maturity caps on housing loans.

The amendment to the RBLG decree was designed to address developments related to the introduction of a new version of the RBLG information system, the purpose of which was to ensure quick access to up-to-date and high-quality data stored in the register.

The decree on the registration of foreign banks' representative office was primarily intended to harmonise certain terms with the current legal situation and to implement requirements identified by NBS specialist departments on the basis of the respective law's previous application in practice.

#### THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

In 2016 preliminary information was published on the preparation of an amendment to the Payment Services Act transposing the PSD 2 Directive. This Directive was adopted in line with the Europe 2020 strategy and the digital agenda, looking to contribute to the establishment of an EU harmonised single market for electronic payments.

The main objectives of the PSD 2 Directive are to promote transparency and innovation in payment services, to facilitate the use of electronic payments, mitigate security risks associated with payments, strengthen consumer rights, keep consumers better informed, foster consumer protection, ensure non-discriminatory conditions for payment service providers and support competition in this sector.

#### THE NON-BANK CREDITORS SECTOR

The amendment to the Consumer Credit Act aimed at correcting deficiencies identified during the act's practical application applied to both banks and non-bank creditors.

The amendment allowed, among other things, for an extended application of rules set out in

the recommendation on risks related to market developments in retail lending to all providers of consumer loans, including those in the non-bank sector, representing a sizeable share of the consumer credit market.

The Consumer Credit Act amendment was also closely related to the Housing Loan Act, which defined several prudential rules for the provision of housing loans.

#### THE INSURANCE SECTOR

Following the enactment of the EU's Solvency II Directive into Slovak law via the recast Insurance Act that entered into force on 1 January 2016 (except for certain provisions), and with a view to promoting further harmonisation, NBS issued in February 2016 a decree on reporting (to NBS) by insurance undertakings not subject to a special regime and reinsurance undertakings, which includes details about reporting deadlines, procedures and methodology. This decree also stipulates the method of reporting under Article 304 of the Commission Delegated Regulation (EU) No 2015/35 and adds information required by the ECB for harmonised reporting within the European Economic Area.

In October 2016 a decree entered into force laying down details about operational reports on the risk management units of insurance undertakings subject to a special regime.

In addition to these two decrees, which complemented the twelve decrees related to the Solvency II regime published in 2015, NBS prepared seven recommendations transposing the EIOPA guidelines on Solvency II. These recommendations concern the activities of insurance and reinsurance undertakings, as well as the branches of foreign insurance and reinsurance undertakings, and contribute to a consistent interpretation of secondary European law and convergence in the conduct of supervision. At the same time, the aim of these recommendations is to ensure the smooth functioning of the insurance market by introducing consistent, effective and efficient procedures for the supervisory authorities and the supervised entities.



### THE PENSION FUND SECTOR

In 2016 the FMS Unit cooperated with the Ministry of Labour, Social Affairs and Family of the Slovak Republic in drafting an amendment to the Old-Age Pension Scheme Act. The amendment changes provisions on scheduled payments in order to make these payments more widely available.

Within its legislative remit, NBS drafted three pieces of secondary legislation related to amendments of the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act, to the transition to reporting via the new Statistics Collection Portal (SCP) information system, and to requirements arising from implementation of the existing law.

The regulatory activities of NBS also included the drafting and publishing of an FMS Unit methodological guideline intended to provide PFMCs with clarification of the expected procedures in assessing the credit risk of issuers when acquiring and holding selected financial instruments as pension fund assets.

### THE FINANCIAL INTERMEDIATION AND FINANCIAL ADVISORY SERVICES SECTOR

On 1 January 2016 an amendment to the Financial Intermediation and Financial Advisory Services Act entered into force, replacing the term “senior employee of a financial agent or a financial adviser” with the term “professional guarantor”.

Moreover, the FMS Unit issued two methodological guidelines in 2016. One of them concerned the average amount of financial intermediation costs in life insurance while the other one related to various provisions of the Financial Intermediation and Financial Advisory Services Act.

### THE SECURITIES MARKET SECTOR

Throughout 2016 NBS cooperated with the Ministry of Finance of the Slovak Republic on the transposition of the EU's Markets in Financial Instruments Directive into the Securities Act and the Stock Exchange Act.

Cooperation between NBS and the Ministry of Finance also included the drafting of Act No 292/2016 Coll. amending several separate laws

related to the financial market, including the Securities Act and the Financial Market Supervision Act. The Securities Act was amended to bring national law in line with certain aspects of the directly applicable regulation on improving securities settlement in the EU and to prepare the ground for the TARGET2-Securities project. The Financial Market Supervision Act was amended to enact the provisions of Commission Implementing Directive (EU) No 2015/2392 on the reporting to competent authorities of actual or potential infringements of the MAR Regulation (commonly referred to as “whistleblowing”<sup>7</sup>). The framework established by the amendments to the Financial Market Supervision Act is not limited to the reporting of actual or potential infringements of the MAR Regulation, but is intended to be a comprehensive framework for the entire securities market sector including areas not covered by CID No 2015/2392. The amended regulation extends to the reporting of infringements of all acts that the Financial Market Supervision Act places under NBS' jurisdiction, including areas in which whistleblowing requirements are not set by EU law.

To support the MAR Regulation's aim to prevent market abuse involving insider dealing, unlawful disclosure of inside information, and market manipulation, the European Commission published in 2016 regulatory technical standards and implementing technical standards in order to provide further details about conditions, criteria and procedures for the implementation of certain parts of the MAR Regulation.

The FMS Unit issued a Guideline on the application of exemptions from the clearing obligation for intragroup OTC derivative transactions under the EMIR Regulation, which was published on the NBS website.<sup>8</sup> The purpose of this guideline is to ensure a common procedure and to facilitate applications for these exemptions by providing a form that can be filled in and submitted to NBS.

### THE INVESTMENT FUND SECTOR

In 2016 NBS contributed to the drafting of an amendment to the Collective Investment Act. Entering into force on 1 December 2016, the amendment addressed deficiencies identified

<sup>7</sup> Whistleblowing is primarily the disclosure of information about an alleged infringement of acts of general application known to a reporting person from within the reported supervised entity, e.g. an employee of a supervised entity or a person cooperating with such entity in another way.

<sup>8</sup> [http://www.nbs.sk/\\_img/Documents/\\_Dohlad/ORM/RegulaciaTrhov/Usmernenie\\_k\\_uplatnovaniu\\_vynimiek\\_zo\\_zuctovacej\\_povinnosti\\_IGT.pdf](http://www.nbs.sk/_img/Documents/_Dohlad/ORM/RegulaciaTrhov/Usmernenie_k_uplatnovaniu_vynimiek_zo_zuctovacej_povinnosti_IGT.pdf)



during the application of the Act in practice. Towards the end of 2016 NBS, in cooperation with the Slovak Association of Asset Management Companies (SASS), began drafting another amendment to the Collective Investment Act, which was aimed at improving the efficiency of collective investment activities and was based on feedback from participants in the local capital market.

At the beginning of 2016 NBS issued an updated Opinion on the transitional provisions of the amendment to the Collective Investment Act, which provided clear details about the procedure to be followed in applying for an authorisation to establish and manage alternative investment funds in accordance with Article 28a of the Collective Investment Act.

In May 2016 NBS issued a Recommendation to AMCs on remuneration principles relating to the procedures for the establishment and application of remuneration principles in accordance with the harmonised guidelines developed by ESMA.

In June 2016 the FMS Unit published a methodological guideline on assessing compliance with certain conditions for authorising the marketing to retail investors in Slovakia of securities or participating interests in foreign alternative investment funds by the means of a public offer. In drafting this guideline, NBS cooperated closely with the SASS.

In December 2016 NBS issued an amendment to a decree on reporting by alternative investment fund managers (AIMs), which stipulated how AIMs are to report to NBS via the SCP information system.

## 2.4 BANK RECOVERY AND RESOLUTION

In April 2016 the Resolution Council held its fourth meeting, to discuss the 2016 contributions to the Single Resolution Fund, changes to its Statutes and Rules of Procedure, and the election of the Council's Executive Member. Director of the NBS Regulation Department and Council member, Júlia Čillíková, was elected as the Council's Executive Member. In November

2016, at its fifth meeting, the Resolution Council approved a proposal for the implementation of provisions on proportionality in bank resolution and preliminary simplified resolution plans for smaller banks. The Council also approved the Underlying Methodology for determining MREL for selected institutions within the Council's remit with bankruptcy as the preferred resolution strategy.

In 2016 a draft amendment to the Act on Resolution in the Financial Market was prepared. Its purpose was to fine-tune the frameworks for prevention and resolution of potential crisis in the financial market in line with the provisions of the BRRD Directive and to ensure the application of the Act's provisions in practice. The amendment entered into force on 15 November 2016.

With a view to promoting cooperation and preventing different national responses, resolution colleges are being established in line with Article 88 of the BRRD Directive, under which resolution authorities are obliged to cooperate in the resolution of group entities. In 2016 the staff members of the NBS Resolution Section participated in a college established by the Hungarian resolution authority.

In the year under review the Resolution Section continued to monitor the resolution of financial corporations other than credit institutions and investment firms on both global and European level.

## 2.5 FINANCIAL CONSUMER PROTECTION

As regards its methodological activities in the area of financial consumer protection, the FMS Unit considers them a valuable means to prevent consumer rights infringements, to achieve a high level of predictability and transparency in its work, and to increase legal certainty for supervised entities and consumers. Despite not issuing any methodological guideline for the area of financial consumer protection in 2016, the FMS Unit continued its methodological activities and completed several drafts, which were submitted to professionals and financial market participants for consultation. Moreover,





it started various initiatives, mainly concerning consumer loans, and specifically relating to the issues of prepayment rights, the annual percentage rate of charge (APRC), and involuntary prepayment.

In 2016 two preliminary measures entered into force and six sanction proceedings were initiated. In the event of a breach of obligations in the area of financial consumer protection it is possible to impose financial sanctions, prohibit the use of unfair market practices or unacceptable contractual conditions disadvantageous to the financial consumer, prohibit the provision of financial services that infringe rules for financial consumer protection, and also revoke the creditor's license or other authorisation.

Last year saw a significant rise in the number of broad-based analyses, off-site examinations and on-site inspections. A total of 25 off-site examinations and broad-based surveys/analyses, and 21 on-site inspections, were conducted in 2016. NBS continued to exercise its right to initiate an on-site inspection by procuring financial services under an assumed identity, conducting a total of 95 such "mystery shopping exercises"<sup>9</sup> during the year.

Supervision of consumer credit provision focused mainly on the disclosure of credit information prior to the conclusion of the loan agreement, the use of unacceptable contractual conditions, contracts' statutory elements, and the use of unfair market practices. In connection with the entry into force of Act No 438/2015 Coll. amending the Consumer Credit Act, supervision focused mainly on breaches of APRC caps and on ancillary services offered with credits. In the sector of housing loans, supervision focused on the methods used to determine loan prepayment fees and other costs charged to financial consumers for early repayment of their loans. Moreover, off-site supervision also verified the form and content of the information provided by means of a representative sample survey of offers of housing loans. Last year's supervision also focused on entities providing consumer loans without the requisite NBS authorisation.

In 2016 NBS received 2,376 complaints against supervised entities from financial consumers and other customers, which was 702 more than it received in 2015 (the year-on-year increase of 40% was the highest to date). Of those complaints that were justified, 60% were resolved by the entity voluntarily addressing the deficiencies identified, without NBS having to compel them to do so through the issuance of a decision and initiation of proceedings (the corresponding share in 2015 was 45%).

The exercise of supervision over consumer loans provided by non-bank creditors was also reflected in the number of complaints received against such entities, which increased from 209 in 2015 to 430 in 2016. Thus consumer loans became the most frequent subject matter of complaints, a position previously long held by motor third party liability insurance. The complaints received about banks concerned mostly mortgage and housing loan fees and consumer loans. The most frequent issue of complaint against insurance undertakings was motor third party liability insurance, which, in line with previous years, accounted for almost 11% of all complaints against these entities. The number of complaints related to financial intermediation remained virtually unchanged during 2010-2016. These complaints continued to concern the method, range and quality of the information financial consumers had received before the financial service was provided.

In 2016 NBS continued to promote financial literacy through various activities, focusing mainly on youth (primary and secondary school students). More than 2,400 students from various parts of Slovakia attended interactive lectures at the NBS headquarters, as well as at schools around Slovakia (during the European Money Week). The FMS Unit contributed to the work of the Financial Literacy Inter-Ministerial Expert Group at the Ministry of Education, Science, Research and Sport of the Slovak Republic, resulting in an updated version of the National Standard for Financial Literacy reflecting the changes in the financial market, and feedback received on the standard's current version.

<sup>9</sup> Procurement of financial services under an assumed identity for supervisory purposes.



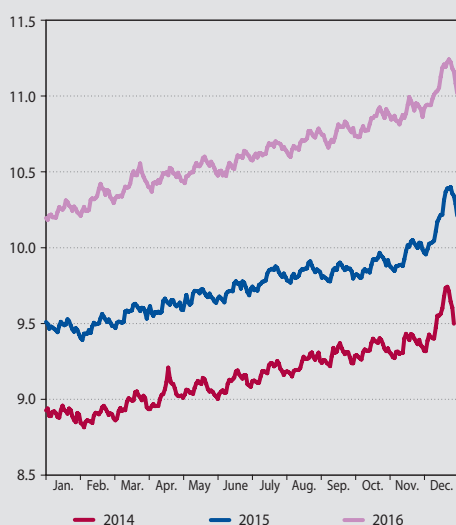
## 3 ISSUING ACTIVITY AND CURRENCY CIRCULATION

### 3.1 CUMULATIVE NET ISSUANCE

The cumulative net issuance (CNI)<sup>10</sup> of euro banknotes and coins in Slovakia had a total value of €11.02 billion as at 31 December 2016, with euro banknotes accounting for €10.9 billion of that amount. The CNI increased in 2016 by 7.9% year on year (by €807.2 million), which represented a slight acceleration compared with the previous year. 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 €11.4 billion as at 31 December 2016.<sup>11</sup> The difference in value between the euro banknotes issued in Slovakia and the *currency in circulation* item was €515 million.

The CNI's daily trend in 2016 remained the same as in previous years, with the year-on-year difference ranging approximately between €0.7 billion and €1.0 billion. The daily CNI is usually highest in the pre-Christmas period, and in 2016 it peaked on 22 December (at €11.2 billion).

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



Source: NBS.

Euro banknotes accounted for almost the entire value of the CNI (98.5%), but only for 19% of the CNI in terms of volume. Euro coins (including euro collector coins) made up the remaining 81%.

The cumulative net issuance as at 31 December 2016 comprised almost 157.2 million euro banknotes and approximately 654 million euro coins, including collector coins. For the first time, the €100 denomination had the largest share of the total number of banknotes included in the CNI, at 24%. The €50 denomination, which had held that position in all the previous years following Slovakia's adoption of the euro, saw its share drop to 23%. The coins issued in the highest volumes are the two lowest denominations (1 and 2 cent). By the end of 2016 they made up more than half (59.8%) of all the coins in the CNI, and their share is increasing year by year (in 2015 it stood at 58.7%). In value terms, however, the combined share of these two denominations was only 3.6%.

As an average per capita<sup>12</sup>, the number of euro banknotes in circulation in Slovakia in 2016 stood at 28 and their value at around €1,926. As for coins (including collector coins), the corresponding figures were 115 and €29. The average per capita value of the CNI was €1,955.

The most common euro banknotes and coins in circulation in Slovakia in 2015 were the €50 and €100 banknotes (around seven per capita), the 1 cent coin (39) and the 2 cent coin (29).

No new banknotes of the second (ES2) series of euro banknotes were launched in 2016 (the ES2 €5, €10 and €20 banknotes had already been launched before 2016). By the year-end the new €5 had completely replaced the ES1 banknote in the CNI, while the new €10 and €20 banknotes accounted for 97% and 56%, respectively, of the total number of €10 and €20 banknotes in the CNI<sup>13</sup>.

<sup>10</sup> Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2016 refers to the difference between the value (volume) of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009, when Slovakia joined the euro area, and 31 December 2016.

<sup>11</sup> The value of currency in circulation throughout the euro area as at 31 December 2016 was €1,126 billion, and the share of that currency issued in Slovakia according to the banknote allocation key was 1.0095%, or around €11.4 billion.

<sup>12</sup> The population of Slovakia was 5,424,058 as at 30 September 2016 (according to the Slovak Statistical Office). The calculations used the average number and average value of euro banknotes in the CNI in 2016. The average value of the CNI was €10.6 billion.

<sup>13</sup> The calculation of shares of new euro banknotes (ES2) in the total CNI of the respective denominations (ES1 + ES2) are based on the CNI in Slovakia.



**Table 5 Composition of the cumulative net issuance of euro banknotes and coins**

Denomination	Cumulative net issuance				Share in %	
	CNI as at 31 December 2016		Difference vis-à-vis 31 December 2015		Share as at 31 December 2016	
	number	value (€)	number	value (€)	number	value (€)
€500	8,340,589	4,170,294,500.00	8,930	4,465,000.00	1.03	37.85
€200	427,505	85,501,000.00	89,950	17,990,000.00	0.05	0.78
€100	37,655,387	3,765,538,700.00	7,474,980	747,498,000.00	4.64	34.18
€50	36,229,840	1,811,492,000.00	562,989	28,149,450.00	4.46	16.44
€201	31,924,210	638,484,200.00	-602,626	-12,052,520.00	3.93	5.80
€101	33,817,270	338,172,700.00	1,217,785	12,177,850.00	4.17	3.07
€51	8,836,350	44,181,750.00	-507,681	-2,538,405.00	1.09	0.40
<b>Total banknotes</b>	<b>157,231,151</b>	<b>10,853,664,850.00</b>	<b>8,244,327</b>	<b>795,689,375.00</b>	<b>19.37</b>	<b>98.52</b>
€2	49,944,036	99,888,072.00	4,508,295	9,016,590.00	6.16	0.91
€1	21,024,872	21,024,872.00	49,573	49,573.00	2.59	0.19
50 cent	26,978,638	13,489,319.00	736,945	368,472.50	3.32	0.12
20 cent	33,330,546	6,666,109.20	116,113	23,222.60	4.11	0.06
10 cent	56,637,978	5,663,797.80	3,311,598	331,159.80	6.98	0.05
5 cent	74,907,360	3,745,368.00	5,081,742	254,087.10	9.23	0.03
2 cent	165,169,912	3,303,398.24	13,175,619	263,512.38	20.35	0.03
1 cent	225,932,013	2,259,320.13	23,617,552	236,175.52	27.84	0.02
<b>Total coins</b>	<b>653,925,355</b>	<b>156,040,256.37</b>	<b>50,597,437</b>	<b>10,542,792.90</b>	<b>80.58</b>	<b>1.41</b>
Collector coins	382,331	7,823,390.00	46,381	943,000.00	0.05	0.07
<b>Total banknotes and coins</b>	<b>811,538,837</b>	<b>11,017,528,496.37</b>	<b>58,888,145</b>	<b>807,175,167.90</b>	<b>100.00</b>	<b>100.00</b>

Source: NBS.

1) Data for both series of euro banknotes combined (ES1+ES2).

**SLOVAK KORUNA BANKNOTES AND COINS**

By 31 December 2016, unredeemed Slovak koruna banknotes and commemorative coins totalled, respectively, 18.88 million (including 10.07 million 20 koruna banknotes) and approximately 933,000. Their combined face value was around SKK 2.92 billion (€97 million). The face value of unredeemed Slovak koruna banknotes was around 1.46% of the total value of banknotes issued (by 31 December 2007).

In per capita terms, koruna banknotes unredeemed by the end of 2016 numbered around four and had a face value of SKK 409. The per capita value of commemorative koruna coins was SKK 129, and that of koruna banknotes and coins combined was SKK 538.

**3.2 PRODUCTION OF EURO BANKNOTES AND COINS**

In 2016 NBS commissioned for the Eurosystem the production of 58.50 million ES2 €50 banknotes. The banknotes were printed by the Dutch printing company Royal Joh. Enschedé, and their printing was completed in October 2016.

In accordance with the ECB's revised schedule, the printing of 23.48 million ES2 €50 banknotes of NBS's allocation for 2015 was postponed until the first half of 2016. The banknotes were produced by the French firm Oberthur Technologies, with their printing run completed in the second quarter of 2016. In addition to euro banknotes, NBS ensured the production of 28.873 million



1 cent euro coins, 17.0 million 2 cent euro coins, 2 million €2 coins, as well as one million €2 commemorative coins featuring *The first Slovak Presidency of the Council of the European Union* (issued on 7 March 2016) and one million €2 commemorative coins featuring the *550th anniversary of Istropolitana University* (issued on 4 January 2017).

