NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

Annual Report 2018

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Foreword

Národná banka Slovenska (NBS) celebrated its 25th anniversary in 2018 and organised several events to mark the occasion. The anniversary was also an opportunity to reflect on the challenges we faced and the successes we achieved in that time. Among the most notable milestones were the currency separation and first issuance of Slovak koruna banknotes and coins (1993), the transition to a floating exchange rate (1998), joining the European System of Central Banks upon Slovakia's accession to the European Union (2004), the integration of financial market supervision into the bank's remit (2006), and Slovakia's adoption of the euro currency (2009). NBS successfully managed the euro changeover, as well as payment system reform, and the implementation of the banking union and financial consumer protection principles.

Major issues at expert and high-level meetings in 2018 centred on analyses of current and future challenges posed by economic, monetary and financial developments. The mounting uncertainty and unease surrounding Brexit was and remains a risk. From the global economic perspective, one of the most serious threats appears to be the escalation of trade protectionism and the risk of a full-blown trade war breaking out.
Slovakia's economy continued to expand in 2018, with GDP growing by 4.2% year on year. The main driver of that growth was domestic demand, in particular growth in household consumption as well as in investment. The labour market situation also remained favourable, as employment increased and the unemployment rate dropped to a historical low. These dynamics were reflected in wage growth, which accelerated not only in nominal terms but also in real terms – i.e. after taking into account the average annual inflation rate, which in 2018 stood at 2.5%.

Given the export orientation of the Slovak economy, the main risks to its outlook lie in the external environment. During 2018 we observed a deterioration in the global macroeconomic outlook. World GDP growth moderated, largely because economic slowdowns in Europe, Japan and China were more pronounced than expected. Growth declined in both industrial production and foreign trade. The euro area's economic activity growth decelerated sharply in 2018, and while weak exports were the main cause of the slowdown, all GDP components other than changes in inventories contributed to it. The euro area's headline inflation rate also began to fall towards the year-end, amid the impact of declining oil prices.

In response to these shifting trends in economic activity and prices and to their impact on expectations, the ECB Governing Council has adjusted its forward guidance – from envisaging no change in the key ECB interest rates through the summer of 2019, to projecting no change through the end of 2019. In 2018 the Eurosystem continued employing non-standard monetary policy measures. The monthly pace of net purchases under the asset purchase programme (APP) was reduced from €30 billion to €15 billion for the last quarter of the year, and then the APP purchases were discontinued as of 31 December 2018. NBS participated in the APP in accordance with its obligations to the Eurosystem, and its portfolio of securities purchased under the APP amounted to €21.8 billion by the year-end.

While favourable developments in the domestic economy were mitigating immediate risks to financial stability, the rapid increase in household indebtedness was making the household sector more vulnerable to any deterioration in the economic situation. Although annual growth in loans to households slowed to around 10%, it was still higher than the rate in any other EU country.

In order to reduce financial stability risk in Slovakia, NBS in 2018 increased the countercyclical capital buffer (CCyB) rate and tightened limits on loan-to-value ratios. In addition, the bank introduced a new limit on borrowers' debt-to-income ratio.

Payment and settlement system operation is one of NBS's main tasks, and 2018 saw a significant development in this area: the launch of the Europe-wide TARGET Instant Payment Settlement (TIPS) system, which offers secure, around the clock settlement of instant payments in euro in a few seconds.

The year 2018 was the 25th anniversary not only of NBS, but also of the establishment of Slovakia as an independent state. To mark the national anniversary, NBS issued a €2 commemorative coin and a €25 silver collector coin. The bank issued a further seven precious metal collector coins in 2018, including one commemorating the 100th anniversary of the establishment of the former Czechoslovak Republic. As part of its obligations as a Eurosystem member, NBS commissioned the production of an allocated volume of €5 banknotes in 2018. In addition, the production of €50 banknotes which NBS had commissioned in the previous year was completed in 2018. NBS also commissioned the production of more than 50 million euro coins in 2018, including all denominations apart from the €1 coin. All the euro coins issued by Slovakia are produced by the state-owned Kremnica Mint (Mincovňa Kremnica).

Národná banka Slovenska reported a net profit of €172 million for 2018, generated mostly by income from monetary policy operations. Under a decision of the NBS Bank Board, the entire 2018 profit was set off against losses from previous years.