All the euro coins commissioned by NBS are produced by the state-owned mint Mincovňa Kremnica ('the Kremnica Mint'). The coins minted in 2016 included 26,000 euro coins of each denomination that were used in five annual collector sets of Slovak euro coins.

In accordance with its issue plan for commemorative and collector euro coins, NBS also issued six collector coins in 2016, including five silver coins and one gold coin. In November 2016 a number of collector coins due to be issued in 2017 were frontloaded to NBS from the Kremnica Mint. They comprised 8,800 €10 silver coins featuring *World Natural Heritage – Caves of Slovak Karst* (issued on 13 February 2017). NBS arranges for the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

### 3.3 PROCESSING OF EURO BANKNOTES AND COINS

In 2016 Národná banka Slovenska put 354.5 million euro banknotes into circulation, and a total

of 346.2 million euro banknotes were returned to NBS from circulation.

During the year NBS processed 349.5 million euro banknotes (347.2 million in 2015) 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 2.3 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 five months on average. The authenticity and fitness for circulation of returned banknotes are checked by NBS, with the aim of maintaining the integrity of the currency and public confidence in euro banknotes. The high level of public satisfaction with the quality of euro banknotes is confirmed by periodical surveys conducted in euro area countries. In the latest survey, nine out of ten respondents expressed satisfaction with the quality of euro banknotes.

The €50 banknote was the most frequently processed denomination in 2016, being among the most common euro banknotes in circulation and also the most frequently issued via cash dispensers.

In the processing of euro banknotes during 2016, 48.1 million banknotes were identified as being unfit for circulation and subsequently destroyed. The number of unfit banknotes destroyed by NBS

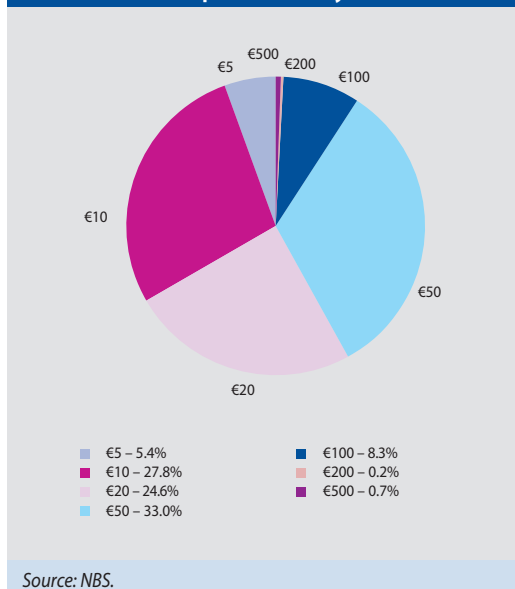
**Table 6 Collector coins issued by Národná banka Slovenska in 2016**

Denomination	Feature	Issuing volume (number of coins)		NBS notification of coin issuance
		total	OF WHICH PROOF	
€10 <sup>1)</sup>	150th anniversary of the birth of Ladislav Nádaši-Jégé	8,800	5,600	No 40/2016 Coll.
€20 <sup>1)</sup>	Historical Preservation Area of Banská Bystrica	8,300	5,400	No 95/2016 Coll.
€100 <sup>2)</sup>	Bratislava coronations – 275th anniversary of the coronation of Maria Theresa	4,300	4,300	No 150/2016 Coll.
€10 <sup>1)</sup>	The first Slovak Presidency of the Council of the European Union	8,200	5,600	No 184/2016 Coll.
€10 <sup>1)</sup>	400th anniversary of the death of Juraj Turzo	8,500	5,400	No 250/2016 Coll.
€10 <sup>1)</sup>	450th anniversary of the birth of Ján Jessenius	8,500	5,450	No 279/2016 Coll.

Source: NBS.

1) Silver collector coin.

2) Gold collector coin.

**Chart 20 Denominational breakdown of euro banknotes processed by NBS in 2016**

was around 9.9% higher in 2016 than in 2015. The higher volume of banknotes sorted as unfit was reflected in the average unfit rate for euro banknotes, which increased moderately, year on year, by an average of 1.2 percentage points, to 13.8%. The unfit rate in Slovakia is among the lowest among euro area countries.

In 2016 more than 328 million euro coins were put into circulation by NBS, and more than 277 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 406,000 of the 279.1 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 13,565 counterfeit banknotes and coins were recovered in Slovakia in 2016, approximately two-thirds more than were recovered in 2015.

Far more counterfeits were recovered in 2016 than in the previous two years, owing to the fact that a greater number were seized before entering circulation. In one operation in Prešov Region in April 2016, law enforcement seized 8,964 counterfeit €2 coins.

Of the total number of counterfeits recovered, banknotes accounted for 3,302 and coins for 10,261. Only 25.3% of the counterfeits were recovered from circulation by banks, foreign bank branches, non-bank entities and security services (the corresponding figure for 2015 was 82.6%).

The region in which most of the counterfeits were recovered was Prešov Region (69%), while the fewest were recovered in Trenčín Region (0.8%).

Of the total number of counterfeits recovered from circulation in 2016, law enforcement recovered three-quarters (up from 18.3% in the previous year), commercial banks 13.6%, security services 4.6%, NBS 5.3%, and non-bank entities 1.8%.

**Table 7 Number of counterfeit banknotes and coins recovered in Slovakia**

	EUR	SKK <sup>1)</sup>	Other	Total
<b>2014</b>	6,190	21	214	<b>6,425</b>
<b>2015</b>	4,749	11	94	<b>4,854</b>
<b>2016</b>	13,465	11	89	<b>13,565</b>

Source: NBS.

1) Slovak koruna.

**Table 8 Number of euro counterfeits recovered in Slovakia**

	Denomination										Total
	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	
<b>2014</b>	463	224	2,037	22	39	405	1,037	604	73	1,286	6,190
<b>2015</b>	411	189	1,225	31	83	553	1,771	362	99	25	4,749
<b>2016</b>	320	121	9,820	24	54	526	1,748	472	145	235	13,465

Source: NBS.

A moderate improvement in the quality of counterfeits was observed in 2016, especially in counterfeits of euro banknotes and coins. Nevertheless, neither the number of counterfeits recovered, nor the technical level of their production posed a serious risk to the integrity and smooth operation of cash circulation in Slovakia.

**EURO COUNTERFEITS**

The number of counterfeit euro banknotes and coins recovered in Slovakia in 2016 was 13,465 and they had total face value of €312,201.

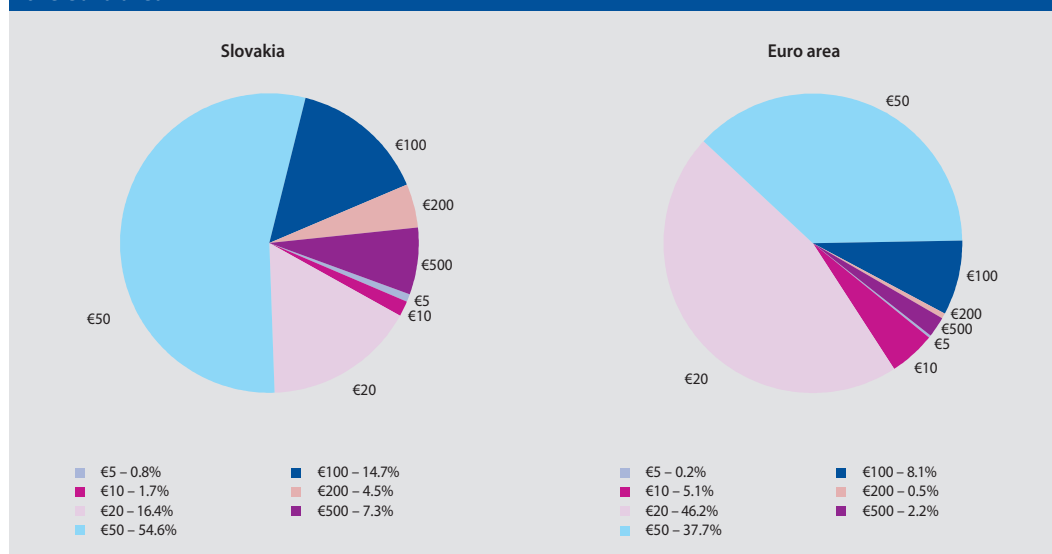
The number of euro banknote counterfeits recovered in Slovakia has remained steady over a long period. The figures have reflected the impact of particular cases (one or two a year) in which law enforcement seized sizeable quantities of counterfeit banknotes before the banknotes entered circulation. The number of euro

banknote counterfeits recovered from circulation has remained at around the same level, at between 150 and 200 per month.

The number of counterfeit euro coins recovered from circulation has been falling gradually in recent years, and in 2016 it stood at around 100 per month.

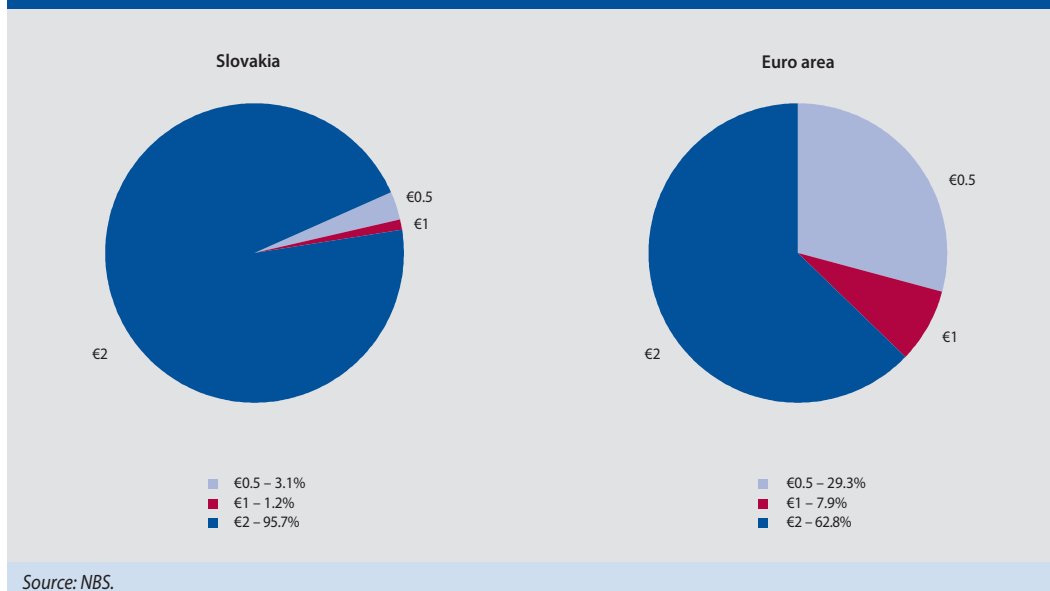
Euro banknotes accounted for 3,204 of all the counterfeit banknotes and coins recovered in Slovakia in 2016, and that number represented a year-on-year increase of around 10%. Although euro counterfeits are mostly of high quality, they can be detected without technical equipment, as long as sufficient attention is paid to euro cash when receiving it.

The denominational breakdown of euro counterfeits in Slovakia and the euro area has been

**Chart 21 Denominational breakdown of counterfeit euro banknotes recovered in Slovakia and the euro area**

Source: NBS.

**Chart 22 Denominational breakdown of counterfeit euro coins recovered in Slovakia and the euro area**



similar in recent years. In Slovakia, counterfeit €50 and €20 euro banknotes accounted for 54.6% and 16.4% of all the counterfeit euro banknotes recovered. In the euro area the positions were reversed, with €20 and €50 euro counterfeits making up 46.2% and 37.7% of the total.

Of all the counterfeit euro banknotes recovered in Slovakia during the year, counterfeits of the three medium-denomination banknotes – the €20, €50 and €100 notes – accounted for 85.7% in 2016 (these denominations accounted for 67% of the CNI in 2016). In 2015 the share of these three denominations was 91.9%. Across the euro area, the share of the three denominations in the total number of counterfeits recovered has been above 90% over an extended period.

A total of 10,261 euro coin counterfeits were recovered in Slovakia in 2016, and only one-tenth of them were recovered from circulation. The technical quality of such counterfeits is generally very high. More than 95% of the counterfeit euro coins recovered in Slovakia in 2016 were €2 coins. Recent years have seen counterfeit 50 cent coins recovered in greater numbers than

counterfeit €1 coins. In the euro area, the share of €2 counterfeits in the total number of euro coin counterfeits recovered has long been in the range of 60% to 65%.

#### SLOVAK KORUNA COUNTERFEITS

Following the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply. Only eleven Slovak koruna counterfeits were recovered in 2016 (the same number as in 2015). Although the period in which Slovak koruna banknotes may be exchanged for euro at NBS is indefinite, further incidence of koruna counterfeits is expected to be only sporadic.

#### COUNTERFEITS OF OTHER FOREIGN CURRENCY

The total number of counterfeits of other foreign currencies recovered in Slovakia was slightly lower in 2016 than in 2015. The majority (73) were US dollar counterfeits. As in previous years, the \$100 dollar banknote was the most counterfeited denomination, accounting for around two-thirds of US dollar counterfeits. Counterfeits of other currencies were also recovered, including counterfeits of the pound sterling (6), the Hungarian forint (5), the Czech koruna (3) and the Polish zloty (2).



## 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 amending 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. As for the EU's new Payment Services Directive (2015/2366), the process of transposing it into Slovak law began in 2016 and will be completed with the adoption of a Payment Services Amendment Act, to enter into force at the beginning of 2018. Certain consumer provisions of the Payment Services Act (on, for example, payment account switching) started to be applied in 2016 in accordance with Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

Slovak law in the area of payment services also includes the following directly applicable EU Regulations:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001;
- Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009;
- Regulation (EU) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006; and
- Regulation (EU) No 2015/751 on interchange fees for card-based transactions.

Further components of the legal framework are Decree No 8/2009 of Národná banka Slovenska laying down the structure of domestic and international bank account numbers and details about the issuance of an identifier code converter, and Decree No 6/2013 of Národná banka Slovenska on direct debit payee identifiers and the register of direct debit payee identifiers.

In 2016 Národná banka Slovenska approved a proposal of the Slovak Banking Association (SBA) that banks should not pay any contribution for that year to the operation of the SBA's Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), in view of the Court's financial results and the sufficiency of existing funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to Payment Services.

### 4.2 PAYMENT SYSTEMS IN SLOVAKIA

#### 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). T2-SK functioned smoothly in 2016, free of any serious incident that might have disrupted the processing of payments or operation of the system, or have adversely affected its participants.

Národná banka Slovenska ensures the day-to-day operation of T2-SK, provides advice and support to the system's participants, and performs regular testing of recovery procedures. It is also 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 Eurosystem 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.

In 2016 NBS organised one working meeting with representatives of T2-SK participants. The meeting concerned the TARGET2-Securities project and was addressed mainly to those institutions that planned to open a 'dedicated cash account' in the fourth migration wave.



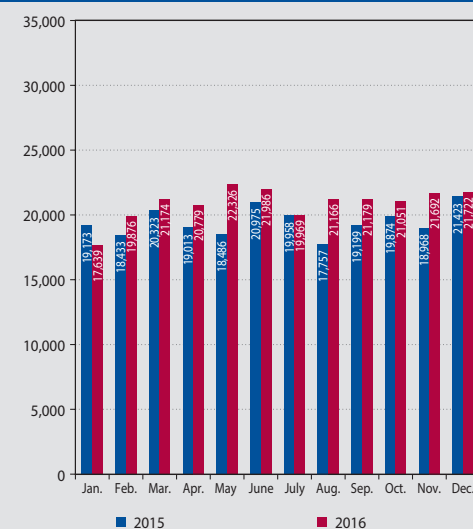


In 2016 the European Central Bank (ECB) adopted Guideline (EU) 2016/579 of the European Central Bank of 16 March 2016 amending Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (ECB/2016/6). On the basis of this Guideline, NBS adopted the following decisions:

- Decision No 9/2016 of 5 April 2016 amending Decision No 7/2015 on conditions for opening and administering PM accounts in TARGET2-SK;
- Decision No 10/2016 of 5 April 2016 amending Decision 8/2015 on conditions for opening and administering dedicated cash accounts in TARGET2-SK;
- Decision No 11/2016 of 5 April 2016 amending Decision 4/2010 on settlement procedures for TARGET2-SK ancillary systems, as amended;
- Decision No 12/2016 of 5 April 2016 on general conditions for the provision of intraday credit by Národná banka Slovenska;
- Decision No 13/2016 amending Decision 10/2015 on general conditions for the provision of auto-collateralisation by Národná banka Slovenska.

T2-SK had 257 operating days in 2016, and its average daily traffic by volume and value was 975 transactions and almost €2,099 million.

Chart 23 Number of transactions processed by T2-SK in 2015 and 2016



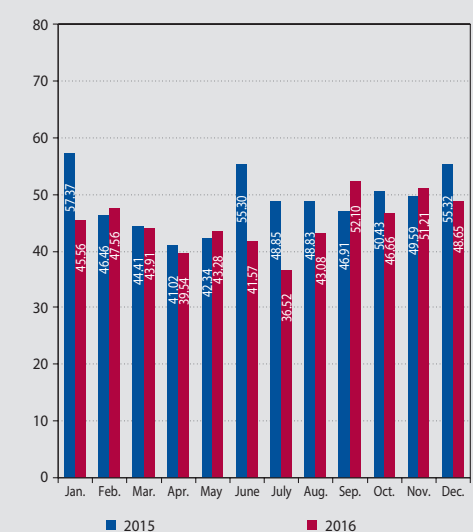
Source: NBS.

#### 4.2.2 PAYMENTS PROCESSED BY TARGET2-SK

T2-SK had 34 participants at the end of 2016, including 30 direct participants and the following four ancillary systems: the Slovak Interbank Payment System; a company called First Data Slovakia, s. r. o.; and two central securities depositories – Centrálny depozitár cenných papierov SR, a. s. (CDCP) and Národný centrálny depozitár cenných papierov, a. s. (NCDC). With NCDC connecting to T2-SK in 2016, the number of participants was one higher at the end of the year than at the end of 2015. One other direct participant that joined the system in 2016 was BNP Paribas Personal Finance SA, a foreign bank branch, while one existing direct participant, ERB bank, left the system in 2016.

In 2016 T2-SK processed more than 250,000 transactions with a total value of over €539 billion. Compared with 2015, T2-SK traffic increased in volume by 7% (almost 17,000 transactions) and decreased in value by almost 8% (€47 billion).

Chart 24 Value of transactions processed by T2-SK in 2015 and 2016 (EUR billions)



Source: NBS.



Looking at the payment traffic in 2016 broken down into customer and interbank transactions, customer payments had the higher share by number (74:26), while interbank payments predominated in terms of value (7:93).

A total of 25 EU central banks were connected to TARGET2 by the end of 2016, one more than at the end of 2015 owing to the Croatian central bank joining the system in 2016. Of the total number of payments sent by T2-SK participants in 2016, 45.14% were domestic, 49.27% were cross-border within the euro area and 5.59% were cross-border to counterparties in non-euro area countries. Cross-border payments within the euro area accounted for 60% of the total value of payments, and domestic payments for 40%.

#### 4.2.3 THE SLOVAK INTERBANK PAYMENT SYSTEM

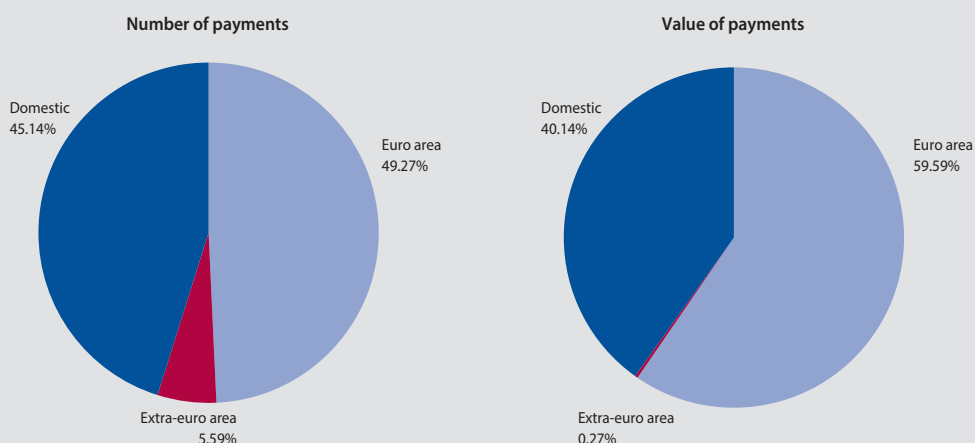
The Slovak Interbank Payment System ("SIPS") is a retail payment system used for the processing and clearing of payments in euro. These comprise mostly domestic payments, but also cross-border SEPA credit transfers and SEPA direct debits in the XML message standard. Cross-border SEPA credit transfers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

The SIPS processes and clears payments through multiple clearing cycles on each business day. After participants' payments are cleared in the SIPS, which is a T2-SK ancillary system, the resulting cash positions undergo final settlement in T2-SK. The Slovak IPS functioned smoothly in 2015, free of any incident that might have disrupted the processing and clearing of payments or operation of the system.