March 2019

Jozef Makúch
Governor

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

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 remained solid in 2018. According to IMF estimates, world GDP growth slowed only slightly, from 3.8% in 2017 to 3.7%.[1] But in contrast to the previous year, when the expansion was strong and highly synchronised throughout the year, the second half of 2018 saw the start of economic deceleration and signs of lower business cycle synchronisation. The global economy remained afflicted by trade tensions between the United States and China, with both sides putting up new tariff barriers. At the same time, uncertainty continued to surround the question of the future post-Brexit arrangements between the United Kingdom and the European Union. These factors may also have contributed to a slowdown in global trade. Economic developments were further affected by geopolitical uncertainty in emerging market economies, as well as by concerns about the ability of these countries to adapt to the implications of monetary policy normalisation in advanced economies. Overall financial conditions remained favourable, though the weakening of global growth accentuated stock market volatility, particularly towards the end of the year.

As regards advanced economies, Japan experienced a significant economic slowdown in 2018. Its strongly export-oriented economy was hurt by a decline in foreign demand, stemming from weaker GDP growth in China and from the US–China trade dispute. Japan's export performance was also dampened by adverse weather conditions and natural disasters at home. Domestic demand, underpinned by favourable employment developments, supported the economy. In the euro area, too, GDP growth moderated in 2018, particularly in the second half of the year when the car industry's performance was subdued by a temporary factor – the need to adapt to new emission standards. Meanwhile, a deterioration in economic sentiment indicators across countries and sectors implied a more prolonged impact of adverse factors on the economy. Continuing monetary policy accommodation supported investment demand growth, but did not boost household consumption growth, which was lower in 2018 than in the previous year. Export growth also eased, resulting in a decline in net exports' contribution to GDP growth. The UK's economic growth in 2018 was its weakest since the global financial crisis. GDP growth was dented significantly by the uncertainty surrounding the future trade relations between the UK and the European Union, which weighed on consumer confidence and consequently on household consumption. The effect of the Brexit uncertainty on the UK in 2018 was also evident in stagnating investment demand and weaker foreign trade. But despite mounting concerns about the economic impact of a possible no-deal Brexit, the Bank of England increased its base rate in 2018, justifying the further monetary policy tightening as appropriate in order to return inflation to its target level. In the United States, the economy was aided significantly by strong labour market figures, improving consumer confidence, and fiscal stimulus. On the other hand, the import tariffs aimed at addressing long-running trade deficits, in particular with China, did not have a significant impact on the US economy. The tax reform benefiting higher-income households is expected to have supported demand for imports, which maintained the same robust growth observed in the previous year. Import may also have been boosted by firms' stocking up ahead of the imposition of tariffs. The result was the United States' highest trade deficit in ten years. The process of normalising US monetary policy continued in 2018, as the Federal Reserve responded to strong consumer price inflation by raising the target range for the federal funds rate on four occasions.

Turning to emerging market economies, China's annual GDP growth in 2018 was its lowest since 1990. Nevertheless, its performance over the whole year exceeded the politically set target for 2018. The slowdown is likely to have reflected the effects of China's trade dispute with the United States as well as the country's efforts to rein in credit growth and the weakening of industrial production growth related to anti-pollution

1 *World Economic Outlook Update, January 2019.*

measures. Growth also moderated in the Chinese construction sector, implying a dampening of investment demand. Likewise, the country's lower retail trade growth in 2018 indicates a softening of private consumption growth. Brazil's economic growth, underpinned by domestic demand, was the same in 2018 as in the previous year. A combination of lower interest rates and reforms supported a relatively strong pick-up in investment, which increased for the first time in five years. India contributed positively to global economic growth in 2018, becoming the fastest-growing G20 economy. Investment growth accelerated on back of increasing capacity utilisation, a recovery of corporate profits, and the recapitalisation of state-owned banks. Private consumption also had a positive impact on India's GDP growth, accelerating despite monetary policy tightening and an increase in the unemployment rate. On the other hand, net trade had a dampening effect on growth, as the increase in export growth was not enough to offset the continuing strength of import growth. Russia's GDP growth recorded a six-year high in an environment of rising oil prices and favourable labour market developments. Net trade contributed positively to the growth, with export growth accelerating and import growth slowing significantly due to the rouble's substantial depreciation. Domestic demand also had positive impact on GDP growth, both through large investment projects in the oil and gas industry and through increased public expenditure related to the country's hosting of the 2018 FIFA World Cup. Looking ahead, Russia's economic activity growth is expected to moderate as oil output is reduced under the terms of an agreement between OPEC members and non-OPEC oil producers. The Russian economy may also be adversely affected by sanctions and weak consumer confidence.