In response to the requirements of the domestic banking sector and in accordance with a decision of the NBS Bank Board, the services available to SIPS participants were extended from January 2016 to include the processing of cross-border direct debits between businesses under the SEPA Direct Debit Business to Business (SDD B2B) Scheme. The SDD B2B Scheme includes specific features for payments solely between businesses.

NBS maintains the register of creditor identifiers (CIs) for SEPA direct debits (SDDs), after assuming this task from the Slovak Banking Association in 2013. Each SDD payee, whether a natural person or legal entity, has a unique CI. The number of active SDD payees registered with NBS was almost 420 at the end of 2016.

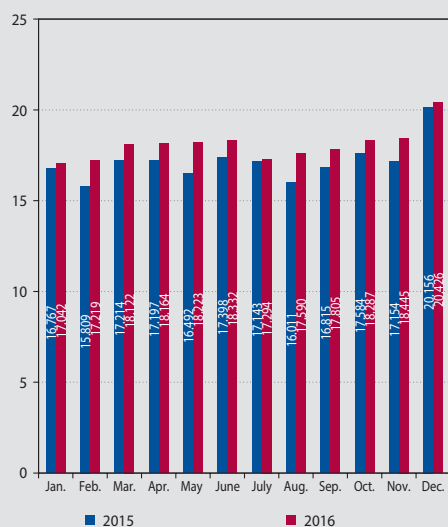
Chart 25 Payments sent by T2-SK participants in 2016 broken down by destination



Source: NBS.

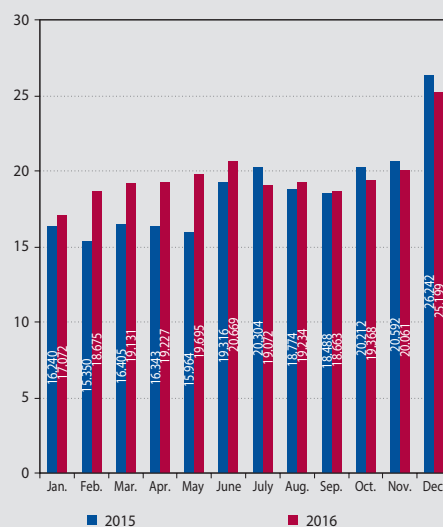


**Chart 26 Number of transactions processed by the SIPS in 2015 and 2016 (millions)**



Source: NBS.

**Chart 27 Value of transactions processed by the SIPS in 2015 and 2016 (EUR billions)**



Source: NBS.

#### 4.2.4 PAYMENTS PROCESSED BY THE SIPS

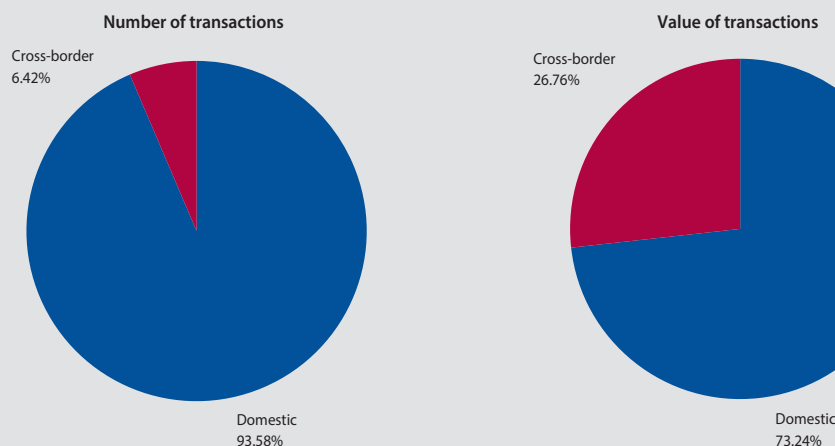
The SIPS had a total of 26 direct participants at the end of 2016, one more than it did at the end of 2015.

The volume of transactions processed by the SIPS increased in 2016 by 5.45%, year on year,

to almost 217 million, and the value of transactions increased by 5.28%, to almost €236 billion.

The volume and value of transactions processed includes, in addition to domestic transactions, cross-border transactions executed

**Chart 28 Domestic and cross-border transactions processed by the SIPS in 2016**



Zdroj: NBS.

via STEP2. Cross-border transactions accounted for only 6.42% of the total number of transactions processed, and 26.76% of their total value.

#### 4.2.5 PAYMENT CARDS

The number of bank payment cards in circulation issued by banks in Slovakia increased by 3.61% from the end of 2015 to the end of 2016, up to 5,495,791. At the same time, an increase in the issuance of payment cards in general was also observed. During the year, more than 419 million payment card transactions with a total volume of €22 billion were conducted. Both the number and value of payment card transactions were also higher in 2016 than in 2015, with the number increasing by 14.2% (to more 419 million) and the value by just under 7% (to almost €22 billion). These figures continued the upward trend of the previous year.

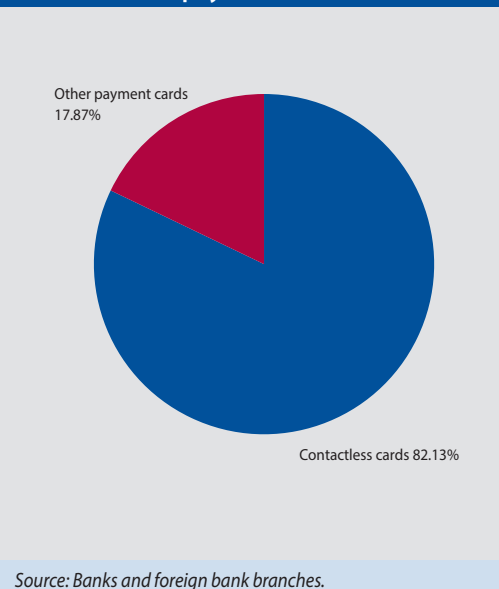
There were a total of 2,765 automated teller machines (ATMs) in Slovakia at the end of 2016, 27 more than at the end of 2015. The number of point of sale (POS) terminals increased in 2016 by 3,467 to 53,071.

#### CONTACTLESS PAYMENT CARDS

The number of contactless bank payment cards in circulation in Slovakia increased in 2016 by 14% year on year, bringing to 82% their share of the total number of payment cards issued by banks in Slovakia. The number of contactless card payments increased by 56%, from 100.74 million in 2015 to 157.4 million in 2016 (after increasing by almost 100% in 2015). The value of these transactions went up by 58%, from €1,338.8 million in 2015 to €2,116.24 million in 2016 (after increasing by more than 100% in 2015).

The usage of contactless payment cards in Slovakia is among the highest in the European Union. This fact was further illustrated by the 2016 figures for the total number of contactless payment cards in circulation and for the number and value of transactions carried out with them.

**Chart 29 Contactless bank payment cards as a share of total payment cards in 2016**



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

#### ASSESSMENT OF SECURITIES SETTLEMENT SYSTEMS (SSSs) AND LINKS BETWEEN THEM

In September 2013 the European Central Bank published a new "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 user assessment framework (UAF), an assessment of a new central securities depository in Slovakia was launched in 2016. The depository is called Národný centrálny depozitár cenných papierov, a. s. and it is being assessed against CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) and against the requirements set out in the UAF's User Addendum. The assessment process is due to be concluded in 2017.

The other central securities depository in Slovakia, Centrálny depozitár cenných papierov, a. s. (CDCP), was also assessed in 2016 in respect of changes stemming from the migration to Target2-Securities. The assessment outcomes will be known and consulted with CDCP in 2017.



### THE EUROSISTEM – TARGET2-SECURITIES

Further central securities depositories joined TARGET2-Securities (T2S) in 2016, as the second and third T2S migration waves took place in accordance with the updated T2S Programme Plan. A total of seven CSDs joined T2S in 2016, including, in March, Interbolsa (Portugal) and the National Bank of Belgium Securities Settlement System – NBB-SSS, and later, in September, Euroclear France, Euroclear Nederland, Euroclear Belgium, VP Lux (Luxembourg) and VP Securities (Denmark). With the successful completion of the third migration wave in September 2016, T2S was processing about 45% of the total transaction volume expected after the end of full migration in 2017. The CSDs scheduled for the fourth and final migration waves continued to undergo migration testing in 2016. The fourth wave CSDs, including Slovakia's CDCP, started operations on T2S from 6 February 2017.

T2S functioned reliably in 2016 and the operating errors that did appear were successfully resolved. One way in which the Eurosystem conducts dialogue with T2S stakeholders is through "Focus Sessions", the purpose of which it is to ensure optimal use of the T2S platform.

The harmonisation of services provision and national procedures continued in 2016 and will continue to be a priority of T2S dialogue. The Eurosystem is also considering how to support the further development of market infrastructures and is looking at the following new areas of development: instant payments, T2 and T2S consolidation, and a Eurosystem collateral management system (ECMS).

The Eurosystem has adopted a near-term strategy called "Vision 2020" for the further development of market infrastructures, with a focus on preparing solutions for instant payments, T2 and T2S consolidation, and an ECMS. The purpose of the strategy is to harmonise and deepen the integration of the European market, to make cost savings by means of technical consolidation, and to introduce new services for European financial markets. Vision 2020 ties in with the European Commission's project to build a capital markets union.

The instant payments project is intended to ensure that at least one instant payment solution in euro is available 24/7/365 to all payment service providers in Europe. The Eurosystem is also examining the scope for providing real-time settlement of payments.

The T2/T2S Consolidation project is exploring potential synergies between T2 and T2S, with a view to consolidating the technical and functional components of both infrastructures, establishing a consolidated and harmonised connectivity solution, and providing new RTGS services.

The aim of the ECMS project is to establish a common Eurosystem collateral management system to support more efficient collateral mobilisation in Eurosystem credit operations. The ECMS is expected to provide only services that are harmonised at the Eurosystem level. Other services will have to continue to be provided by local collateral management systems.

## 5 STATISTICS

Národná banka Slovenska develops, collects, compiles and disseminates a wide range of statistics which support the monetary policy of the euro area and the stability of the financial system in Slovakia, as well as 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 STATISTICAL DEVELOPMENTS

Monetary and financial statistics continued to be compiled in conjunction with the European Central Bank (ECB) and European System of Central Banks (ESCB) through the reporting of individual balance-sheet data and interest-rate data of selected banks. In 2016 the ECB's preparations for the reporting of granular credit data had an impact on methodological questionnaires. ECB reporting requirements in regard to the conduct of longer-term refinancing operations continued to be met. The activities of ECB/ESCB working groups focused on improving the quality of securities data and of insurance statistics, as well as on the first stages in drafting new legislation on pension funds reporting. Preparations for an analytical register of granular data on credits provided by banks entailed the start of work on developing the Banks' Integrated Reporting Dictionary, on defining a Single Data Dictionary for the Eurosystem and on establishing the European Reporting Framework for banks.

A new NBS decree in this field was issued in 2016, namely Decree No 9/2016 amending Decree No 17/2014 on reporting for statistical purposes by banks, branches of foreign banks, investment firms and branches of foreign investment firms, as amended by Decree No 21/2015.

Regarding securities statistics, the quality of data in the ECB's securities databases was further improved in 2016. In response to user requirements, the Centralised Securities Database (CSDB) underwent two significant updates in 2016. For the purpose of data quality enhancement, the ECB took steps to supplement and correct data on investment fund shares/units through bilateral projects with individual euro area countries. The classification of certain borderline financial instruments referred to in national laws of some euro area countries was harmonised in methodological terms. In regard to the Securities Holdings Statistics Database (SHSDB), activities in 2016 included fine-tuning the data quality management framework for sectoral data reporting and introducing a system allowing the calculation of flow data for countries that do not directly transmit data on securities transactions.

As regards the quarterly financial accounts (QFAs) for Slovakia, data were partially revised in 2016

in order to bring them in line with the balance of payments and the international investment position data. Parallel to this process, back series data for the period 2004–2012 started to be compiled.

The signing in September 2016 of an *Agreement on the provision of data on firms incorporated in Slovakia and on their financial and non-financial data* marked further progress in compiling a dataset for the projected database of non-financial corporations. Work also continued on linking micro and macro statistics on the household sector, using data from the Household Finance and Consumption Survey (HFCS).

In the area of government finance statistics (GFS), an issue of discussion in 2016 was how to change data quality parameters in order to make the *Quality Report* clearer and more comprehensible for users (the parameters in question concerned revision analysis, overall stability, and changes in deficit-debt adjustment).

In regard to statistical methodology, NBS cooperates with the Statistical Office of the Slovak Republic (SO SR) and the Ministry of Finance of the Slovak Republic (MF SR). The main focus of their discussions in 2016 was the harmonisation of debt securities reporting for the government sector.

In May 2016, NBS and the SO SR signed an Addendum to their *Framework agreement on cooperation in the provision of statistical data and statistical information*. Consultations also took place concerning the sectoral classification of the national resolution fund (administered by the Resolution Council) and of the Deposit Protection Fund.

The field of insurance statistics experienced sweeping changes in 2016. The reporting templates used until 2015 were, for supervisory purposes, completely replaced with a new set of reporting templates in accordance with the Solvency II Directive<sup>14</sup> and with NBS decrees<sup>15</sup>. A piece of secondary legislation addressing statistical requirements – NBS Decree No 20/2015<sup>16</sup> – entered into force at the beginning of the year. Further reporting obligations on insurance market participants are laid down in MF SR Measure No MF/14725/2015-74<sup>17</sup>.

In 2016 much attention was focused on addressing technical issues, on improving data quality,

<sup>14</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

<sup>15</sup> Decree No 1/2016 of Národná banka Slovenska on reporting by insurance undertakings not subject to a special regime and by reinsurance undertakings, and Decree No 36/2015 of Národná banka Slovenska on reporting by insurance undertakings subject to a special regime.

<sup>16</sup> Decree No 20/2015 of Národná banka Slovenska on reporting by insurance undertakings, reinsurance undertakings, branches of foreign insurance undertakings, branches of foreign reinsurance undertakings, insurance undertakings and reinsurance undertakings from other EU Member States, pension fund management companies and supplementary pension management companies.

<sup>17</sup> Measure No MF/14725/2015-74 of the Ministry of Finance of the Slovak Republic amending Measure No MF/25918/2011-74 of the Ministry of Finance of the Slovak Republic stipulating the scope of financial statement data to be reported and how, where and by when these data are to be reported.





and on defining principles, responsibilities and time management in relation to the processing of reports, in cooperation with the other relevant NBS departments. The reporting requirements for branches of insurance undertakings established in other EU Member States were broadened substantially in 2016, in order to harmonise them with the requirements for insurance undertakings established in Slovakia. Hence, reporting agents were made subject to a uniform information obligation – based on the ‘host principle’ and more stringent than that imposed under Solvency II – in order to meet requirements for the balance of payments statistics and requirements under Regulation (EU) No 1374/2014 of the European Central Bank on statistical reporting requirements for insurance corporations.

An NBS decree<sup>18</sup> approved in December 2016 completes certain changes to balance of payment statements and introduces for insurance and reinsurance undertakings a new reporting template for the collection of data on securities.

In the area of capital market statistics, testing was carried out in 2016 on data collection, the functionality of validation checks and the automated transmission of data to the European Securities and Markets Authority (ESMA) in accordance with Directive 2011/61/EU of the European Parliament and of the Council on Alternative Investment Fund Managers.

In the field of pension fund statistics, the drafting of an ECB regulation on statistical reporting for pension funds began in 2016, with the intention to meet the requirements of the ESCB, European Systemic Risk Board (ESRB) and the European Commission. NBS and reporting agents in the pension fund market took part in procedures to ascertain the coverage of reporting requirements and the level of reporting costs.

In order to improve the quality of reported data and in particular the *errors and omissions* item, back series of statistics on the balance of payments, international investment position, and foreign debt, for the period 2013-2015, were revised and published in 2016. As part of an ECB project, the gradual process of harmonising balance of payments statistics with financial accounts statistics began in 2016 and included the adoption of a schedule for the next two-year period.

Significant changes took place in 2016 in regard to statistics on non-bank entities. All of the reporting agents began transmitting all their reports through a new information system that completely replaced the manual collection of statistics. There were also changes in the structure of the reporting templates and in the collection philosophy (from the cumulative collection of data to collection for a specific period). The template for the quarterly reporting of services received/provided vis-à-vis the rest of the world (used in the new system since 2015) was modified to allow the collection of monthly data on equity participations, monthly data on foreign assets and liabilities, data on initial stocks and quarterly data on transactions with the rest of the world. At the same time, a detailed methodology for the different reporting templates was produced.

The reporting obligation of non-bank entities for statistical purposes is governed by Article 8 of Act No 202/1995 Coll. – the Foreign Exchange Act (and amending Act No 372/1990 Coll. on non-indictable offences, as amended), as amended by Act No 602/2003 Coll. The structure, scope and content of statistical reports and the reporting method, procedure deadlines and place are laid down in NBS Decree No 264/2015 Coll. of 5 October 2015 on reporting in accordance with the Foreign Exchange Act.

## 5.2 INFORMATION SYSTEMS

In January 2016 NBS began using the Information System – Statistics Collection Portal (IS SCP) for the collection and processing of all statistical reports. During the year, the required outputs were finalised and the subsequent processing was optimised. The IS SCP brings greater functionality by enabling reporting in XBRL, the format used to transmit data for supervisory purposes to the ECB, the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). 2016 also saw the continuation of preparations for the transmission to ESMA, in the ISO 20022 format, of data on alternative investment fund managers.

By the end of 2016 around 3,100 reporting agents were registered in the IS SCP, including 29 from the banking sector, 34 engaged in other financial

*18 Decree No 8/2016 of Národná banka Slovenska on reporting by insurance undertakings, reinsurance undertakings, branches of foreign insurance undertakings, branches of foreign reinsurance undertakings, insurance undertakings and reinsurance undertakings from other EU Member States, pension fund management companies and supplementary pension management companies. (This decree replaced NBS Decree No 20/2015.)*



intermediation, 37 from the insurance sector, 131 from the capital market (investment firms, collective investment undertakings, asset management companies, the stock exchange, and central securities depositories), 46 from the pension fund sector and around 2,820 entities reporting to NBS under NBS Decree No 264/2015 on reporting in accordance with the Foreign Exchange Act.

In 2016 a total of 161 reporting templates were designed for data collection requirements under national law, 200 as required by the EBA, 103 as required by EIOPA, and two in accordance with

the EU's Alternative Investment Fund Managers Directive.

With the aim of providing access to historical data, the process of transforming and migrating historical data to the IS SCP was launched in 2016 and remains ongoing.

To ensure data quality and improve the processing of statistics on securities, interest rates and certain balance sheet items, individual modules were further developed in 2016 using business intelligence tools.

## 6 ECONOMIC RESEARCH

The economic research conducted at Národná banka Slovenska (NBS) focuses mainly on practical issues in the financial, economic and monetary spheres, while also supporting the central bank's core tasks with more sophisticated theoretical or model-based solutions. The research outputs represent the result of inter-departmental collaboration within the bank, as well as co-operation with experts from other institutions, both domestic and foreign.

The nature of the research tasks performed at NBS are determined by the central bank's needs and by the medium-term research agenda approved by the NBS Bank Board. The relevancy and quality of the research is supervised by an independent research committee, which approves research projects and makes recommendations to improve research activity.

The principal outputs of NBS research activity are published by the central bank as peer-reviewed working papers, discussion papers, or analytical documents. Altogether in 2016 NBS published a total of nine working papers, analyses and analytical commentaries<sup>19</sup>, addressing issues in the following areas in particular: the labour market and real economy; economic modelling; monetary policy and inflation; and fiscal policy.

Research on the convergence of the Slovak economy towards the average EU level showed that in an environment of falling relative prices,

not even higher economic growth – boosted by the absorption of the remaining EU funds available from the previous financing period – was sufficient to revive the catch-up process in economic performance and productivity. The structural reforms that could lay the ground for further catching-up have not been carried out. Slovakia remains marked by wide regional disparities in terms of key real economy indicators.