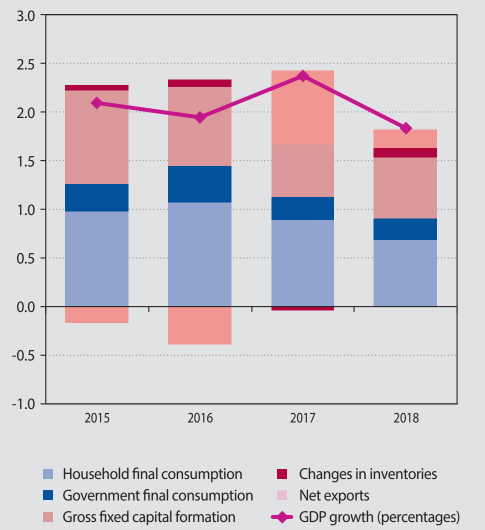
Global consumer price inflation accelerated in 2018, showing responsiveness to energy commodity prices. The global inflation rate therefore reflected developments in energy inflation, which on average was higher in 2018 than in the previous year. Food prices also had an upward impact on headline inflation. Across advanced economies, the average annual inflation rate increased to 2.0% in 2018, from 1.7% in 2017, with core inflation also rising. The headline inflation rate for emerging market economies accelerated from 4.3% in 2017 to 4.9%.

The global commodity price index increased in 2018. The increase in the energy commodity component included a year-on-year rise of more than 30% in the average oil price, which reflected the impact of the US–China trade dispute, the Venezuelan economic crisis, the United States' withdrawal from the Iran nuclear deal and its subsequent imposition of sanctions on that country, and the adherence of OPEC members and Russia to their production restraint agreement. Non-energy commodity prices also increased, but more slowly compared with 2017. Inflation in overall non-energy commodity prices was dampened by food commodity prices, which declined, on average, owing to overproduction and rising inventories.

1.1.2 The euro area

The euro area's annual GDP growth slowed appreciably in 2018, to 1.8%, down from 2.4% in 2017. Net exports had the largest dampening effect on activity growth, with export growth falling sharply, year on year, owing to weaker global trade and rising protectionism. Import growth also moderated, but to a lesser extent. Private consumption made the largest positive contribution to GDP growth despite its growth rate easing, too. Consumer demand was supported by labour market developments, as well as by favourable financing conditions. These also bene-

Chart 1 Euro area GDP and its components (annual percentage changes; percentage point contributions)

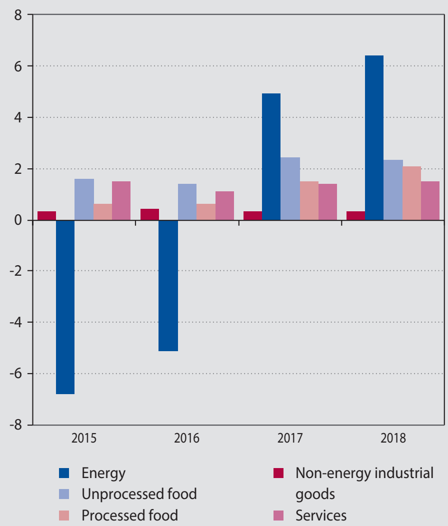


Source: Eurostat.

fited investment, as did the pick-up in firms' profitability. Besides being affected by geopolitical developments and weakening global trade, the euro area's overall economic trends in 2018 reflected the impact of temporary factors, including adverse weather conditions in the first half of the year and new emission standards in the car industry in the second half of the year. The labour market continued to recover in 2018, and by December the unemployment rate was at its lowest level (7.8%) since October 2008 (having decreased from 8.6% in January 2018).

The euro area's average annual HICP inflation was 1.8% in 2018, 0.3 percentage point higher than in the previous year. The headline inflation rate was accelerating moderately until May 2018 and then fluctuated around 2% until November, before dropping to 1.5% in December. Among HICP components, energy commodity prices had the largest impact on the inflation rate over the year as a whole, with energy prices coming under strong upward pressure until October and moderating over the last two months. Food price inflation eased at the end of the year, while core inflation (HICP inflation excluding energy and unprocessed food), after accelerating slightly in May, remained, on average, at lower levels in the second half of the year. Average core inflation was 1.2% for 2018 (up from 1.1% in 2017).

Chart 2 Contributions of components to HICP inflation (percentage points)



Source: Eurostat.

The euro's exchange rate against the US dollar was on a depreciating trend in 2018. After fluctuating in the first quarter, the euro weakened appreciably in April and May; thereafter, until the year-end, it tended to depreciate gradually while also experiencing bouts of volatility. The exchange rate's movement reflected the impact of monetary policy settings in major world economies and geopolitical developments, as well as outlooks for euro area GDP growth and inflation. In its trading against the US dollar, the euro was around 5% weaker at the end of 2018 than at the start of the year.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

Slovakia's annual GDP growth accelerated to 4.1% in 2018 (from 3.2% in 2017), driven by domestic demand in the form of increasing investment and consumption.