Research based on new detailed data on European firms confirmed that firms placing their products also in foreign markets are more productive. Firms' productivity increases in parallel with experience acquired. A small number of highly efficient firms account for the bulk of exports, and these firms continued to grow even during the crisis. The outcome of research on a narrow sample of firms in new EU Member States confirmed that export openness increases the volatility of firms' output. In contrast, however, with findings for firms in large advanced economies, new research provided evidence that firms in new Member States which export diverse products, or export to multiple markets, do not necessarily have greater stability of sales.

Research findings in the area of economic modelling were largely focused on new approaches to testing the validity of the assumptions applied in time series models. One research paper provided empirical evidence for non-linearity and non-normality of distribution in a large majority of macro-

<sup>19</sup> The full texts of working papers and analyses can be found on the NBS website, at <http://www.nbs.sk/en/publications-issued-by-the-nbs/research-publications>



economic indicators, thus raising questions about the fact that normal distribution and linearity are often underlying assumptions in indicator models. Another paper in this area proposed ways of improving the currently used linearity tests and demonstrated their success in a large number of stock return time series. A further paper took a small open DSGE model for the Slovak economy and augmented it with a more sophisticated fiscal sector, thereby allowing an evaluation of the impact of different consolidation measures on economic activity in the short term and over the long term.

Research in the area of monetary policy and inflation addressed one of the key questions of monetary policy, i.e. to what extent is current inflation determined by expectations for future inflation. The outcomes show that price dynamics in Slovakia are determined more by inertia than by inflation expectations. Inflation trends in Slovakia are determined mainly by unit labour costs and import prices.

The most important insights resulting from NBS research activity are published in domestic and foreign academic journals. The success of NBS staff members in having work published in peer-reviewed journals was notably greater in 2016 compared with the previous year. This included contributions to such prestigious journals as *The Journal of Finance*, *Journal of Monetary Economics*, *Econometric Reviews*, *Econometrics and Statistics*, and *International Journal of Central Banking*. Research findings that had local significance appeared in Slovak and Czech peer-reviewed journals such as *Finance a úvér*, *Ekonomický časopis* and *Politická ekonomie*.

Some of the outcomes of joint international research projects involving NBS staff members were published in 2016 as working or occasional papers of foreign institutions, including the ECB (four papers), the Bank for International Settlements, the EU project FinMap, the Nottingham Centre for Research on Globalisation and Economic Policy (GEP), and the Oesterreichische Nationalbank (OeNB)<sup>20</sup>.

NBS's international research cooperation is realised mostly via its participation in Eurosystem/ESCB research groups and research networks dedicated to particular fields of activity. In 2016, as in previous years, NBS was involved in three

such research networks, as described in the following paragraphs.

The 2016 activities of the Household Finance and Consumption Network (HFCN) were focused on preparing a report on the results of the second wave of the Household Finance and Consumption Survey (HFCS) conducted in the euro area and other participating countries. Key stylised facts from the HFCS and details of the survey methodology were published in two ECB Statistics Papers in 2016. Trends in the net wealth of Slovak households were the subject of separate analytical commentaries published by NBS. During the year, the anonymised data from the Slovak component of the HFCS were provided to external researchers for research purposes. At the same time, preparations continued to be made for the HFCS's third wave in Slovakia.

In 2016 the Wage Dynamics Network (WDN) – which examines wage dynamics and their responsiveness to external shocks – focused on processing and harmonising data from a recent Europe-wide firm-level survey that produced a number of interesting findings. One of the WDN's published outputs to which NBS staff members contributed was a paper on the relationship between wage rigidities and employment.

Within the Competitiveness Research Network (CompNet), the main task in 2016 was to map current developments in research on export performance, resource allocation and global value chains. NBS's involvement in CompNet in 2016 resulted in its contribution to several outputs (including one ECB paper) and the production of two NBS papers.

Another important area of international research cooperation in 2016 was the participation of NBS staff members in workshops, conferences and seminars other than those organised by the Eurosystem/ECB research networks. In 2016 NBS researchers presented the results of their work at a number of scientific conferences, both in Slovakia and abroad.

In November 2016 NBS organised an international research conference entitled *Monetary policy challenges from a small country perspective*. The keynote contributions to the conference were delivered by Randall Kroszner, Professor of Economics at the Chicago Booth School of Busi-

<sup>20</sup> ECB Occasional Paper 167: *Savings and investment behaviour in the euro area*, ECB Working Paper 1902: *Export Characteristics and Output Volatility: Comparative Firm-Level Evidence for CEE Countries*, ECB Statistics Paper 17: *The Household Finance and Consumption Survey: methodological report for the second wave*, ECB Statistics Paper 18: *The Household Finance and Consumption Survey: results from the second wave*, BIS Working Paper 566: *Monetary facts revisited*, FinMap Working Paper 56: *Fiscal policy and the term structure of interest rates in a DSGE model*, Nottingham GEP Research Paper 19/2016: *Wage Adjustment and Employment in Europe*.



ness and a former member of the Board of Governors of the Federal Reserve System, and Andrew Filardo, Head of Monetary Policy at the Bank for International Settlements and a former member of the US President's Council of Economic Advisers. Among the issues discussed were: how to estimate the impact of specific non-standard monetary policies on inflation, economic growth and employment; how to correctly time and sequence the implementation of non-standard monetary policies; the causes and consequences of the current low inflation environment; the importance of central bank forward guidance as a monetary policy tool; and monetary policy transmission in small open economies. The conference was attended by representatives of cen-

tral banks and leading European academic institutions.

In 2016 NBS hosted or co-hosted more than 30 seminars for experts. Some of the events had a discussion format and addressed current economic issues. Most were research-oriented and provided a platform for domestic and foreign researchers to present the interim or final outcomes of their work.

In 2016, as a way of supporting economic research in Slovakia, NBS established a doctoral study and research support programme and a visiting researcher programme. Both programmes also extended the central bank's opportunities in regard to external research cooperation.

## 7 EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION

### 7.1 EUROPEAN AFFAIRS

#### EUROPEAN UNION (EU)

Of the events on the EU's agenda in the first half of 2016, the most significant for Národná banka Slovenska (NBS) was the April informal meeting of the ECOFIN Council in Amsterdam, which focused on strengthening of the Banking Union, the "Panama Papers", and sustainable finances.

On 1 July 2016 Slovakia, for the first time in its history, assumed the Presidency of the Council of the EU. During the six months of its EU Presidency, Slovakia was responsible for chairing and coordinating meetings at all levels, from expert to ministerial. The Slovak EU Presidency represented a major challenge also for NBS, which, within the field of its competences, cooperated with Slovakia's Ministry of Finance on, primarily, outstanding issues concerning the EU's Banking Union and Capital Markets Union (CMU). Under the Slovak EU Presidency, discussions on CMU-related amendments to the legal regime for prospectuses ('the Prospectus Directive') were brought to a successful conclusion. NBS staff contributed to the agenda related to the proposed Money Market Funds Regulation. Furthermore, in the fight against international terrorism, the Slovak EU

Presidency oversaw the approval of a draft directive amending the directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

From NBS's perspective, the most important event of the Slovak EU Presidency was the September informal meeting of the ECOFIN Council in Bratislava, which was attended by finance ministers and EU Member States' central bank governors, as well as by the ECB's President, Mario Draghi. The main topic of this meeting was a euro area joint fiscal capacity and related fiscal mechanism alternatives. The ECOFIN Council was preceded by a meeting of EU Member States' central bank governors with the ECB President, at which views were exchanged on ECOFIN issues and on the efficiency of the European Fund for Strategic Investments in supporting EU economic growth.

### 7.2 COOPERATION WITH INTERNATIONAL INSTITUTIONS

#### INTERNATIONAL MONETARY FUND (IMF) / WORLD BANK GROUP (WBG)

In 2016 NBS was, as usual, represented at the Spring and Annual Meetings of the IMF and WBG



(the Bretton Woods institutions), all of which were held in Washington DC. The Spring Meetings in April included the presentation of the IMF's most recent multilateral surveillance documents – the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). Participants also discussed pressing issues related to the strengthening of the international monetary system, as well as the effects of highly volatile capital flows. The Annual Meetings in October, attended by NBS representatives saw the IMF's Board of Governors discuss the autumn editions of WEO and GFSR, as well as the IMF's Annual Report and its financial statements. Among important milestones for the IMF in 2016 were the adjustment of IMF members' quotas at the 14th General Review of Quotas, which increased the total quotas from SDR 238.5 billion to SDR 477 billion, and the inclusion of the Chinese renminbi in the special drawing right (SDR) currency basket.

An IMF 'Staff Visit' to Slovakia at the beginning of June 2016 provided an opportunity for informal discussions between IMF and Slovak representatives. The meetings between the IMF delegation and NBS representatives included exchanges of views on Slovakia's macroeconomic development and outlook, the condition of the Slovak financial sector and recent developments in Slovakia's balance of payments.

As at 31 December 2016 Slovakia's reserve position with the IMF stood at SDR 153.3 million (15.3% of quota). In 2016 the IMF fully repaid the outstanding amount of funds borrowed under the 2010 bilateral loan agreement between Slovakia and the IMF (SDR 5 million).

#### ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

In March 2016 OECD representatives met with NBS staff members for discussions relating to the OECD's *Economic Survey of the Slovak Republic 2017*, specifically on the country's macroeconomic situation and developments in its banking sector. In 2016 NBS representatives regularly participated in meetings of OECD committees and working groups, as well as in meetings of the Coordination Committee established at the Slovak Ministry of Foreign and European Affairs for the purpose of overseeing Slovakia's activities in the OECD.

#### EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

In May 2016 the EBRD's Board of Governors held its anniversary 25th Annual Meeting in London, under the main theme: *Influencing Change – The Next 25 Years*. The meeting included the re-election of the current EBRD President for another four years.

#### BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The NBS Governor attends the regular BIS meetings of central bank governors. Six such All Governor's Meetings were held in 2016, and their discussion covered a range of current issues, including liquidity support mechanisms, cyber risks in central banking, foreign market interventions and economic resilience.

At the BIS Annual General Meeting in June 2016, the main items on the agenda were the approval of the BIS's financial results and the distribution of its profit and dividends. In November 2016 the NBS Governor attended an Extraordinary General Meeting of the BIS, convened to amend the BIS Statutes regarding the composition and functioning of the Board of Directors.

### 7.3 INTERNATIONAL ACTIVITIES IN THE FIELD OF SUPERVISION

#### EUROPEAN SYSTEMIC RISK BOARD (ESRB)

In 2016 five meetings of the ESRB General Board were held. In the Board, NBS was represented by its Governor and the Executive Director of its Financial Market Supervision Unit. The meetings dealt with several issues in addition to their regular focus on developments in systemic risk factors and intensity.

One issue was the assessment of risks stemming from developments in the residential real estate market across Member States. In response to the risks identified, the ESRB issued warnings to eight Member States<sup>21</sup>. Although Slovakia was among countries that the ESRB identified as having elevated risks in its residential real estate market, it was not issued with a warning owing to the measures that NBS had adopted and planned to adopt. The ESRB published its warnings and assessment report in November 2016. A second issue was the assessment of risks stemming from the persisting period of low interest rates.

<sup>21</sup> Warnings ESRB/2016/05 to ESRB/2016/12 on medium-term vulnerabilities in the residential real estate sector of Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands, Sweden and the United Kingdom.





The final report, including proposed remedies, was published by the ESRB in November 2016. A third issue concerned the assessment of risks related to shadow banking activities. Preliminary findings were published in several articles, as well as in the first issue of the *EU Shadow Banking Monitor*. The ESRB also published proposals in regard to the *Review of the Macro-prudential policy framework*, which the European Commission plans to conduct in 2017. In addition, the ESRB also provided adverse scenarios for EBA and EIOPA stress tests, published a recommendation on data collection for the residential and commercial real estate sector, and explored possibilities of implementing macroprudential supervision in the insurance and capital market sectors.

#### EUROPEAN BANKING AUTHORITY (EBA)

In 2016 NBS's ongoing cooperation with the EBA focused on the drafting of regulatory technical standards (RTSs) required under the EU's Capital Requirements Regulation and Directive (CRR/CRD IV). NBS cooperated with EBA at all levels of competence, from working groups to the highest approval bodies. NBS was involved in the drafting of RTSs relating to new requirements for improving the supervision of banks and investment firms and for implementing specific articles of the CRR.

#### EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA)

EIOPA underwent significant changes in 2016 in connection with the new Solvency II regulatory regime, which entered into force at the start of the year. These included an overhaul of its organisational structure, as well as a shift in the focus of its activities, away from regulation and towards supervision. At the same time, EIOPA is increasingly addressing supervisory oversight and consistency across Member States, with the aim of ensuring maximum supervisory convergence.

The change in EIOPA's organisational structure consisted mainly of separating the decision-making and technical levels. As a result, new steering committees were established, comprising members of the highest decision-making body (Board of Supervisors). Their task is to manage the respective working groups and create suitable working conditions for them. In addition, a permanent group of experts (Expert Network) was established within EIOPA for the purpose of selecting staff members to perform specific tasks within the working groups.

In 2016 six Slovak insurance companies were subjected to a stress test to assess their resilience to two adverse market scenarios. One scenario consisted of persisting low returns in financial markets, and the other of evolving non-standard market conditions under which a prolonged period of low returns is expected together with a sharp fall in prices of certain assets (mainly in the equity and bond markets but spilling over into other types of assets). All the companies, representing a market share of 84.3% (by share of life insurance technical reserves), performed well in the test, and the Slovak insurance sector was shown to maintain solvency even under the adverse scenarios. As for the area of pension funds in 2016, the NBS Financial Market Supervision Unit participated in the drafting of the final report on the results of the EU stress test for occupational pensions, which EIOPA carried out in 2015. The results for the resilience of Slovak pension fund management companies were favourable.

#### EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA)

In 2016 ESMA underwent a significant shift in the focus of its activities. After spending the post-crisis years contributing to the establishment of a single rulebook for the entire European capital market, ESMA started to pay more attention to promoting supervisory convergence in the implementation of these rules across Member States. This shift was signalled by a document entitled *ESMA Strategic Orientation 2016–2020*, in which ESMA, inter alia, declares its ambition to complete the single rulebook for capital markets and gradually focus more on the convergence of supervisory practices of national competent authorities (NCAs).

In 2016 ESMA launched the first phase of its IT delegated project TRACE, which provides participating NCAs, including Národná banka Slovenska, with a single point of access through which they may retrieve data reported to trade repositories by market entities in accordance with the European Market Infrastructure Regulation (EMIR). Work also continued on the project's second phase, and on preparations for another delegated project, called FIRDS. The purpose of FIRDS is to ensure, at ESMA, the central collection of financial instrument reference data from trading venues and the storage, processing and publication of that data, including related calculations, in accordance with the MiFIR Regulation.





## 7.4 TECHNICAL COOPERATION

NBS's long-established technical cooperation programmes with the central banks of Belarus and Ukraine continued in 2016. NBS organised two seminars for representatives of the National Bank of the Republic of Belarus (NBRB), one on payment systems and another on foreign reserves

management. The NBRB, for its part, hosted a seminar on operational risk management that was attended by an NBS representative. NBS also organised two seminars for representatives of the National Bank of Ukraine (NBRB), one on a cash circulation management model and another on the preparation of a statistics collection portal and related IT solutions in the field of statistics.

# 8 COMMUNICATION

Národná banka Slovenska (NBS) considers the task of informing and communicating with professionals and the general public to be crucial to the effective fulfilment of its objectives as a central bank. NBS seeks to address specific target groups as efficiently as possible, and in doing so it places great importance on openness, transparency, and maintaining its high standing in the eyes of the Slovak public. The reports and analyses published by NBS are an important source of information for economists, research and educational institutions, and the media.

A key element of NBS's communication policy is participation in the Eurosystem's joint communications procedures, which primarily involves the regular and timely provision of information on monetary policy decisions and European banking supervision, on current developments in the Slovak and European economies, and on the banking sector and other financial market segments and their impact on financial stability in Slovakia.

NBS provided information on many issues during 2016, including in particular the following: important changes concerning the Single Euro Payments Area (SEPA); the issuance of the new €50 banknote and the discontinuance of production of the €500 banknote; the new Housing Loan Act and Consumer Credit (Amendment) Act, including related NBS decrees; property prices; financial consumer protection; and the supervision of creditors.

NBS may be contacted by e-mail at the addresses provided on its website. In 2016 it received 3,553 e-mails, including: 3,075 at the addresses dedicated to communication with the public, [info@nbs.sk](mailto:info@nbs.sk) and [webmaster@nbs.sk](mailto:webmaster@nbs.sk); 52 at the address

assigned to requests for information under the Freedom of Information Act (No 211/2000 Coll.), [infozakon@nbs.sk](mailto:infozakon@nbs.sk); and 426 at the address for media enquiries, [press@nbs.sk](mailto:press@nbs.sk). The e-mails from the public included complaints about commercial banks and insurers.

### PUBLICATIONS

Through its specialist periodical publications, NBS provides professionals and the wider public with information and analyses about its main fields of activity. These publications include the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, Monthly Bulletin and four issues of each of the following publications: Report on the International Economy, Report on the Slovak Economy, Medium-Term Forecast, and Statistical Bulletin.<sup>22</sup>

The bank's regular Analytical Commentaries on selected issues and Flash Commentaries on specific macroeconomic indicators are valued for their up to date information. A total of 10 Analytical Commentaries<sup>23</sup> and 140 Flash Commentaries<sup>24</sup> were published in 2016. At the same time, improvements were made to the macroeconomic database, which provides numerous structured economic data in the form of time series. NBS staff members also address current economic issues through the publication of other analyses and working papers.<sup>25</sup> In order to fulfil the multilingual communication principles of the Eurosystem/European System of Central Banks (ESCB), Eurosystem/ESCB central banks are required to participate in the drafting of the official ECB publications in the language of their own country, and therefore NBS is involved in the drafting of Slovak language versions of these texts.<sup>26</sup>

<sup>22</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs>

<sup>23</sup> <http://www.nbs.sk/sk/menova-politika/analyticke-komentare>

<sup>24</sup> <http://www.nbs.sk/sk/menova-politika/rychle-komentare>

<sup>25</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/research-publications>

<sup>26</sup> <http://www.nbs.sk/sk/publikacie/publikacie-ecb>



NBS official publications have for several years been issued in electronic form only. In order to make its information as widely available as possible, the bank also produces ePUB versions of its key publications and includes QR codes in many of its information materials

In 2016 NBS published a number of information and promotional materials designed to provide the general public with clear explanations of the following: the tasks of NBS and the Eurosystem in regard to protection of the euro; the rules and principles of the Single Supervisory Mechanism; and financial consumer protection.

NBS has an important communication tool in its banking journal *Biatic*, which provides analytical, theoretical and evaluative articles on current issues in the areas of monetary policy, banking and finance, the macroeconomy, and financial market supervision. Through *Biatic*, NBS interacts with authors and readers from the banking and financial sector, academia, and the educational sector. *Biatic* is a Slovak-language publication that includes English summaries of selected articles. Six issues were published in 2016, both in print versions and electronically on the NBS website.<sup>27</sup>

#### WEBSITE

The NBS website continued to be modified and improved in 2016. A new microsite dedicated to financial consumer protection was launched, providing information about financial consumer education, useful advice and publications. The Macroeconomic Database also underwent a change in 2016 with the implementation of a new search engine based on the automatic aggregation of queries. The upward trend in the website's traffic continued in 2016, with the total number of visits almost 8% higher compared to the previous year.

#### TALKS, EXHIBITIONS AND COMPETITIONS

Each year NBS organises talks and workshops for school and university students, both from Slovakia and abroad. The talks focus mainly on the central bank's role in the Eurosystem, while the purpose of the workshops is to improve financial literacy. Altogether, more than 3,200 students visited such events in 2016. In addition, NBS has a long tradition of hosting research seminars in which Slovak and foreign researchers present the results of their work.



On 12-14 October 2016 NBS held a new event called Financial Consumer Days, aimed at both professionals and the general public. It took place at the bank's headquarters in Bratislava, as well as at its branches in Banská Bystrica and Košice so as to ensure the broadest possible participation. Talks given during the event by NBS and external experts were attended by more than 300 people in total.

Visitors to the bank may also enjoy its permanent exhibition entitled *Od slovenskej koruny k euru* (From the Slovak koruna to the euro), which is aimed mainly at primary and secondary school students and complements the talks mentioned above. The exhibition provides information about Slovakia's integration into the euro area, the production of banknotes and coins, and the security features of the euro currency. The exhibition was seen by more than 2,000 students in 2016.

The fifth Generation Euro Students' Award – an educational competition for secondary school students in the euro area – was completed in 2016. The competition is held each academic year by the European Central Bank (for international and European schools) and by national central banks (for national schools), with the 2016 edition taking place at the ECB and in Germany, Spain, Finland, the Netherlands, Luxembourg, Portugal, Austria, Ireland, Italy, Belgium, Slovenia and Slovakia. In terms of the number of participating teams, the Slovak competition ranked third highest with 91, behind Spain and Portugal. A total of 41 Slovak teams passed the first round (an online quiz), and 25 teams took part in the second round by submitting an assignment on monetary policy. The Slovak final was held on 21 March 2016. The winning team, from the Juraj Hronec Gymnasium in Bratislava, joined the winners of the other national competitions at the ECB's Headquarters in Frankfurt am Main for the presentation of the final

<sup>27</sup> <http://www.nbs.sk/en/publications-issued-by-the-nbs/journal-biatic>



awards. The sixth edition of the competition was launched in September 2016.<sup>28</sup>

The fourth annual edition of the NBS Governor's Award was held in 2016. The award is given to the best dissertation or doctoral thesis in the field of economics produced in the most recent academic year. The award is open to dissertations or doctoral theses done at universities in Slovakia or by Slovak citizens abroad. Most of the contenders for the 2016 award were dissertations that demonstrated original research in such areas as monetary economics, macroeconomics, financial economics and financial stability. The NBS Governor's Award has become an established competition and attracts increasing participation from year to year. The number of papers entered in 2016 was almost twice as high as in 2015.<sup>29</sup>

#### ARCHIVES

The NBS Archives are specialist public archives. They are managed by the Archives Section, which ensures that the archival documents of NBS and its predecessor institutions are gradually processed and are available for viewing and searching by NBS staff members and by other natural persons and legal entities in Slovakia and abroad. In 2016 the NBS Archives Section received 98 requests, from Slovakia and abroad, regarding information from archival documents, and there were 31 research visits to the Archives. The archival documents that attracted most interest were those concerning information about properties and employees of historical banking and financial institutions and on the legal successors of such institutions.

The NBS Archives Section cooperates with similar specialised institutions in Slovakia, especially in addressing issues related to the implementation of new legislation requiring electronic recording and processing of registry records and archival documents. The Archives Section also cooperates with the Information Management Services Division of the European Central Bank and the European Association for Banking and Financial History (EABH). Archival documents are also made available to the public through exhibitions and publication. In 2016 the designs for Slovak banknotes from the period 1940-1945 were loaned to an exhibition at the Slovak National Gallery, while copies of the designs for former spa buildings in the High Tatras (taken from

the fonds of the former Spišská úverná banka/ Spiš Credit Bank in Levoča) were provided for illustrative purposes in various domestic and foreign publications.

In 2016 work was completed on a new information system for recording and processing NBS registry records, on information systems for managing the NBS Archives and special fonds, and on a research portal that will improve the quality of electronic communication with researches and the services provided to them.

#### DOCUMENTATION CENTRE

The NBS Documentation Centre (DC) provides library, research and lending services to NBS staff members, principally through a new online catalogue called IPAC.

The DC also provides information services to professionals and to students of economics, law and other subjects at universities in Slovakia and abroad. These services mostly consist of processing queries for information on banking and economic issues.<sup>30</sup>

#### MUSEUM OF COINS AND MEDALS IN KREMNICA

Established in 1890 and under NBS control since 1994, the Museum of Coins and Medals in Kremnica<sup>31</sup> is a remarkable numismatic museum that manages rich and varied collections containing almost 100,000 items. The most interesting items are presented to the public in the museum's permanent exhibitions. One of these exhibitions, called *Two faces of money – money and medal-making in the history of Slovakia*, documents the history of money and medal-making in the territory of present-day Slovakia, from pre-coinage means of payment to today's banknotes and coins. It also includes interesting items from Kremnica's history of precious-metal mining and minting. Another permanent exhibition is the *Town Castle*, which comprises a complex of historical buildings and the items on view inside them. The most prominent of the buildings is St Catherine's Church. In addition, at the museum's Townhouse in Kremnica, pieces of stoneware made at a former factory in Kremnica are on display in a long-term exhibition entitled *The charm of stoneware gardens – The Kremnica stoneware factory of 1815 to 1956*.

In 2016 the museum worked with other institutions on organising two events targeted at

<sup>28</sup> [www.generaciaeuro.sk](http://www.generaciaeuro.sk)  
<sup>29</sup> [http://www.nbs.sk/sk/informacie-pre-media/tlacove-spravy/spravy-vseobecne/detail-tlacovej-spravy/\\_vyhlasenie-vysledkov-sutaze-o-cenu-guvernera-nbs2](http://www.nbs.sk/sk/informacie-pre-media/tlacove-spravy/spravy-vseobecne/detail-tlacovej-spravy/_vyhlasenie-vysledkov-sutaze-o-cenu-guvernera-nbs2)  
<sup>30</sup> <http://www.nbs.sk/sk/publikacie/kniznica-narodnej-banky-slovenska>  
<sup>31</sup> [www.muzeumkremnica.sk/en/home](http://www.muzeumkremnica.sk/en/home)

experts. In September 2016 there was an international conference entitled *Mining in Slovakia and Romania from the 15th to 18th centuries*, which the museum organised in cooperation with the Commission of Historians of Slovakia and Romania and with the Slovak National Uprising Museum. In October the museum hosted an international workshop for postgraduate students and young scientists, entitled *Spaces and Practices of Peregrinating Knowledge – Circulation of Knowledge and Shaping of Expertise in 17th and 18th Century*. The event was organised by the Institute of History of the Slovak Academy of Sciences (SAV) and the Department of Philosophy of Matej Bel University in Banská Bystrica, in cooperation with the Slovak Historical Society at the SAV and with the Kremnica museum itself.

In 2016 the museum published the first volume of a new specialist publication called *Múseion – Kremnica Museum Miscellany*. Containing contributions from the fields of numismatics, history and museology, this volume was dedicated to the 125th anniversary of the museum's establishment.

Every year the museum puts on a number of temporary exhibitions. The following exhibitions of artwork were held at the museum's Gallery in Kremnica at different times in 2016:

- *Od Dunaja, Vltavy a Visly (From the Danube, Vltava and Vistula)* – the 13th edition of an international exhibition cycle on contemporary medal art, displaying works by six medallists from Slovakia, Hungary and Poland (10 March to 29 April);
- *Marian Drugda – Variability (Variables)* – a selection of works from the prodigious output of a leading exponent of geometric art (12 May to 29 July);
- *Karikaturisti (Caricaturists)* – held as part of the regular European Festival of Humour and Satire called *Kremnica Gags* and featuring works by Slovak and foreign caricaturists (8 August to 16 September);
- *Slovenská medaila 2010–2015 (Slovak medals 2010–2015)* – a showcase of art medals by 41 Slovak medallists to mark the 25th anniversary of the Medallists' Association of Slovakia (28 September to 18 November);
- *Stretnutie v rokoch po rokoch (Reunion of the old-timers)* – an exhibition commemorating the 50th anniversary of the establishment of the Private School of Applied Arts (SŠÚV) in Krem-



nica (formerly known as the Secondary School of Applied Arts), with works produced by some of the school's first students and teachers (24 November 2016 to 27 January 2017).

The following exhibitions were held in 2016 alongside the Two Faces of Money exhibition:

- *Peter Mišík – Reštaurovanie zlatníckych diel a vlastná tvorba (Peter Mišík – Own works and restorations of goldsmiths' works)* – a selection of works by a man who has devoted more than 50 years to making jewellery and to restoration (7 April – 30 June);
- *22. Medzinárodné sympóziu umeleckého šperku Kremnica 2016 (22nd International Symposium of Jewellery Art)* – an exhibition of jewellery artworks produced at the symposium (14 July – 31 August);
- *Štyri kúty adventu (Four corners of advent)* – an exhibition for schools focusing on traditional Christmas customs and including interactive elements (8 December to 23 December).

Most of the events organised by the Museum include educational programmes and creative workshops for various target groups. The Museum runs several school-group programmes related to the history of money, mining and minting in Slovakia and to regional and cultural education. These programmes and activities attracted a total of 8,979 participants in 2016, ranging from children and students, to teachers and seniors.

The museum also organised several events for the general public in 2016. For the *Night of Museums* international event, on 21 May 2016, it prepared a programme dedicated to the 20th anniversary of the opening of the Town Castle exhibition. In the summer, as in the previous year, the museum held a series of family events comprising *The*





*Charm of Ceramics, Picnic at the Castle, Museum Stories, and Summer Night of the Muses.* And to mark the Month of Respect for the Elderly (Mesiac úcty k starším), the museum again put on a special programme for seniors entitled *Autumn at the Museum*. As the year drew to a close, a number of Christmas events were held at the museum, including *Christmas Mini-Markets* (with live nativity scene) at the Town Castle, an *Advent Concert*,

and a dramatised tour entitled *Spirit of Christmas at Kremnica Castle*. The museum's programme of events for the year was rounded off with five concerts at St Catherine's Church.

In 2016 more than 49,000 people, from Slovakia and abroad, visited the various exhibitions and events organised by the NBS Museum of Coins and Medals.

## 9 LEGISLATION

In 2016 Národná banka Slovenska (NBS) 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 2016 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 566/1992 Coll. on Národná banka Slovenska, as amended, was amended in 2016 by Act No 91/2016 Coll. and Act No 125/2016 Coll.

Act No 483/2001 Coll. on banks (and amending certain laws), as amended, was amended in 2016 by Act No 90/2016 Coll., Act No 91/2016 Coll., Act No 125/2016 Coll., Act No 292/2016 Coll., Act No 298/2016 Coll., Act No 299/2016 Coll., Act No 315/2016 Coll. and Act No 386/2016 Coll.

Act No 371/2014 Coll. on resolution in the financial market (and amending certain laws) was amended in 2016 by Act No 291/2016 Coll.

Act No 566/2001 Coll. on securities and investment services (and amending certain laws) (the Securities Act), as amended, was amended in 2016 by Act No 91/2016 Coll., Act No 125/2016 Coll., Act No 289/2016 Coll. and Act No 292/2016 Coll.

Act No 492/2009 Coll. on payment services (and amending certain laws), as amended, was amended in 2016 by Act No 91/2016 Coll., Act No 125/2016 Coll. and Act No 386/2016 Coll.

Act No 747/2004 Coll. on financial market supervision, as amended, was amended in 2016 by Act No 90/2016 Coll. and Act No 292/2016 Coll.

Act No 202/1995 Coll. – the Foreign Exchange Act (and amending Act No 372/1990 Coll. on non-indictable offences, as amended), as amended, was amended in 2016 by Act No 90/2016 Coll. and Act No 125/2016 Coll.

Act No 203/2011 Coll. on collective investment, as amended, was amended in 2016 by Act No 91/2016 Coll., Act No 125/2016 Coll. and Act No 292/2016 Coll.

Act No 43/2004 Coll. on the old-age pension scheme (and amending certain laws), as amended, was amended in 2016 by Act No 91/2016 Coll., Act No 125/2016 Coll. and Act No 292/2016 Coll.

Act No 650/2004 Coll. on the supplementary pension scheme (and amending certain laws),



as amended, was amended in 2016 by Act No 91/2016 Coll., Act No 125/2016 Coll. and Act No 292/2016 Coll.

Act No 186/2009 Coll. on financial intermediation and financial advisory services (and amending certain laws), as amended, was amended in 2016 by Act No 91/2016 Coll. and Act No 125/2016 Coll.

Act No 310/1992 Coll. on home savings, as amended, was amended in 2016 by Act No 90/2016 Coll.

Act No 129/2010 Coll. on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended, was amended in 2016 by Act No 91/2016 Coll. and Act No 299/2016 Coll.

Act No 118/1996 Coll. on deposit protection (and amending certain laws), as amended was amended in 2016 by Act No 125/2016 Coll. and Act No 291/2016 Coll.

Act No 530/1990 Coll. on bonds, as amended, was amended in 2016 by Act No 125/2016 Coll.

Act No 429/2002 Coll. on stock exchanges, as amended, was amended in 2016 by Act No 91/2016 Coll., Act No 125/2016 Coll. and Act No 292/2016 Coll.

## IMPLEMENTING LEGISLATION OF GENERAL APPLICATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2016

### DECREES PROMULGATED IN THE COLLECTION OF LAWS OF THE SLOVAKIA REPUBLIC BY THE PUBLICATION OF THEIR FULL TEXT

Decree No 229/2016 Coll. of Národná banka Slovenska of 26 July 2016 on annual reports and half-yearly reports submitted by pension fund management companies.

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

Decree No 1/2016 of Národná banka Slovenska of 26 January 2016 on reporting by insurance undertakings not subject to a special regime and by reinsurance undertakings.

Decree No 2/2016 of Národná banka Slovenska of 16 February 2016 on the own funds of supplementary pension management companies.

Decree No 3/2016 of Národná banka Slovenska of 26 July 2016 on annual reports and half-yearly reports submitted by supplementary pension management companies.

Decree No 4/2016 of Národná banka Slovenska of 27 September on the content of operational reports on the risk management units of insurance undertakings subject to a special regime.

Decree No 5/2016 of Národná banka Slovenska of 27 September laying down the elements of an application to register a representative office of a foreign bank or of a similar foreign financial institution engaged in banking activities.

Decree No 6/2016 of Národná banka Slovenska of 8 November 2016 amending Decree No 5/2014 of Národná banka Slovenska on the Register of Bank Loans and Guarantees.

Decree No 7/2016 of Národná banka Slovenska of 22 November 2016 amending Decree No 1/2015 of Národná banka Slovenska on reporting by alternative investment fund managers for the purposes of supervision and systemic risk monitoring.

Decree No 8/2016 of Národná banka Slovenska of 13 December 2016 on reporting by insurance undertakings, reinsurance undertakings, branches of foreign insurance undertakings, branches of foreign reinsurance undertakings, insurance undertakings and reinsurance undertakings from other EU Member States, pension fund management companies and supplementary pension management companies.

Decree No 9/2016 of Národná banka Slovenska of 13 December 2016 amending Decree No 17/2014 of Národná banka Slovenska on reporting for statistical purposes by banks, branches of foreign banks, investment firms and branches of foreign investment firms, as amended by Decree No 21/2015.

Decree No 10/2016 of Národná banka Slovenska of 13 December 2016 laying down detailed provisions on the assessment of borrowers' ability to repay housing loans.





# 10 INSTITUTIONAL DEVELOPMENTS

## 10.1 INSTITUTIONAL FRAMEWORK

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

NBS is a member of the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks (NCBs) of those countries that have adopted the euro. NBS joined the Eurosystem on 1 January 2009, the date on which Slovakia adopted the euro. The NBS Governor is a member of the ECB's Governing Council, the Eurosystem's highest decision-making body. Thus NBS, together with other NCBs and the ECB, contributes to achieving the common goals of the Eurosystem.

NBS contributes to the activities of the Eurosystem and the ESCB through its involvement in the Eurosystem/ESCB committees, which comprise the following:

- 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
- Market Infrastructure and Payments Committee
- Risk Management Committee
- Statistics Committee
- Budget Committee
- Human Resources Conference

As the national supervisory authority in Slovakia, NBS has been part of the EU's Single Supervisory Mechanism (SSM) – a mechanism for exercising supervision over credit institutions in participating EU Member States – since the SSM came into operation on 4 November 2014.

The NBS participates in specific supervisory tasks of the ECB through the direct involvement of staff members of the NBS Financial Market Supervision Unit in Joint Supervisory Teams and through cooperation in the drafting of ECB decisions. As regards the supervision of significant banks, NBS exercised supervision over the banks' activities on a daily basis and continuously monitored quantitative data and oversaw risk management processes.

Slovakia's Resolution Council was established in January 2015 as part of the EU's Single Resolution Mechanism – the second of the Banking Union's three pillars – with NBS assigned the role of providing expertise to the Council and organising its functioning. In 2016 NBS staff members worked in internal resolution teams established for all significant banks in Slovakia and contributed to the successful finalisation of the second versions of resolution plans.

Since 1 January 2015 NBS has been the financial consumer protection authority in Slovakia. As such, the central bank supervises the protection of financial consumers' and other clients' rights in order to support the secure and sound functioning of the financial market.

## 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.

In 2016 the Bank Board had five sitting members, including the Governor and Deputy Governor.

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

Members of the NBS Bank Board as at 31 December 2016



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

Under the NBS Act, the maximum number of Bank Board members has been set at six since 1 January 2015. The term of office of Bank Board members is six years (or five years for those appointed before 1 January 2015), commencing as of the effective date of their 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 2016 were:

- Jozef Makúch, Governor;
- Ján Tóth, Deputy Governor responsible for the Monetary Policy, Statistics and Research Division;
- Vladimír Dvořáček, Executive Director of the Financial Market Supervision Unit;
- Karol Mrva, Executive Director of the Financial Market Operations Division;
- Ľuboš Pástor, an external member.

#### THE EXECUTIVE BOARD OF NÁRODNÁ BANKA SLOVENSKA

The Executive Board of Národná banka Slovenska was established by the NBS Bank Board as from 1 August 2012, in accordance with Article 6(2)(i)

of the NBS Act. The Executive Board is the bank's managing, executive and coordination authority.

The Executive Board is composed of the NBS Governor, Executive Directors, and other senior managers appointed by the Governor.

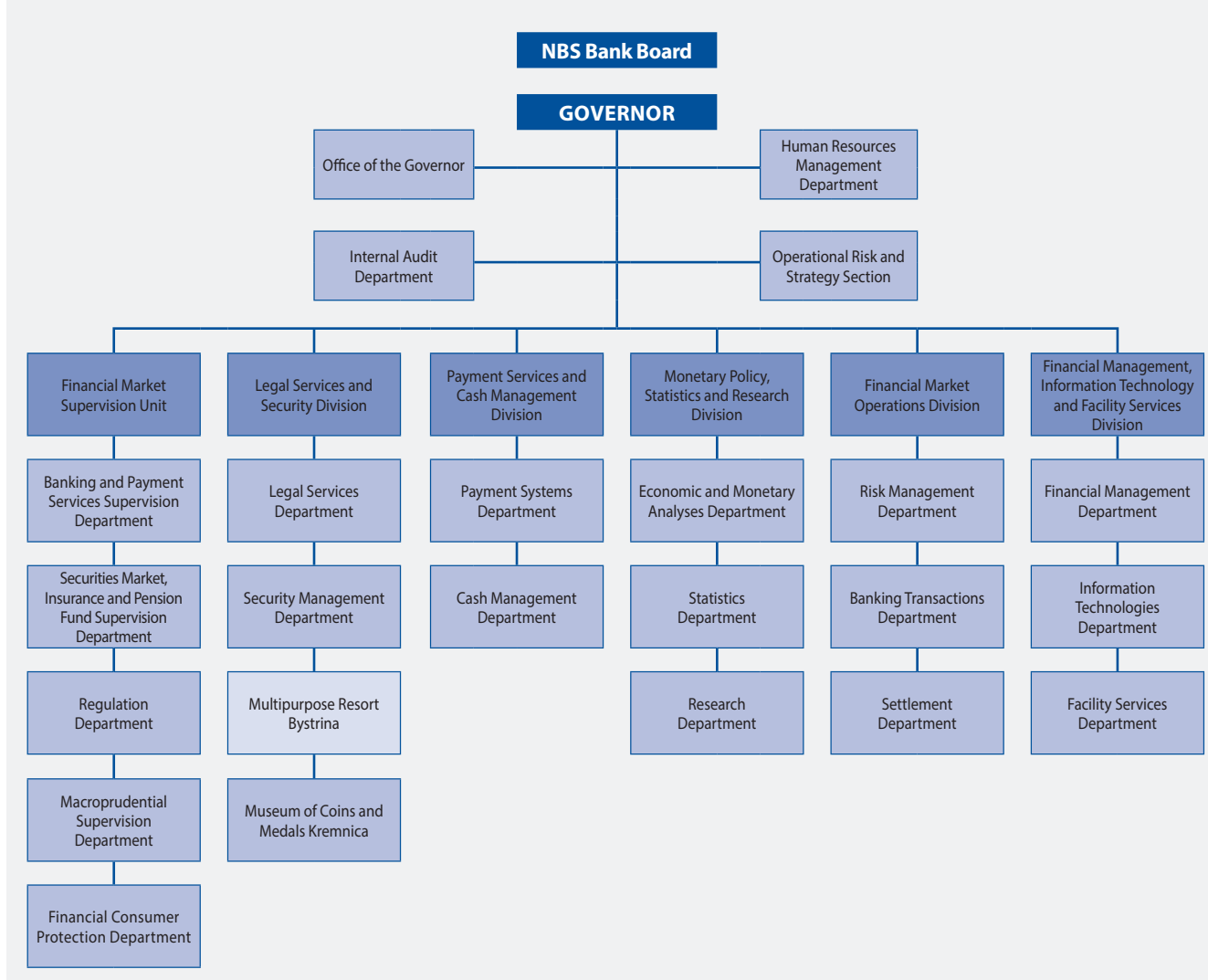
The members of the Executive Board (EB) as at 31 December 2016 were:

- Jozef Makúch, Governor (EB Chairman);
- Štefan Králik, Executive Director of the Legal Services and Security Division (EB Deputy Chairman);
- Karol Mrva, Executive Director of the Financial Market Operations Division;
- Vladimír Dvořáček, Executive Director of the Financial Market Supervision Unit;
- Miroslav Uhrin, Executive Director of the Financial Management, Information Technology and Facility Services Division;
- Renáta Konečná, General Director of the Economic and Monetary Analyses Department.