The labour market situation supported economic growth. Employment as defined in the ESA 2010 increased by 2.0% year on year (after increasing by 2.2% in 2017), with most of the new jobs being added in the industry and trade sectors. The unemployment rate decreased to an all-time low of 6.5% at the end of 2018 (from 8.1% a year earlier). Average annual nominal wage growth increased to 6.2% in 2018 (from 4.6% in 2017). The sectors reporting the strongest wage growth were public administration and defence, trade, industry, health care, and construction.

In the balance of payments for 2018, the current account showed a deficit of €2.2 billion (after a deficit of €1.7 billion in 2017), with the deterioration caused mainly by a decline in the trade surplus.

Average annual HICP inflation accelerated to 2.5% in 2018 (from 1.4% in 2017), owing mainly to increases in the energy and services components.

1.2.1 Prices

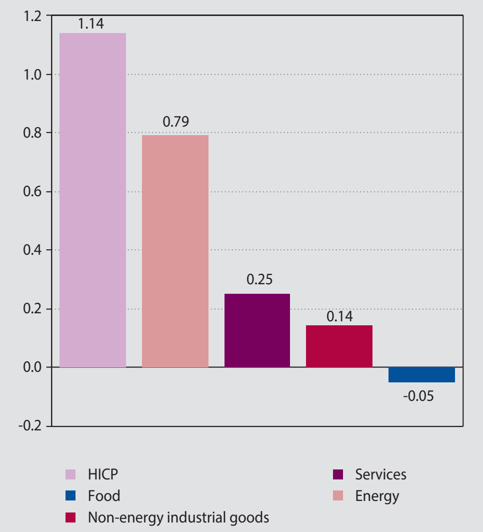
Annual HICP inflation in Slovakia increased from 1.4% in 2017 to 2.5% in 2018, owing mainly to commodity price movements and demand-pull inflation.

Euro oil prices increased by 25% year on year, and their growth passed immediately through to domestic motor fuel prices. This did not, however, contribute to the increase in headline inflation, since the inflation in motor fuel prices in 2018 was similar to that in 2017. Energy prices had an upward impact on the headline rate, following increases in administered prices of gas, electricity and heat – prices which in the previous year had fallen quite sharply.

The acceleration of demand-pull inflation during 2018 reflected labour market developments and the impact of external factors on import prices, as well as changes in the methodology used to measure the price level. Imported inflation, wage growth, and household final consumption expenditure had a moderate upward impact on non-energy industrial goods inflation. The acceleration of services inflation continued to be supported by labour market dynamics, as well as by a marked increase in the weight of air fares in the consumption basket.

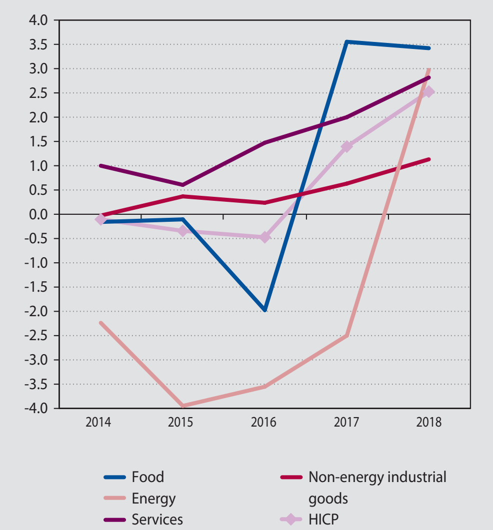
Food price inflation outpaced headline inflation for a second successive year, but its rate of 3.4% in 2018 was not enough to contribute to the acceleration in the headline rate. The relatively high food inflation, especially in the first three quarters, continued to reflect the impact of a previous supply shock (a significant rise in prices of dairy products and eggs). Food inflation slowed sharply in the last quarter as the effect of that shock faded, and its decline was further supported by a downward trend in fruit prices.

Chart 4 Contributions of components to the acceleration of the HICP inflation rate between 2017 and 2018 (percentage points)



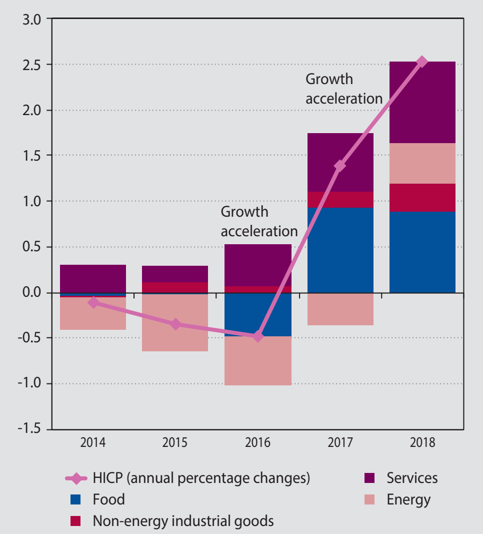
Sources: SO SR and NBS calculations.

Chart 3 HICP components (annual percentage changes)



Sources: SO SR and NBS calculations.

Chart 5 HICP and its components (percentage point contributions unless otherwise stated)



Sources: SO SR and NBS calculations.

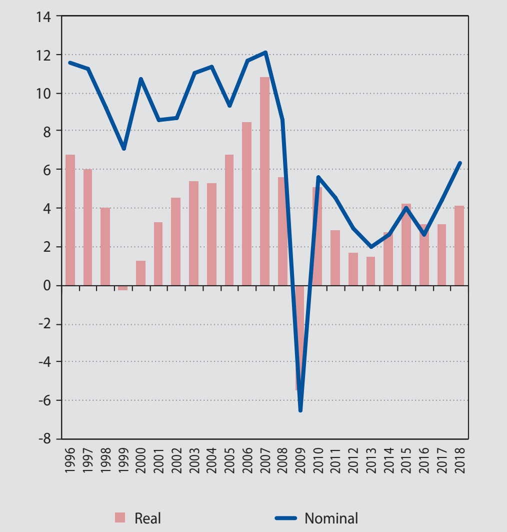
1.2.2 Gross domestic product

Slovakia's real gross domestic product (GDP) increased, year on year, by 4.1% in 2018 (after rising by 3.2% in 2017). This acceleration was driven by domestic demand, with increases in both investment and household consumptions. Nominal GDP for the year was €90.2 billion, 6.3% higher compared with 2017. The GDP deflator also increased, by 2.2% year on year (1.3% in 2017), under upward pressure from gradual increases in consumer prices, producer prices, and foreign trade prices.

GDP – the expenditure measure

Domestic demand increased, year on year, by 4.2% in 2018, which represented a considerable improvement on its rise of 2.6% in the previous year. Its growth was driven mainly by investment demand, with fixed investment growth accelerating to 6.8%. There was major investment in the automotive industry related to the roll-out of new production. The general government sector also contributed positively to domestic demand growth, thanks to rising absorption of EU funds, particularly later in the year. The financial corporations sector was the only sector in which investment was lower compared with the previous year. Net exports made a slightly negative contribution to annual GDP growth, as import growth (5.3%) was higher than the growth in exports of goods and services (4.8%).

Chart 6 Real and nominal GDP (annual percentage changes; constant prices)



Source: SO SR.

The favourable labour market situation in 2018 translated into higher household disposable income growth and subsequently into high household consumption. The increase in household consumption was slightly lower year on year, owing mainly to higher inflation. With their incomes rising, households were able to increase their spending on goods and services other than necessities such as food, housing and transport. The increase in household consumption included growth in spending on furniture and equipment, on recreational and cultural activities, and on restaurants and hotels. Yet even while their consumption grew, households managed to increase their savings in 2018, and the sector's saving ratio continued to rise.

The year-on-year increase in Slovakia's exports of goods and services moderated to 4.8% in 2018, amid a gradual slowdown in foreign demand growth. Export growth was driven mainly by car producers, which were expanding production capacities and gaining market shares by dint of making cars that complied with new emission standards. Their efforts were not enough, how-

Table 1 GDP based on the expenditure approach (annual percentage changes; constant prices)

	2017	2018				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross domestic product	**3.2**	3.7	4.5	4.6	3.6	**4.1**
Final consumption of households and non-profit institutions serving households	**3.5**	3.5	2.0	3.1	3.4	**3.0**
Final consumption of general government	**1.7**	1.2	0.7	1.6	3.8	**1.9**
Gross fixed capital formation	**3.4**	8.1	18.5	-5.7	9.0	**6.8**
Exports of goods and services	**5.9**	1.3	7.6	5.6	4.7	**4.8**
Imports of goods and services	**5.3**	1.1	6.6	5.4	7.8	**5.3**

Source: SO SR.

ever, to prevent a slowdown in overall export growth, which was dampened by falling exports among auto parts suppliers (hurt by the impact of the same emission standards) and in other sectors, such as manufacturing of electrical equipment. Towards the year-end, the positive impact of carmakers was gradually fading and the slowdown in foreign demand growth began having a greater impact. Imports of goods and services were boosted by increases in investment and in consumption demand.

Export performance as measured by the export-to-GDP ratio increased, year on year, by 0.4 percentage point in 2018, to around 97.2%. Import intensity increased by a moderately higher 1.3 percentage points. As for the openness of the Slovak economy, measured by goods and services exports and imports as a percentage of GDP, it rose by 1.7 percentage points, to 192.3%.