Four amendments to the NBS Organisational Rules were approved in 2016, including one that entered into force on 1 January 2017. The



## NBS organisational structure as at 31 December 2016



amendments resulted in changes to the bank's organisational structure and to the duties and competences of certain senior managers.

### 10.3 HUMAN RESOURCES

Národná banka Slovenska had 1,075 employees as at 31 December 2016. A total of 53 employees left the bank in 2016 and 81 were hired. There were 111 recruitment campaigns.

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 six NBS employees were on secondment to the ECB or European Banking Authority during the whole or part of 2016.

The rules and principles of staff remuneration at the bank are laid down in an internal NBS Work Regulation. The average monthly salary in 2016 was €2,141.24.

Severance payments were made to 18 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 898 as at 31 December 2016.



## 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 2016 were attended by 945 employees, and they focused on the following areas:

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

In 2016 a number of NBS employees pursued their professional development by attending events organised abroad by ESCB central banks, national supervisory authorities, and other institutions, including the Joint Vienna Institute, the Financial Stability Institute, and one of the Federal Reserve banks in the United States).

Every year a number of NBS employees conduct professional training by performing teaching, lecturing and consultation activities. In 2016 a total of 83 staff were engaged in such activity.

Six students completed internships at NBS in 2016, including two from universities in Slovakia and four studying in other European Union countries.

NBS held the following three international educational courses in 2016: *Economics for Non-Economists*; *Audit Banking Supervision under the SSM*;

and *English in Legal and Contractual Central Banking Practice*.

## 10.5 ENVIRONMENTAL POLICY

NBS has long been an institution that takes a responsible approach to the impact of its activities on the environment. In an official document entitled "*NBS environment policy*", adopted by the NBS Bank Board in February 2016, the central bank sets out its position on key environmental protection issues, on environmental footprint reduction, on improving energy efficiency, and on resource sustainability.

Among projects realised in 2016 that contributed to the fulfilment of NBS's environmental policy objectives were the following: the exchange and modernisation of air conditioning units in two buildings; the changeover to more environmental-friendly lighting in two buildings; the introduction of new energy consumption regulations; the purchase of equipment and appliances that have minimal energy consumption; boiler room renovations at two buildings (including the installation of equipment that has lower gas and electricity consumption), and the installation of thermostatic heads on central heating equipment at one building. By continuing to sort its waste thoroughly, NBS ensured that the recycling and disposal of its waste was as efficient and ecological as possible and therefore reduced the amount of municipal waste generated.

In 2016 NBS continued to support environmental protection initiatives both at the global level (including *Earth Day* and *Earth Hour*) and in Slovakia. One such domestic initiative was a competition called *Do práce na bicykli* (*Go to work on a bicycle*) that attracted 41 teams and 110 participants. It was won by NBS.



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM

SECTION C



# INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2016

C





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## Independent Auditor's Report

To the Bank Board of Národná banka Slovenska:

### *Report on the Audit of the Financial Statements*

#### *Opinion*

We have audited the financial statements of Národná banka Slovenska ("the Bank" or "NBS"), which comprise the balance sheet as at 31 December 2016, the income statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

#### *Basis for Opinion*

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

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

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

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

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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Spoločnosť zo skupiny Ernst & Young Global Limited  
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname auditorov vedenom Slovenskou komorou auditorov pod č. 257.





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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Report on Other Legal and Regulatory Requirements**

##### *Report on Information Disclosed in the Annual Report*

The Bank Board of the NBS is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on accounting and the Act on the NBS No 566/1992 Coll., as amended by later legislation ("the Act on the NBS"). Our opinion on the financial statements expressed above does not apply to other information contained in the annual report.

In connection with the audit of the financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

The annual report was not available to us as at the date of issue of the auditor's report on the audit of the financial statements.

When we obtain the annual report, we will consider whether the Bank's annual report contains information, disclosure of which is required by the Act on Accounting and the Act on the NBS and based on procedures performed during the audit of the financial statements, we will express our opinion considering whether:

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- Information disclosed in the annual report, prepared for 2016, is consistent with the financial statements for the relevant year.
- The annual report contains information based on the Act on Accounting and the Act on the NBS.

Additionally, we will disclose whether material misstatements were identified in the annual report based on our understanding of the Bank and its situation, obtained in the audit of the financial statements.

14 March 2017  
Bratislava, Slovak Republic

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Ing. Tomáš Přeček, statutory auditor  
UDVA Licence No. 1067

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Národná banka Slovenska  
Financial statements as at 31 December 2016 – Balance Sheet  
(in thousands of EUR)

## BALANCE SHEET of Národná banka Slovenska

ASSETS	Note	31 Dec 2016 EUR '000	31 Dec 2015 EUR '000
A1 Gold and gold receivables	1	1,118,757	991,581
A2 Claims on non-euro area residents denominated in foreign currency	2	1,885,015	1,652,655
A3 Claims on euro area residents denominated in foreign currency	3	272,732	186,375
A4 Claims on non-euro area residents denominated in euro	4	2,187,170	3,323,804
A5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	761,370	661,380
A6 Other claims on euro area credit institutions denominated in euro	6	23,135	27,846
A7 Securities of euro area residents denominated in euro	7	15,080,227	8,816,273
A8 General government debt denominated in euro	8	1,225,880	2,110,644
A9 Intra-Eurosystem claims	8	1,225,880	2,110,644
A10 Items in course of settlement	9	5,315,374	5,330,188
A11 Other assets	9	5,315,374	5,330,188
A12 Loss for the year	9	5,315,374	5,330,188
<b>TOTAL ASSETS</b>		<b>27,869,660</b>	<b>23,100,746</b>
<b>LIABILITIES</b>			
L1 Banknotes in circulation	10	11,369,151	10,937,216
L2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	1,876,725	1,495,594
L3 Other liabilities to euro area credit institutions denominated in euro	12	2,787,545	4,767,615
L4 Debt certificates issued	13	997,730	271,270
L5 Liabilities to other euro area residents denominated in euro	13	997,730	271,270
L6 Liabilities to non-euro area residents denominated in euro	14	1,571,094	1,838,163
L7 Liabilities to euro area residents denominated in foreign currency	15	912,905	1,011,276
L8 Liabilities to non-euro area residents denominated in foreign currency	16	860,198	468,225
L9 Counterpart of special drawing rights allocated by the IMF	17	433,972	433,359
L10 Intra-Eurosystem liabilities	18	5,041,652	5,041,652
L11 Items in course of settlement	19	338,054	416,882
L12 Other liabilities	19	338,054	416,882
L13 Provisions	20	638,313	665,100
L14 Revaluation accounts	21	537,499	433,645
L15 Capital and reserves	22	357,797	357,797
L16 Profit for the year	35	147,025	4,604
<b>TOTAL LIABILITIES</b>		<b>27,869,660</b>	<b>23,100,746</b>



Národná banka Slovenska  
Financial statements as at 31 December 2016 – Profit and Loss Account  
(in thousands of EUR)

## PROFIT AND LOSS ACCOUNT of Národná banka Slovenska

	Note	31 Dec 2016 EUR '000	31 Dec 2015 EUR '000
1.1 Interest income		141,819	191,095
1.2 Interest expense		(46,715)	(94,465)
<b>1 Net interest income</b>	<b>24</b>	<b>95,104</b>	<b>96,630</b>
2.1 Realized gains arising from financial operations		43,201	77,797
2.2 Write-downs on financial assets and positions		(14,097)	(28,849)
2.3 Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		30,000	(140,000)
<b>2 Net result of financial operations, write-downs and risk provisions</b>	<b>25</b>	<b>59,104</b>	<b>(91,052)</b>
3.1 Fees and commissions income		1,034	795
3.2 Fees and commissions expense		(1,180)	(1,058)
<b>3 Net income/(expense) from fees and commissions</b>	<b>26</b>	<b>(146)</b>	<b>(263)</b>
<b>4 Income from equity shares and participating interests</b>	<b>27</b>	<b>14,337</b>	<b>11,356</b>
<b>5 Net result of pooling of monetary income</b>	<b>28</b>	<b>67,094</b>	<b>51,463</b>
<b>6 Other income</b>	<b>29</b>	<b>11,779</b>	<b>9,530</b>
<b>Total net income</b>		<b>247,272</b>	<b>77,664</b>
<b>7 Staff costs</b>	<b>30</b>	<b>(43,762)</b>	<b>(38,031)</b>
<b>8 Administrative expenses</b>	<b>31</b>	<b>(19,026)</b>	<b>(17,904)</b>
<b>9 Depreciation of tangible and intangible fixed assets</b>	<b>32</b>	<b>(8,348)</b>	<b>(7,350)</b>
<b>10 Banknote production services</b>	<b>33</b>	<b>(6,107)</b>	<b>(2,254)</b>
<b>11 Other expenses</b>	<b>29</b>	<b>(4,947)</b>	<b>(5,319)</b>
<b>12 Income tax and other charges on income</b>	<b>34</b>	<b>(18,057)</b>	<b>(2,202)</b>
<b>Profit for the year</b>	<b>35</b>	<b>147,025</b>	<b>4,604</b>

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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.



Národná banka Slovenska  
Financial statements as at 31 December 2016 – Notes  
(in thousands of EUR)

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## **NOTES**

### **to the financial statements as at 31 December 2016**

**Bratislava, 14 March 2017**

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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.



Národná banka Slovenska  
Financial statements as at 31 December 2016 – Notes  
(in thousands of EUR)

## A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska ("the National Bank of Slovakia", "NBS" or "the Bank") was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia as amended ("the NBS Act"). The NBS commenced its activities on 1 January 1993.

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 the 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 Bank'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 provide explanations to the submitted report.

The supreme governing body of the NBS is the Bank Board of the NBS ("the Bank Board"). As at 31 December 2016, the Bank Board had the following structure:

Name	Term of Office in the Bank Board		Current position	Date of Appointment
doc. Ing. Jozef Makúch, PhD.	1 Jan 2006	12 Jan 2021	Governor	12 Jan 2015
Mgr. Ján Tóth, M.A.	5 Nov 2012	5 Nov 2017	Deputy Governor	5 Nov 2012
RNDr. Karol Mrva	1 June 2012	1 June 2017	Member	1 June 2012
Ing. Vladimír Dvořáček	2 April 2014	2 April 2019	Member	2 April 2014
prof. Mgr. Ľuboš Pástor, M.A. PhD.	15 March 2015	15 March 2021	Member	15 March 2015

## 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 3 November 2016 on the legal framework for accounting and financial reporting in the European System of Central Banks No. ECB/2016/34 ("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
- Accruals principle
- Going-concern basis
- Consistency and comparability

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





Národná banka Slovenska  
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Foreign exchange transactions, 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.

Interest accruals 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 agreed recommended harmonized disclosures for Eurosystem national central banks' annual accounts.

#### **b) Valuation of assets and liabilities**

Financial assets and liabilities, excluding held-to-maturity securities, securities held for monetary policy purposes and participating interests, are measured on a monthly basis at mid-market rates and prices. Foreign currency revaluation, including balance sheet and off-balance sheet transactions, is performed 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 currency revaluation 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 provision for impairment of securities acquired under the securities market programme ("SMP"), the third covered bond purchase programme ("CBPP3") and securities issued by international organizations and multilateral development banks acquired under the public sector purchase programme on the secondary market ("PSPP") is created in proportion to the prevailing ECB capital key shares valid at the time of the initial impairment. In the event of an impairment of securities acquired under the covered bond purchase programme ("CBPP1") and securities issued by the government of the Slovak Republic acquired under the PSPP programme, the Bank creates a provision in full amount (see Note 7).

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 EUR 1, used to value the assets and liabilities as at 31 December 2016, were as follows:

Currency	31 Dec 2016	31 Dec 2015	Change
GBP	0.85618	0.73395	0.12223
USD	1.05410	1.08870	(0.03460)
JPY	123.40000	131.07000	(7.67000)
XDR	0.78456	0.78567	(0.00111)
EUR/t oz.*	1,098.046	973.225	124.82100

\* 1 t oz. (troy ounce) = 31.1034807 g



Národná banka Slovenska  
Financial statements as at 31 December 2016 – Notes  
(in thousands of EUR)

### **(c) Accounting and recognition of revenues**

Realized profits 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 directly in the profit and loss account.

Unrealized profits 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 profits are shown in equity on revaluation accounts (see Note 21). Unrealized losses in excess of unrealized revaluation profits 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 netted off against unrealized profits 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 as interest income.

According to the agreed recommended harmonized disclosure rules, the Bank presents the negative interest income or expense stemming from the application of negative interest rates on a net basis with other interest income or expense on the underlying transactions. The net interest income is included in interest income; net interest expense is included in interest expense.

### **(d) Gold and gold receivables**

Gold swap transactions are recognized as repurchase transactions with gold (see Notes 12, 14, 15 and 16). The gold used in such transactions remains in the Bank's total assets under the item "Gold and gold receivables".

### **(e) Debt securities**

At initial recognition the securities are valued at transaction costs. The fees which are not part of the transaction costs are directly recognized in the profit and loss account and are not considered as a part of the average cost of the securities.

Securities are recognized together with the accrued premium and discount. Coupons are recorded under "Other assets". The withholding income tax on bonds and treasury notes is recognized in the profit and loss account under "Income tax and other charges on income" (see Note 34).

### **(f) Derivatives**

Spot, forward and swap transactions are included in the net currency positions for calculating the average acquisition cost of currencies and foreign exchange gains and losses. 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.



Národná banka Slovenska  
Financial statements as at 31 December 2016 – Notes  
(in thousands of EUR)

The forward position of currency swaps is valued together with the related spot position, so the currency position is only affected by the accrued interest in foreign currency.

Interest rate swaps are recorded in the off-balance sheet accounts from the trade date until the settlement date. They are measured based on generally accepted valuation models using corresponding yield curves derived from quoted 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 19).

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 the transactions that 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 program. 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 1.0095%. 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



Národná banka Slovenska  
Financial statements as at 31 December 2016 – Notes  
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the Eurosystem. This is disclosed under the item "Net claims or liabilities related to the allocation of euro banknotes within the Eurosystem".

Interest income or interest expense from these receivables/liabilities is disclosed net in the Bank's profit and loss account in "Net interest income" (see Note 24).

#### (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 banknote issue and net income from securities purchased by the ECB under the SMP, CBPP3, asset-backed securities purchase programme (ABSPP) and PSPP 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 27).

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. Immovables, works of art, immovable cultural monuments and collections, with the exception of those listed under separate regulations (Act No. 206/2009 Coll. on Museums and Galleries and on the Protection of Cultural Valuables, as amended), 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.

Depreciation group	Depreciation period in years
1. Buildings, long-term investments, technical enhancements of immovable cultural monuments	30
2. Separable components built into structures identified for depreciation	4 - 20
3. Utility network	20
4. Machines and equipment	2 - 12
5. Transport means	4 - 6
6. Furniture and fixtures	4 - 12
7. Intangible fixed assets - purchased software	2 - 10
8. Other intangible fixed assets	4 or as per contract



Národná banka Slovenska  
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(in thousands of EUR)

#### (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 (see Note 34).

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 risks from changes in gold prices (see Notes 20 and 25), 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 b).

The Bank also creates provisions in line with the Act on Accounting (see Note 20).

#### (m) NBS profit redistribution

In accordance with Article 39 (4) of the NBS Act, 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 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

	31 Dec 2016	31 Dec 2015	Change
Gold in repo transactions	1,113,951	987,223	126,728
Gold stored in banks	3,078	2,827	251
Gold on stock	1,728	1,531	197
	<u>1,118,757</u>	<u>991,581</u>	<u>127,176</u>

As at 31 December 2016, gold totaled 1,019 thousand t oz. (1,019 thousand t oz. as at 31 December 2015), of which 1,014 thousand t oz. was used in repurchase transactions, 3 thousand t oz. deposited with correspondent banks and 2 thousand t oz. deposited with the Bank.

As at 31 December 2016, the market price of gold was EUR 1,098,046 per t oz. (EUR 973,225 per t oz. as at 31 December 2015). The change in the balance of "Gold and gold receivables" was affected by gold revaluation (see Note 21).



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## 2. Claims on non-euro area residents denominated in foreign currency

	31 Dec 2016	31 Dec 2015	Change
Receivables from/Payables to the IMF	424,096	569,755	(145,659)
Balances with banks and security investments, external loans and other external assets	<u>1,460,919</u>	<u>1,082,900</u>	<u>378,019</u>
	<u><b>1,885,015</b></u>	<u><b>1,652,655</b></u>	<u><b>232,360</b></u>

### Receivables from/Payables to the International Monetary Fund

	31 Dec 2016		31 Dec 2015		Change
	Equivalent mil. XDR	EUR '000	Equivalent mil. XDR	EUR '000	EUR '000
Receivables from IMF:	<b>1 180</b>	<b>1 505 084</b>	<b>755</b>	<b>961 132</b>	<b>543 952</b>
1) Member's quota:	1 001	1 276 504	428	544 137	732 367
a) Member's quota in local currency	848	1 080 988	308	391 377	689 611
b) Reserve position	153	195 516	120	152 760	42 756
- foreign exchange part of member's quota	153	195 516	18	22 274	173 242
- FTP reserve position			102	130 486	(130 486)
2) Nostro account in IMF	179	228 580	322	410 758	(182 178)
3) Bilateral loans			5	6 237	(6 237)
<b>Payables to IMF:</b>	<b>848</b>	<b>1 080 988</b>	<b>308</b>	<b>391 377</b>	<b>689 611</b>
1) Loro accounts of IMF	826	1 053 533	303	385 640	667 893
2) Currency valuation adjustment account	22	27 455	5	5 737	21 718
<b>Total reported amount (net)</b>		<u><b>424 096</b></u>		<u><b>569 755</b></u>	<u><b>(145 659)</b></u>

In February 2016, the member's quota of the Slovak Republic in the IMF increased from XDR 428 million to XDR 1,001 million based on the 14th General Review of the IMF member quotas. 25% of the quota's increase was paid from the nostro account in the IMF in XDR and the remaining 75% was accounted for as an increase in the value of the note. At the same time the reserve position FTP was settled, which represented a receivable of NBS from loans granted under the IMF Financial transactions plan.

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 of EUR 858,059 thousand (EUR 328,505 thousand as at 31 December 2015).

The Bank records a liability to the IMF from the allocation recorded 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

	31 Dec 2016	31 Dec 2015	Change
Debt securities	1,050,992	1,023,896	27,096
Other	<u>409,927</u>	<u>59,004</u>	<u>350,923</u>
	<u><b>1,460,919</b></u>	<u><b>1,082,900</b></u>	<u><b>378,019</b></u>

The caption "Debt securities" mainly consists of bonds issued by financial institutions denominated in USD.

The caption "Other" mainly includes cash on nostro accounts in foreign currency.





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### 3. Claims on euro area residents denominated in foreign currency

	31 Dec 2016	31 Dec 2015	Change
Debt securities	272,141	185,812	86,329
Current accounts	591	563	28
	<u>272,732</u>	<u>186,375</u>	<u>86,357</u>

Debt securities categorized under this caption are denominated in USD. As per security issuers, as at 31 December 2016 the Bank mainly recorded securities of monetary financial institutions.