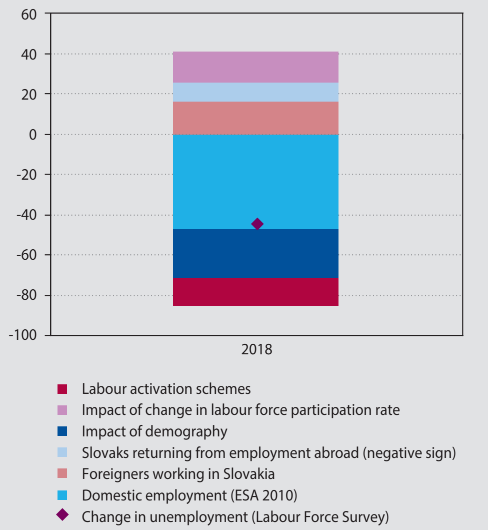
1.2.3 Labour market

Slovakia's labour market indicators in 2018 reflected the impact of relatively strong economic growth. Average annual wage growth surged as labour demand remained high and was putting upward pressure on wages in several sectors. A further boost to overall wage growth came from a statutory increase in wage premia for night, weekend and public holiday work; it was in force from May 2018. Employment growth moderated slightly, but nevertheless was relatively elevated. The unemployment rate fell sharply, ending the year at a historical low.

Employment

Employment as defined in the ESA 2010 increased in 2018 by 2.0% year on year or around 47,600 in headcount terms (after rising by 2.2% in 2017). The sectors that contributed most to that growth were industry and trade. There was also robust job growth in the construction sector. Public sector employment[2] growth was the same in 2018 as in 2017 (1.3%), and the strongest job growth within the public sector was in health care. The number of Slovak citizens working abroad decreased for a second successive year, this time by 6.5% year on year (or around 9,700). On the other hand, the number of foreigners working in Slovakia increased by around 15,900 in 2018. These facts, together with a rising labour force participation rate, were to some extent easing tightness in the labour market.

Chart 7 Contributions of key labour market variables to the change in unemployment (number of persons)



Sources: SO SR and NBS calculations.

Unemployment

According to the Labour Force Survey (LFS), the number of unemployed in 2018 was lower, year on year, by 20% or around 44,000; thus, the unemployment rate dropped by 1.6 percentage points, to an all-time low of 6.5%. As for the registered unemployment rate (based on labour office data), its average level in 2018 was 5.4%, 1.7 percentage point lower than in 2017. The unemployment rate fell partly because demand for labour was increasing and partly because the economically active population declined sharply, after falling in the previous year, too. The long-term unemployment rate also recorded a notable drop in 2018.

Wages and labour productivity

Slovakia's average annual nominal wage growth accelerated to 6.2% in 2018, and the average nominal wage increased to €1,013. The sectors recording the strongest wage growth were public administration and defence (8%), trade (7.8%), industry (7%), health care (7.1%), and construction (6.4%). The increase in wage growth may be attributed to the labour market situation, with several sectors continuing to experience labour shortages and resulting wage competition among employers. Owing to the year-on-year increase in the price level, real wage growth was lower than nominal wage growth in 2018, at

2 Including also the health care and education sectors.

Table 2 Labour market indicators

	2017	2018				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Nominal wages (index)	4.6	6.5	6.4	6.1	5.8	6.2
Real wages (index)	3.3	4.1	3.5	3.3	3.5	3.6
Nominal compensation per employee – ESA 2010 (index)	5.2	5.4	5.6	5.3	5.5	5.4
Labour productivity – GDP per person employed (index; current prices)	2.2	3.5	4.8	5.0	3.5	4.2
Labour productivity – GDP per person employed (index; constant prices)	1.0	1.4	2.3	2.7	1.8	2.1
Employment – ESA 2010 (index)	2.2	2.2	2.1	1.9	1.7	2.0
Unemployment rate – LFS[1] (percentage)	8.1	7.1	6.6	6.4	6.1	6.5
Nominal unit labour costs (ULCs)[2]	4.2	3.9	3.2	2.6	3.7	3.3

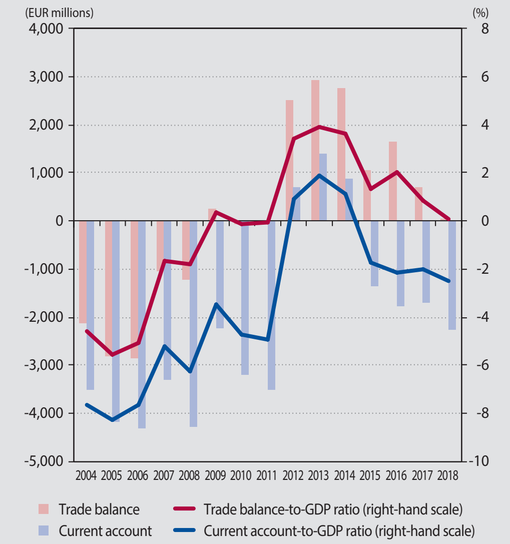
Source: SO SR and NBS calculations.
1) Labour Force Survey.
2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 2010) at constant prices.

3.6%. As for nominal labour productivity (GDP per person employed), its rate of increase picked up in 2018 on the back of stronger economic growth, and although it still lagged behind wage growth, the gap was lower compared with the previous year.

1.2.4 Financial results in the non-financial corporation sector

According to data from the Statistical Office of the Slovak Republic (SO SR), non-financial corporations (NFCs) in Slovakia made a total profit of €11.1 billion in 2018, which represented a year-on-year increase of 8.6% (after a drop of 2.2% in 2017). The highest profit growth was in the following sectors and sub-sectors: wholesale and retail trade (17.7%); real estate brokerage (17.8%); information and communication (21.4%); and manufacture of motor vehicles (6.7%). By contrast, the sectors that recorded the largest declines in profit were electricity, gas and steam supply (4.0%) and the chemical industry (16.3%).

Chart 8 Current account balance and trade balance



Sources: SO SR and NBS calculations.

1.2.5 Balance of payments

Current account

In Slovakia's balance of payments for 2018, the current account showed a deficit of €2.2 billion, which was €0.5 billion higher than the deficit in 2017 owing mainly to a decline in the trade surplus. The ratio of the current account deficit to GDP (at current prices) increased by 0.5 percentage point year on year, to 2.5%.

The services balance surplus was almost the same in 2018 as in 2017, only marginally lower owing to an increase in freight payments. The primary income deficit was reduced, year on year, by an increase in the absorption of EU funds and, to a lesser extent, by higher interest income.

The capital account surplus increased significantly, year on year, owing to the higher absorption of EU funds.

Table 3 Current account and capital account balances (EUR billions)

	2017	2018
Goods	0.7	0.0
Exports	71.5	76.4
Imports	70.8	76.4
Services	0.9	0.8
Primary income balance	-2.0	-1.8
Secondary income balance	-1.3	-1.2
Current account	**-1.7**	**-2.2**
Current account-to-GDP ratio (percentage)	-2.0	-2.5
Capital account	**0.8**	**1.4**

Sources: SO SR and NBS calculations.

Financial account

The balance of payments financial account recorded a net inflow of €1.9 billion, which was €0.3 billion lower than the inflow in 2017.

In the direct investment balance of the financial account, the impact of the inflow from non-residents' equity investments was offset by the outflow of debt capital arising from firms' economic activity. The changes in the portfolio investment balance in 2018 were affected by NBS's investment policy, as purchases of foreign securities translated into an increase in assets and a substantial overall outflow in the balance. The inflow in the other investment balance stemmed mainly from developments in short-term loans (repo transactions) in the central bank (NBS) sector.

Table 4 Financial account balance (EUR billions)

	2017	2018
Direct investment	-1.7	-0.2
Portfolio investment and financial derivatives	1.0	3.5
Other investment	-2.0	-6.6
Reserve assets	0.5	1.4
Financial account	**-2.2**	**-1.9**

Source: 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.

External debt of Slovakia

Slovakia's balance of payments transactions in 2018 resulted in its external debt increasing by €8.0 billion (from €94.2 billion to €102.2 billion). According to preliminary data, the country's ratio of gross external debt to GDP (at current prices) in 2018 was 113.3%, which was 2.3 percentage points higher than the figure for 2017 (111.0%). The ratio of short-term external debt to gross external debt increased by 1.3 percentage points in 2018, to 50.1%. Debt per capita rose by €1,489 in 2018, to €18,931 as at the year-end.

Nominal and real effective exchange rates[3]

The nominal effective exchange rate (NEER) of the euro as measured against the currencies of 15 of Slovakia's most important trading partners increased, year on year, by an average of 0.5% in 2018, after depreciating by 0.2% in the previous year. This increase was largely attributable to the impact of the euro's appreciation vis-à-vis the Russian rouble, Hungarian forint and Chinese renminbi, which in each case stood at 0.2 percentage point. The NEER's appreciation was dampened only by the euro's year-on-year weakening against the Czech koruna, which had a negative impact of 0.3 percentage point. The depreciation vis-à-vis the koruna was a consequence of the decision of the Czech central bank to end its exchange rate floor policy. The floor, which was set at 27 Czech koruna and lasted until 6 April 2017, was an additional instrument for easing monetary policy, and its discontinuance was followed by the koruna's gradual appreciation up to the levels near which it stayed during 2018.