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

	31 Dec 2016	31 Dec 2015	Change
Debt securities	2,187,045	3,323,804	(1,136,759)
Current accounts	125		125
	<u>2,187,170</u>	<u>3,323,804</u>	<u>(1,136,634)</u>

As at 31 December 2016, the Bank recognized mainly non-euro area resident debt securities of EUR 2,187,045 thousand under this caption (EUR 3,323,804 thousand as at 31 December 2015). As per security issuers, the Bank mainly recorded securities of monetary financial institutions. Compared to the previous period, the decrease was mainly due to the maturity of securities.

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

	31 Dec 2016	31 Dec 2015	Change
Main refinancing operations	25 000	20 000	5 000
Longer-term refinancing operations	15 000		15 000
Targeted longer-term refinancing operations (TLTRO)	46 160	641 380	(595 220)
Targeted longer-term refinancing operations (TLTRO II)	675 210		675 210
	<u>761 370</u>	<u>661 380</u>	<u>99 990</u>

As at 31 December 2016, the Bank recognized main refinancing operations of EUR 25,000 thousand (EUR 20,000 thousand as at 31 December 2015) at 0.00% p.a. rate. Main refinancing operations are regular liquidity-providing reverse transactions at one week intervals with a current maturity of one week.

In accordance with the rules for monetary policy operations in the Eurosystem, the NBS recognized longer-term refinancing operations of EUR 736,370 thousand as at 31 December 2016 (EUR 641,380 thousand as at 31 December 2015). Longer-term refinancing operations are regular liquidity-providing reverse transactions for a longer period which are performed through standard tenders with a maturity of 3 months. Within these operations, the Bank also recognizes targeted longer-term refinancing operations (TLTRO) with a maturity of 2 and 3 years, bearing a fixed interest rate of 0,05% p.a. The second series of targeted longer-term refinancing operations (TLTRO II) was concluded in June 2016 with a maturity of 4 years bearing the negative interest rate for deposit facilities (see Note 24). The targeted longer-term refinancing operations are aimed at improving bank lending to non-financial private sector, excluding loans to households for house purchase.

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.



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

	31 Dec 2016	31 Dec 2015	Change
Redistribution loan	21,451	24,904	(3,453)
Deposits to reverse transactions	1,001	2,260	(1,259)
Current accounts	683	682	1
	<u>23,135</u>	<u>27,846</u>	<u>(4,711)</u>

Redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. During the whole of 2016, the interest rate for the redistribution loan remained at 0.50% p.a. (0.50% p.a. as at 31 December 2015).

As at 31 December 2016, the NBS recorded a state guarantee for the redistribution loan of EUR 22,256 thousand on the off-balance sheet (EUR 25,891 thousand as at 31 December 2015). 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

	31 Dec 2016	31 Dec 2015	Change
Securities held for monetary policy purposes	13,738,968	6,383,101	7,355,867
Other securities	1,341,259	2,433,172	(1,091,913)
	<u>15,080,227</u>	<u>8,816,273</u>	<u>6,263,954</u>

### Debt securities held for monetary policy purposes

As at 31 December 2016, under the caption "Debt securities held for monetary policy purposes", the Bank disclosed securities purchased under the CBPP1, CBPP3, SMP and PSPP programmes. They are mainly issued by public authorities and monetary financial institutions of the euro area. The purchase of securities under the programme CBPP1 was terminated in June 2010 and under the programme SMP in September 2012. The decrease of the securities purchased under the CBPP1 and SMP programmes by EUR 291,175 thousand was due to the maturity of securities. The CBPP3 programme was announced by the Governing Council of the ECB in October 2014 and it is still open. The PSPP programme was announced by the Governing Council of the ECB on 22 January 2015 with the expected duration until the end of December 2017. Under the PSPP programme, the Bank purchases securities issued by the government of the Slovak Republic, international organizations and multilateral development banks located in the euro area. According to Article 3 (5) of the Decision ECB/2015/10 on a secondary markets public sector asset purchase programme, as amended, the NBS may also purchase securities with a negative yield to maturity which is above the deposit facility rate. Income on securities with the source in the Slovak Republic is decreased by withholding tax (see Note 34).

Securities acquired under all monetary policy programmes are valued on an amortized cost basis subject to impairment. The amortized and market values of securities held for monetary policy purposes are shown in the table below (market valuation is not recorded in the Balance Sheet or the Profit and Loss Account and is provided for comparison purposes only):



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	31 Dec 2016		31 Dec 2015		Change	
	Amortized cost	Market value	Amortized cost	Market value	Amortized cost	Market value
CBPP1	85,655	88,866	152,555	160,294	(66,900)	(71,428)
CBPP3	2,133,041	2,154,304	1,454,929	1,448,812	678,112	705,492
SMP	410,725	458,258	635,000	703,337	(224,275)	(245,079)
PSPP - gov.	6,694,978	6,793,292	4,140,617	4,134,294	2,554,361	2,658,998
PSPP - supr.	4,414,569	4,359,097			4,414,569	4,359,097
	<b>13,738,968</b>	<b>13,853,817</b>	<b>6,383,101</b>	<b>6,446,737</b>	<b>7,355,867</b>	<b>7,407,080</b>

The Governing Council of the ECB assesses on a regular basis the financial risks associated with the securities acquired under the monetary policy programmes. Annual impairment tests are conducted on the basis of the estimated recoverable amounts as at the year-end and are approved by the Governing Council of the ECB. As at 31 December 2016, the total amount of these securities held by euro-area national banks was EUR 1,490,549,116 thousand, out of which the NBS held an amount of EUR 13,738,968 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 monetary policy performed as at 31 December 2016 and pursuant to a decision of the Governing Council of the ECB, it is expected that all future cash flows on these securities will be received. For this reason, the NBS did not create any provision for impairment losses (see Section B, Note b).

#### Other Securities

Under this caption, as at 31 December 2016, the Bank recognized marketable securities mainly issued by monetary financial institutions and public authorities of the euro area.

The decrease compared to the preceding period of EUR 1,091,913 thousand was mainly caused by the maturity of securities.

### 8. Intra-Eurosystem claims

	31 Dec 2016	31 Dec 2015	Change
Participating interest in ECB	262,722	262,722	0
Claims equivalent to the transfer of foreign reserves	447,672	447,672	0
Net claims related to the allocation of euro banknotes within the Eurosystem	515,486	879,240	(363,754)
Other claims within the Eurosystem		521,010	(521,010)
	<b>1,225,880</b>	<b>2,110,644</b>	<b>(884,764)</b>

#### Participating interest in the ECB

As at 31 December 2016, the Bank recorded a participating interest in the ECB's subscribed capital of EUR 83,623 thousand (EUR 83,623 thousand as at 31 December 2015) and a claim of EUR 24,885 thousand from the changes of its participating interest in the ECB's net equity.

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.



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As at 31 December 2016, the shares of 28 central banks of the European Union in the ECB's capital were as follows:

	Capital Key for Subscription of ECB's Capital (%)	Subscribed Share in the ECB's Capital (EUR)	Paid-up Capital (EUR)	Eurosystem Key (%) - Share on the ECB's Paid-up Capital
Banque National de Belgique	2.4778	268,222,025.17	268,222,025.17	3.5200
Eesti Pank	0.1928	20,870,613.63	20,870,613.63	0.2739
Deutsche Bundesbank	17.9973	1,948,208,997.34	1,948,208,997.34	25.5674
Central Bank and Financial Services Authority of Ireland	1.1607	125,645,857.06	125,645,857.06	1.6489
Bank of Greece	2.0332	220,094,043.74	220,094,043.74	2.8884
Banco de España	8.8409	957,028,050.02	957,028,050.02	12.5596
Banque de France	14.1792	1,534,899,402.41	1,534,899,402.41	20.1433
Banca d'Italia	12.3108	1,332,644,970.33	1,332,644,970.33	17.4890
Central Bank of Cyprus	0.1513	16,378,235.70	16,378,235.70	0.2150
Latvijas Banka	0.2821	30,537,344.94	30,537,344.94	0.4008
Lietuvos bankas	0.4132	44,728,929.21	44,728,929.21	0.5870
Banque centrale du Luxembourg	0.2030	21,974,764.35	21,974,764.35	0.2884
Central Bank of Malta	0.0648	7,014,604.58	7,014,604.58	0.0921
De Nederlandsche Bank	4.0035	433,379,158.03	433,379,158.03	5.6875
Oesterreichische Nationalbank	1.9631	212,505,713.78	212,505,713.78	2.7888
Banco de Portugal	1.7434	188,723,173.25	188,723,173.25	2.4767
Banka Slovenije	0.3455	37,400,399.43	37,400,399.43	0.4908
<b>Národná banka Slovenska</b>	<b>0.7725</b>	<b>83,623,179.61</b>	<b>83,623,179.61</b>	<b>1.0974</b>
Suomen Pankki – Finlands Bank	1.2564	136,005,388.82	136,005,388.82	1.7849
<i>Subtotal euro area NCBs*</i>	<i>70.3915</i>	<i>7,619,884,851.40</i>	<i>7,619,884,851.40</i>	<i>100.0000</i>
Българска народна банка (Bulharská národná banka)	0.8590	92,986,810.73	3,487,005.40	
Česká národní banka	1.6075	174,011,988.64	6,525,449.57	
Danmarks Nationalbank	1.4873	161,000,330.15	6,037,512.38	
Magyar Nemzeti Bank	1.3798	149,363,447.55	5,601,129.28	
Narodowy Bank Polski	5.1230	554,565,112.18	20,796,191.71	
Banca Națională a României	2.6024	281,709,983.98	10,564,124.40	
Sveriges Riksbank	2.2729	246,041,585.69	9,226,559.46	
Bank of England	13.6743	1,480,243,941.72	55,509,147.81	
Hrvatska narodna banka	0.6023	65,199,017.58	2,444,963.16	
<i>Subtotal non-euro area NCBs*</i>	<i>29.6085</i>	<i>3,205,122,218.22</i>	<i>120,192,083.17</i>	
<b>Total*</b>	<b>100.00</b>	<b>10,825,007,069.61</b>	<b>7,740,076,934.57</b>	

\* Subtotals and totals may not correspond due to the effect of rounding



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### Claims equivalent to the transfer of foreign reserves

The NBS records a claim from the transfer of foreign reserves of EUR 447,672 thousand (EUR 447,672 thousand as at 31 December 2015), in accordance with Article 30 (1) of the Statute. The receivable bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2016, interest income from the claim equivalent to the transfer of foreign reserves amounted to EUR 40 thousand (EUR 193 thousand as at 31 December 2015, see Note 24).

### Net claims related to the allocation of euro banknotes within the Eurosystem

The caption represents the net claim related to euro banknotes allocation within the Eurosystem of EUR 515,486 thousand (EUR 879,240 thousand as at 31 December 2015, see Note 10), bearing the main refinancing operations rate. As at 31 December 2016, the Bank recognized interest income from the receivable related to the allocation of euro banknotes within the Eurosystem of EUR 77 thousand (EUR 480 thousand as at 31 December 2015, see Note 24).

### 9. Other assets

	31 Dec 2016	31 Dec 2015	Change
Tangible and intangible fixed assets	128,817	133,277	(4,460)
Other financial assets	57,678	57,635	43
Off-balance sheet instruments revaluation differences	714	749	(35)
Accruals and prepaid expenditure	194,340	179,675	14,665
Accumulated losses from previous years	4,809,810	4,814,414	(4,604)
Sundry	124,015	144,438	(20,423)
	<u>5,315,374</u>	<u>5,330,188</u>	<u>(14,814)</u>

### Tangible and intangible fixed assets

This caption comprises fixed assets of the NBS as at 31 December 2016:

	Tangible assets, advances and assets under construction	Intangible assets, advances and assets under construction	TOTAL
Acquisition cost as at 1 January 2016	260,680	36,216	296,896
Additions	3,904	6,318	10,222
Disposals	7,028	4,740	11,768
Acquisition cost as at 31 December 2016	<u>257,556</u>	<u>37,794</u>	<u>295,350</u>
Accumulated depreciation as at 1 January 2016	139,810	27,777	167,587
Additions	6,707	1,641	8,348
Disposals	5,860	520	6,380
Accumulated depreciation and provisions as at 31 December 2016	<u>140,657</u>	<u>28,898</u>	<u>169,555</u>
Carrying amount of tangible and intangible assets as at 1 January 2016	<u>120,870</u>	<u>8,439</u>	<u>129,309</u>
Carrying amount of tangible and intangible assets as at 31 December 2016	<u>116,899</u>	<u>8,896</u>	<u>125,795</u>

As at 31 December 2016, the NBS recognized fixed assets held for sale of EUR 3,022 thousand (EUR 3,968 thousand as at 31 December 2015).



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### Other financial assets

	31 Dec 2016	31 Dec 2015	Change
Shares of BISIP CNY fund	45,399	46,097	(698)
Shares of BIS	7,522	7,512	10
Share certificates of RVS, a.s.	4,632	3,901	731
Institute of Banking Education	33	33	0
Shares of SWIFT	92	92	0
	<u>57,678</u>	<u>57,635</u>	<u>43</u>

As at 31 December 2016, 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 represents a 1.74% share of the fund's total value (1.75% share of the fund's total value as at 31 December 2015, see Section B, Note b).

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 77.26% equity share (a 54.42% share as at 31 December 2015). The increase in the amount of EUR 731 thousand is due to the purchase of share certificates of RVS, a.s. 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's share in the BIS capital represents 0.51%. The participating interest in BIS is recognized in the amount of the paid-up share (25%). The unpaid proportion of the share (75%) is payable on demand. Dividends are distributed in euro from the total share of the NBS in BIS held in XDR (see Note 27).

Since 2008, the Bank has recognized a deposit in the registered capital of the Institute of Banking Education, a non-profit organization (Inštitút bankového vzdelávania NBS, n. o. Bratislava). The Bank is the only shareholder of the company.

The Bank holds shares of SWIFT, representing a 0.0245% capital share (0.0245% capital share as at 31 December 2015).

### Off-balance sheet instruments revaluation differences

As at 31 December 2016, this item represented foreign exchange gains from the valuation of currency swaps in the amount of EUR 714 thousand (EUR 749 thousand as at 31 December 2015).

### Accruals and prepaid expenditure

This item mainly represents accrued bond coupons of EUR 164,507 thousand (EUR 137,994 thousand as at 31 December 2015) and the value of purchased bond coupons in the amount of EUR 23,360 thousand (EUR 37,007 thousand as at 31 December 2015).

### Sundry

	31 Dec 2016	31 Dec 2015	Change
Deposits - collaterals to derivatives	106,770	127,440	(20,670)
Investment loans granted to employees	6,415	7,294	(879)
Fair value of interest rate swaps	6,210	2,547	3,663
Interest rate futures	395	2,474	(2,079)
Other	4,225	4,683	(458)
	<u>124,015</u>	<u>144,438</u>	<u>(20,423)</u>





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The purpose of the deposits granted – collaterals 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

	31 Dec 2016	31 Dec 2015	Change
Euro banknotes in circulation issued by NBS	10,853,665	10,057,976	795,689
Euro banknotes not issued by NBS	515,486	879,240	(363,754)
<b>Total volume of euro banknotes in line with the NBS</b>			
Banknote Allocation Key	<u>11,369,151</u>	<u>10,937,216</u>	<u>431,935</u>

As at 31 December 2016, the Bank issued banknotes amounting to EUR 10,853,665 thousand, which is less by EUR 515,486 thousand (less by EUR 879,240 thousand as at 31 December 2015) compared to the volume allocated to the NBS by the Banknote Allocation Key (see Section B, Note h). This difference represents a claim of the NBS against the Eurosystem (see Note 8).

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

	31 Dec 2016	31 Dec 2015	Change
Current accounts covering the minimum reserve system	1,736,725	1,455,594	281,131
Deposit facility	140,000	40,000	100,000
	<u>1,876,725</u>	<u>1,495,594</u>	<u>381,131</u>

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 Eurosystem's main refinancing operations, valid over the given maintenance period. In accordance with Decision ECB/2014/23 on the remuneration of deposits, balances and holdings of excess reserves, reserve holdings exceeding the MRS are remunerated at 0% p.a. or the deposit facility rate, whichever is lower. With effect from 16 March 2016, the ECB applies a negative interest rate for the deposit facility. As at 31 December 2016 the net income resulting from this liability represents EUR 2,819 thousand (EUR 479 thousand as at 31 December 2015, see Note 24).

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 2016, a negative interest rate of -0.40% p.a. was set for this type of transactions (-0.30% p.a. as at 31 December 2015).



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

	31 Dec 2016	31 Dec 2015	Change
Tri-party repo transactions	1,700,000	2,600,000	(900,000)
Liabilities from repo transactions	873,026	2,081,115	(1,208,089)
Liabilities from repo transactions with gold	214,194	85,845	128,349
Deposits received to repo transactions	155	520	(365)
Interbank clearing in Slovakia (SIPS)	170	135	35
	<u>2,787,545</u>	<u>4,767,615</u>	<u>(1,980,070)</u>

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

The interest rate applicable to repo transactions is from -0.20 to -0.355% p.a. (from -0.03 to -0.31% p.a. as at 31 December 2015).

## 13. Liabilities to other euro area residents denominated in euro

	31 Dec 2016	31 Dec 2015	Change
General government	744,362	318	744,044
Other liabilities	<u>253,368</u>	<u>270,952</u>	<u>(17,584)</u>
	<u>997,730</u>	<u>271,270</u>	<u>726,460</u>

### General government

Under this caption, the NBS recognized current accounts of the State Treasury.

### Other liabilities

	31 Dec 2016	31 Dec 2015	Change
Client current accounts	16,456	47,317	(30,861)
Client term deposits	32,177	29,877	2,300
Current accounts of auxiliary financial institutions	2,276	1,432	844
Term deposits of auxiliary financial institutions	<u>202,459</u>	<u>192,326</u>	<u>10,133</u>
	<u>253,368</u>	<u>270,952</u>	<u>(17,584)</u>

Under this caption, the Bank recognizes current accounts and deposits from clients and auxiliary financial institutions (the Deposit Protection Fund and the Investment Guarantee Fund).

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

	31 Dec 2016	31 Dec 2015	Change
Liabilities from term deposits	570,000	700,000	(130,000)
Liabilities from repo transactions	250,506	600,103	(349,597)
Liabilities from repo transactions with gold	729,527	534,182	195,345
Client current accounts	21,061	3,413	17,648
Deposits received to repo transactions		465	(465)
	<u>1,571,094</u>	<u>1,838,163</u>	<u>(267,069)</u>

Liabilities from received term deposits represent central banks' deposits with maturity of one month at an interest rate of -0.40% p.a. (-0.20% p.a. as at 31 December 2015).

The interest rate applicable to repo transactions in euro ranges from -0.27 to -0.33% p.a. (from -0.15 to -0.07% p.a. as at 31 December 2015).



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#### 15. Liabilities to euro area residents denominated in foreign currency

	31 Dec 2016	31 Dec 2015	Change
Liabilities from repo transactions	865,471	850,085	15,386
Liabilities from repo transactions with gold		115,263	(115,263)
Liabilities from deposits received	47,434	45,927	1,507
Current accounts of the State Treasury in foreign currency		1	(1)
	<u>912,905</u>	<u>1,011,276</u>	<u>(98,371)</u>

The interest rate applicable to repo transactions in USD ranges from 1.25 to 5.25% p.a. (from 0.58 to 1.40% p.a. as at 31 December 2015). Long-term repo transactions with gold matured in September 2016.

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

	31 Dec 2016	31 Dec 2015	Change
Liabilities from repo transactions	347,669	217,706	129,963
Liabilities from repo transactions with gold	232,669	213,778	18,891
Liabilities from deposits received	279,860	36,741	243,119
	<u>860,198</u>	<u>468,225</u>	<u>391,973</u>

As at 31 December 2016, the Bank recognized liabilities from repo transactions with gold due in January 2017.

The interest rate applicable to repo transactions denominated in USD ranges from 1.37 to 1.40% p.a. (from 0.83 to 0.91% p.a. as at 31 December 2015). The interest rate applicable to deposits received denominated in USD is from 1.25 to 1.70% p.a. (0.50% p.a. as at 31 December 2015).

#### 17. Counterpart of special drawing rights allocated by the IMF

As at 31 December 2016, the Bank recorded a liability to the IMF from the allocation of EUR 433,972 thousand (EUR 433,359 thousand as at 31 December 2015). 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 the Slovak Republic, respectively.

#### 18. Intra-Eurosystem liabilities

Intra-Eurosystem liabilities represent the NBS position towards other members of the European System of Central Banks ("ESCB") arising from cross-border transactions. This caption comprises the liability of the NBS to other central banks and the ECB, arising from operations within TARGET 2, which amounted to EUR 5,119,350 thousand as at 31 December 2016 (a receivable of EUR 460,634 thousand as at 31 December 2015, see Note 8). The position bears an interest rate for the main refinancing operations. The total amount of interest expense amounted to EUR 5 thousand as at 31 December 2016 (interest income of EUR 503 thousand as at 31 December 2015, see Note 24).

The caption also comprises a receivable from monetary income of EUR 67,094 thousand (EUR 51,463 thousand as at 31 December 2015, see Note 28) and a receivable from the NBS's share in the ECB's interim profit distribution for 2016 of EUR 10,604 thousand (EUR 8,913 thousand as at 31 December 2015, see Note 27).



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## 19. Other liabilities

	31 Dec 2016	31 Dec 2015	Change
Off-balance sheet instruments revaluation differences	6,858	356	6,502
Accruals and income collected in advance	15,105	33,378	(18,273)
Sundry	316,091	383,148	(67,057)
	<u>338,054</u>	<u>416,882</u>	<u>(78,828)</u>

### Off-balance-sheet instruments revaluation differences

As at 31 December 2016, this item represented foreign exchange losses from the revaluation of currency swaps of EUR 6,858 thousand (EUR 356 thousand as at 31 December 2015).

### Accruals and income collected in advance

As at 31 December 2016, the major part of accruals was represented by interest expense from euro interest rate swaps of EUR 12,442 thousand (EUR 32,690 thousand as at 31 December 2015).

### Sundry

	31 Dec 2016	31 Dec 2015	Change
Euro coins in circulation	163,864	152,378	11,486
Deposits - collaterals to derivatives	1,300	81,120	(79,820)
SKK banknotes in circulation	73,785	75,085	(1,300)
Fair value of interest rate swaps	29,676	44,845	(15,169)
SKK coins in circulation	23,188	23,191	(3)
Other	24,278	6,529	17,749
	<u>316,091</u>	<u>383,148</u>	<u>(67,057)</u>

The value of interest rate swaps as at 31 December 2016 represented the cumulative year-end revaluation loss which is gradually amortized to the profit and loss account under net realized gains from interest rate swaps in accordance with the ECB Guideline (see Note 25).

The purpose of deposits received – collateral to 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 annual decrease of deposits is connected with the decrease of interest rate swaps.

## 20. Provisions

	31 Dec 2016	31 Dec 2015	Change
General provision for financial risks	630,000	660,000	(30,000)
Provisions for payables to employees	7,269	4,123	3,146
Provisions for unbilled supplies	1,039	969	70
Provisions for legal disputes	5	8	(3)
	<u>638,313</u>	<u>665,100</u>	<u>(26,787)</u>

The Bank created a general provision for financial risks in order to protect against foreign exchange, interest rate, credit risks and risks from changes in gold prices. The amount of the provision is reassessed on an annual basis, and corresponds to an estimate of potential loss in the next period from the total NBS investment reserves and gold holdings, taking into account historical scenarios of the financial market development. In accordance with the decision of the Bank Board, the provision will be used to cover future losses from financial activities.



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## 21. Revaluation accounts

	31 Dec 2016	31 Dec 2015	Change
Revaluation accounts of gold	485,523	358,347	127,176
Revaluation accounts of securities	40,783	47,956	(7,173)
Revaluation accounts of derivatives	6,210	2,547	3,663
Revaluation accounts of foreign currency	1,602	22,260	(20,658)
Revaluation accounts of shares in BISIP CNY fund	3,381	2,535	846
	<u>537,499</u>	<u>433,645</u>	<u>103,854</u>

## 22. Capital and reserves

This item includes the statutory fund representing the paid-up capital assumed from the 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 2016, the closing balance of the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2015). The general reserves consist of contributions from profits of EUR 337,412 thousand generated in previous years. As at 1 January 2006, following the merger of the ÚFT with the NBS, the ÚFT's general reserves of EUR 3,462 thousand was transferred to the NBS's general reserves.

As at 31 December 2016, the closing balance of the NBS's capital reserves was EUR 882 thousand (EUR 882 thousand as at 31 December 2015).

As at 1 January 2016, NBS accounted for a profit arising from a change of accounting methods. This occurred from applying different methodology for calculation of interest rate swaps valuation at fair value, as a result of a business information system upgrade.



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### Summary of changes in equity and accumulated losses

	Statutory fund	Capital reserves	General reserves	General provision for financial risks	Revaluation accounts gain/(loss)	Change of the accounting method	Accumulated (loss) from previous years	Profit/(loss) for the current year	Equity
1 Balance as at 31 December 2015	16,041	882	340,874	660,000	433,645		(4,814,414)	4,604	(3,368,368)
2 Profit from the change of accounting method						805			805
3 Transfer of profit for 2015 to accumulated loss from previous years							4,604	(4,604)	
4 Transfer to statutory fund									
5 Transfer to general reserves									
6 Change in the general provision for financial risks				(30,000)					(30,000)
7 Change in revaluation accounts of securities					(7,173)				(7,173)
8 Change in revaluation accounts of derivatives					3,663				3,663
9 Change in revaluation accounts of gold					127,176				127,176
10 Change in revaluation accounts of foreign currencies					(20,658)				(20,658)
11 Change in revaluation accounts of shares in BISIP CNY fund					846				846
12 Profit for the current reporting period								147,025	147,025
13 Change for the reporting period				(30,000)	103,854	805	4,604	142,421	221,684
14 Balance as at 31 December 2016	16,041	882	340,874	630,000	637,499	805	(4,809,810)	147,025	(3,136,684)

### 23. Off-balance sheet instruments

	31 Dec 2016		31 Dec 2015		Change	
	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Currency swaps in EUR	443,783	446,561	331,171	399,014	112,612	47,547
Currency swaps in USD	442,615	47,434	401,764	289,683	40,851	(242,249)
Currency swaps in JPY				21,363	0	(21,363)
Currency swaps in GBP				24,484	0	(24,484)
Currency swaps in CHF		398,547			0	398,547
	<b>886,398</b>	<b>892,542</b>	<b>732,935</b>	<b>734,544</b>	<b>153,463</b>	<b>157,998</b>

	31 Dec 2016		31 Dec 2015		Change	
	Receivables	Liabilities	Receivables	Liabilities	Receivables	Liabilities
Interest rate futures in EUR		55,000		61,200	0	(6,200)
Interest rate futures in USD				27,556	0	(27,556)
		<b>55,000</b>		<b>88,756</b>	<b>0</b>	<b>(33,756)</b>





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## 24. Net interest income

	31 Dec 2016	31 Dec 2015	Change
<b>Investments in EUR:</b>	<b>25,249</b>	<b>38,656</b>	<b>(13,407)</b>
net income from securities	25,230	93,977	(68,747)
net expense from derivatives	(19,095)	(61,591)	42,496
net income from repo transactions	16,387	7,111	9,276
net income/(expense) from current accounts and term deposits	2,607	(977)	3,584
other net interest income	120	136	(16)
<b>Investments in foreign currency:</b>	<b>1,749</b>	<b>1,134</b>	<b>615</b>
net income from securities	19,891	11,234	8,657
net expense from derivatives	(4,701)	(4,860)	159
net expense from current accounts and term deposits	(2,346)	(2,693)	347
net expense from repo transactions	(11,152)	(2,911)	(8,241)
compensation from MF SR	57	364	(307)
<b>Monetary policy operations:</b>	<b>67,994</b>	<b>55,664</b>	<b>12,330</b>
net income from securities	66,151	54,746	11,405
net income/(expense) from deposits and loans	(976)	439	(1,415)
net income from MRS	2,819	479	2,340
<b>Remuneration of the claims equivalent to the transfer of foreign reserves</b>	<b>40</b>	<b>193</b>	<b>(153)</b>
<b>Remuneration of euro banknotes</b>	<b>77</b>	<b>480</b>	<b>(403)</b>
<b>Remuneration of TARGET2</b>	<b>(5)</b>	<b>503</b>	<b>(508)</b>
	<b>95,104</b>	<b>96,630</b>	<b>(1,526)</b>

The decrease in net interest income from investments in euro is mainly linked to the decrease in the net interest income from securities and volume of securities in the portfolio (see Note 7). Interest income from TARGET2 remuneration decreased due to a lower net position of TARGET2 (see Note 18).

Due to the introduction of negative interest rates to the financial markets since 2014, and the method of reporting (see Section B, Note c), the NBS recorded the following gross interest income and gross interest expense as at 31 December 2016:

	Balance Sheet item	31 Dec 2016	31 Dec 2015	Change
<b>Investments in EUR:</b>				
<b>Gross interest income, of which:</b>		<b>14,884</b>	<b>5,014</b>	<b>9,870</b>
Repo transactions	L3, L6	11,394	4,744	6,650
Current accounts and term deposits	L5, L6	3,490	270	3,220
<b>Gross interest expense, of which:</b>		<b>(13)</b>	<b>(12)</b>	<b>(1)</b>
Current accounts	A6	(13)	(12)	(1)
<b>Investments in foreign currency:</b>				
<b>Gross interest income, of which:</b>			<b>14</b>	<b>(14)</b>
Repo transactions	L7, L8		14	(14)
<b>Gross interest expense, of which:</b>		<b>(1)</b>	<b>(1,943)</b>	<b>1,942</b>
Repo transactions	L7, L8		(1,943)	1,943
Current accounts	A2, A3	(1)		(1)
<b>Monetary policy operations:</b>				
<b>Gross interest income, of which:</b>		<b>2,895</b>	<b>706</b>	<b>2,189</b>
MRS	L2	2,866	690	2,176
Deposit facility	L2	29	16	13
<b>Gross interest expense, of which:</b>		<b>(1,287)</b>		<b>(1,287)</b>
Longer-term refinancing operations	A5	(1,287)		(1,287)

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Development of interest rates announced by the ECB:

With effect from	Marginal lending facility	Main refinancing operations	Deposit facility
16 March 2016	0.25% p.a	0.00% p.a	-0.40% p.a
9 Dec 2015	0.30% p.a	0.05% p.a	-0.30% p.a

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

	31 Dec 2016	31 Dec 2015	Change
<b>Realised gains arising from financial operations</b>	<b>43,201</b>	<b>77,797</b>	<b>(34,596)</b>
Net gains from interest rate swaps	20,239	60,138	(39,899)
Net gains from sale of securities	5,077	11,178	(6,101)
Net foreign exchange gains	17,885	6,481	11,404
<b>Write-downs on financial assets and positions</b>	<b>(14,097)</b>	<b>(28,849)</b>	<b>14,752</b>
Losses from interest rate swaps revaluation	(8,983)	(12,886)	3,903
Losses from securities revaluation	(3,561)	(3,732)	171
Losses from foreign currency revaluation	(1,553)	(12,231)	10,678
<b>Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks</b>	<b>30,000</b>	<b>(140,000)</b>	<b>170,000</b>
General provision for financial risks	30,000	(140,000)	170,000
	<b>59,104</b>	<b>(91,052)</b>	<b>150,156</b>

Based on the decision of the Bank Board, as at 31 December 2016 the general provision for financial risks was decreased by EUR 30,000 thousand (see Note 20).

## 26. Net income/(expense) from fees and commissions

	31 Dec 2016	31 Dec 2015	Change
<b>Fees and commissions from investment operations:</b>	<b>(48)</b>	<b>(98)</b>	<b>50</b>
Net loss from operations with banks	(387)	(498)	111
Net profit from operations with clients	216	210	6
Net profit from operations with securities	153	224	(71)
Net loss from interest rate futures	(3)	(17)	14
Other	(27)	(17)	(10)
<b>Fees and commissions from monetary policy operations:</b>	<b>(162)</b>	<b>(224)</b>	<b>62</b>
Net loss from operations with banks	(400)	(238)	(162)
Net profit from operations with securities	238	14	224
<b>Net profit from exchange of euro coins</b>	<b>64</b>	<b>59</b>	<b>5</b>
	<b>(146)</b>	<b>(263)</b>	<b>117</b>

## 27. Income from equity shares and participating interests

	31 Dec 2016	31 Dec 2015	Change
Income on the ECB's net profit of the current year	10,604	8,913	1,691
Income on the ECB's net profit of the previous year	2,959	1,635	1,324
Dividends from BIS shares	774	808	(34)
	<b>14,337</b>	<b>11,356</b>	<b>2,981</b>

## 28. Net result of pooling of monetary income

Monetary income in accordance with Article 32 (1) of the Statute and Decision ECB/2016/36 on the allocation of monetary income of the national central banks of Member States whose



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currency is the euro, as amended, represents the net annual income from the assets of the NBS, held against banknotes in circulation and deposit liabilities to credit institutions. Monetary income is the income resulting from the performance of the monetary policy of the ESCB.

Monetary income is distributed to the NBS in proportion to its paid-up shares in the capital of the ECB after the end of each financial year (1.0974%).

Monetary income pooled by the NBS for 2016 into the common pool of monetary income of the Eurosystem amounted to EUR 41,633 thousand. The monetary income equivalent to the 1.0974% share of the NBS amounted to EUR 108,731 thousand. The difference of EUR 67,098 thousand (EUR 51,583 thousand as at 31 December 2015) represents the net result of the pooling of monetary income. The revenues of the NBS decreased by EUR 4 thousand as a result of a revision to Eurosystem monetary income for 2015 (the revenues decreased by EUR 120 thousand as at 31 December 2015 as a result of a revision for 2014).

## 29. Other income and other expenses

As at 31 December 2016, the most significant part of the Bank's "Other income" was represented by income from fees and contributions from financial market entities of EUR 6,787 thousand (EUR 5,176 thousand as at 31 December 2015), earned fees from participation in settlement systems of EUR 2,828 thousand (EUR 2,692 thousand as at 31 December 2015), and income from sale of commemorative and circulation coins of EUR 1,655 thousand (EUR 1,225 thousand as at 31 December 2015).

As at 31 December 2016, the Bank's "Other expenses" mainly represented costs of the minting of general circulation and collector coins, including costs of related services, of EUR 4,002 thousand (EUR 5,638 thousand as at 31 December 2015).

## 30. Staff costs

	31 Dec 2016	31 Dec 2015	Change
Wages and salaries	(27,633)	(25,575)	(2,058)
Social security costs	(9,726)	(9,105)	(621)
Other employee costs	(6,403)	(3,351)	(3,052)
	<u>(43,762)</u>	<u>(38,031)</u>	<u>(5,731)</u>

As at 31 December 2016, the average FTE number of employees was 1,063 (1,046 as at 31 December 2015), of whom 102 were managers (98 as at 31 December 2015).

Wages and employee benefits of the Bank Board's members for 2016 amounted to EUR 601 thousand (EUR 556 thousand in 2015). As at 31 December 2016 and 2015, 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".

## 31. Administrative expenses

As at 31 December 2016, this item mainly included the costs of repairs and maintenance, technical support and IS maintenance, energy consumption and telecommunications costs totaling EUR 9,339 thousand (EUR 8,575 thousand as at 31 December 2015).



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Costs of audit and verification of the financial statements by the auditor amounted to EUR 68 thousand as at 31 December 2016 (EUR 68 thousand as at 31 December 2015). As at 31 December 2016, 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.

### 32. Depreciation of tangible and intangible assets

	31 Dec 2016	31 Dec 2015	Change
Depreciation of tangible fixed assets	(6,707)	(6,489)	(218)
Depreciation of intangible fixed assets	(1,641)	(861)	(780)
	<u>(8,348)</u>	<u>(7,350)</u>	<u>(998)</u>

### 33. Banknote production services

As at 31 December 2016, the cost for printing euro banknotes was EUR 6,107 thousand (EUR 2,254 thousand as at 31 December 2015).

### 34. Income tax and other charges on income

According to Article 43 of Act No. 595/2003 Coll. on Income Taxes, as amended, the NBS is a taxpayer of income (proceeds) from bonds issued in the jurisdiction of the Slovak Republic. In 2016, the NBS paid a withholding tax of EUR 18,057 thousand (EUR 2,202 thousand at 31 December 2015). The increase by EUR 15,855 thousand compared to the preceding period was due to an increase of securities for monetary policy purposes (see Note 7).

### 35. Profit for the year

The financial result of the Bank as at 31 December 2016 was a profit of EUR 147,025 thousand (profit of EUR 4,604 thousand as at 31 December 2015). The most significant part of this item is represented by net interest income (see Note 24).



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#### D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 16 February 2017, the ECB Governing Council decided to distribute the ECB's net profit for 2016 to individual central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 2,490 thousand from the profit distribution is accounted for in the 2017 reporting period.

No significant events occurred subsequent to 31 December 2016 that would require any adjustments to the 2016 financial statements.

Bratislava, 14 March 2017

doc. Ing. Jozef Makúch, PhD.  
Governor

Ing. Miroslav Uhrin  
Executive Director  
Division for  
Financial Management,  
Banking Transactions  
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**APPENDIX TO THE INDEPENDENT AUDITOR'S REPORT  
to the annual report in accordance with the Act on Statutory Audit No 423/2015 Coll. § 27 par. 6  
and on amendments to the Act on accounting No 431/2002 Coll., as amended by later  
legislation ("the Act on statutory audit")**

To the Bank Board of Národná banka Slovenska:

I. We have audited the financial statements of Národná banka Slovenska ("the Bank" or "NBS") as at 31 December 2016, presented in the attached annual report of the Bank on pages 66 - 95, to which we issued on 14 March 2017 the following independent auditor's report from the audit of the financial statements:

***„Report on the Audit of the Financial Statements***

***Opinion***

*We have audited the financial statements of Národná banka Slovenska ("the Bank" or "NBS"), which comprise the balance sheet as at 31 December 2016, the income statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.*

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

***Basis for Opinion***

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

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

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

*Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes*

**THIS IS A TRANSLATION OF THE ORIGINAL SLOVAK REPORT**

Spoločnosť zo skupiny Ernst & Young Global Limited  
Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.





our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit."

## II. Report on Other Legal and Regulatory Requirements

### *Report on Information Disclosed in the Annual Report*

The Bank Board of the NBS is responsible for the information disclosed in the annual report, prepared based on requirements of the Act on accounting and the Act on the NBS No 566/1992 Coll., as amended by later legislation ("the Act on the NBS"). Our opinion on the financial statements expressed above does not apply to other information contained in the annual report.

In connection with the audit of the financial statements it is our responsibility to understand the information disclosed in the annual report and to consider whether such information is not materially inconsistent with the audited financial statements or our knowledge obtained in the audit of the financial statements, or otherwise appears to be materially misstated.

We considered whether the Bank's annual report contains information, disclosure of which is required by the Act on Accounting and the Act on the NBS.

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

- Information disclosed in the annual report prepared for 2016 is consistent with the financial statements for the relevant year,

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- The annual report contains information based on the Act on Accounting and the Act on the NBS.

Additionally, based on our understanding of the Bank and its situation, obtained in the audit of the financial statements, we are required to disclose whether material misstatements were identified in the annual report, which we received prior to the date of issue of this auditor's report. In this regard, there are no findings which we should disclose.

25 April 2017  
Bratislava, Slovak Republic

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

Ing. Tomáš Přeček, statutory auditor  
UDVA Licence No. 1067

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## ABBREVIATIONS

b.p.	basis point
BSSE	Bratislava Stock Exchange / Burza cenných papierov v Bratislave, a. s.
BIS	Bank for International Settlements
CDCP	Centrálny depozitár cenných papierov, a. s. (a central securities depository)
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
ESA 2010	European System of Accounts 2010
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
GDP	gross domestic product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
LTV	loan-to-value (ratio)
MF SR	Ministry of Finance of the Slovak Republic
NAV	net asset value
NBS	Národná banka Slovenska
NCB	national central bank
NEER	nominal effective exchange rate
NFC	non-financial corporation
OECD	Organisation for Economic Co-operation and Development
p.a.	per annum
PFMC	pension fund management company
p.p.	percentage point
REER	real effective exchange rate
REGFAP	Register of Financial Agents and Financial Advisers / Register finančných agentov a finančných poradcov
SEPA	Single European Payments Area
SIPS	Slovak Interbank Payment System
SMEs	small and medium-enterprises
SKK	Slovak koruna
SO SR	Statistical Office of the Slovak Republic
SPMC	supplementary pension management company
SR	Slovak Republic
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TARGET	Trans-European Automated Real-time Gross settlement Express Transfer system
UCITs	undertakings for collective investment in transferable securities
ÚPSVR	Ústredie práce, sociálnych vecí a rodiny / Central Office of Labour, Social Affairs and Family
USD	US dollar