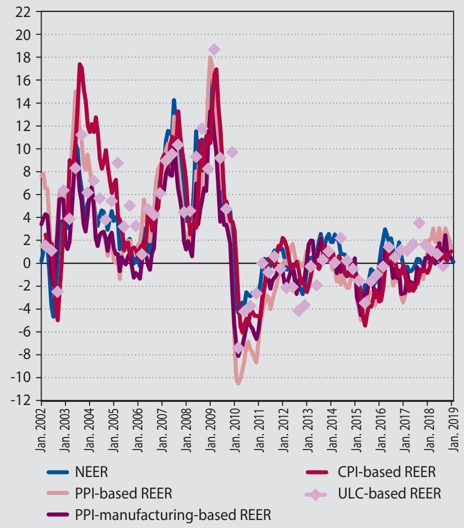
Looking at the real effective exchange rate (REER) based on the producer price index in manufacturing (PPI-manufacturing-based REER), it increased in 2018 by an average of 0.8% year on year, after falling by 1.3% in the previous year. The appreciation of the REER was greater than that of the NEER owing to positive inflation differentials vis-à-vis Slovakia's most important trading partners. The largest differentials were those against the Czech Republic (1.4 percentage point), Italy (1.3 percentage point), Germany (1.2 percentage point) and South Korea (1.0 percentage point). After taking into account trading partners' weights in the REER, the inflation differentials that had the largest positive impact on the REER's appreciation in 2018 were those

3 *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_Metodika.pdf.*

with Germany (with an impact of 0.3 percentage point), the Czech Republic (0.2 percentage point), and Italy (0.1 percentage point). The joint impact of the nominal exchange rate and inflation differential vis-à-vis a given trading partner is captured by the bilateral real exchange rate (RER) with that country. The RERs that had the largest positive impact on the REER's appreciation in 2018 were those vis-à-vis Germany (0.3 percentage point), China, South Korea, Russia, the United States, Italy and France (each 0.1 percentage point), while the RER vis-à-vis the Czech Republic made the largest negative contribution (-0.2 percentage point). With the REER's estimated equilibrium path still appreciating (due largely to equilibrium labour productivity growth being higher in Slovakia than in its trading partners), the year-on-year rate of increase in the REER's undervaluation continued to moderate in 2018, despite the REER's appreciation. The REER's undervaluation continued to support the price competitiveness of domestic firms and enabled a return to growth in Slovakia's market share (measured as the ratio of exports to foreign demand).

The REER based on unit labour costs (ULC-based REER) increased in the first three quarters of 2018 by an average of 0.6% year on year. The RERs contributing most to that appreciation were those vis-à-vis the United States (with an impact of 0.3 percentage point), Germany, Poland and South Korea (each 0.2 percentage point). The RER against the Czech Republic had the largest dampening effect on the ULC-based REER, with a contribution of -0.9 percentage point.

Chart 9 Slovakia's NEER and REER (calculated with respect to 15 trading partners; annual percentage changes)



Source: NBS calculations.
Note: Appreciation and depreciation of the NEER and REER indices are denoted by positive figures and negative figures respectively.

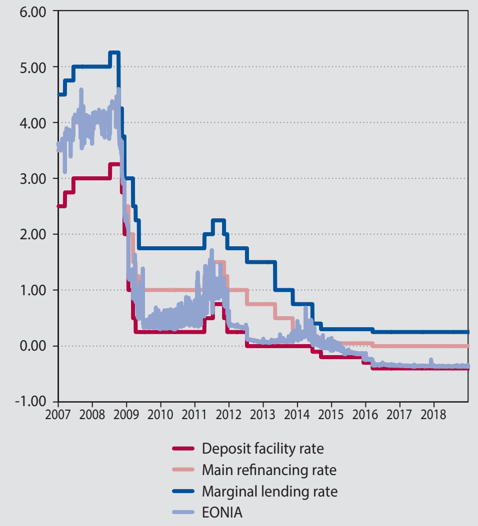
2 Eurosystem monetary policy

2.1 Monetary policy operations

In 2018 the European Central Bank (ECB) maintained the accommodative monetary policy stance that it had been pursuing since 2014. Euro area economic trends over the past decade have called for the implementation of several non-standard monetary policy measures, contributing to a marked increase in the European banking sector's liquidity position. At the same time, these measures have supported changes in the liquidity-providing monetary policy operations used by the banking sector. Furthermore, the ECB Governing Council's forward guidance on monetary policy has played an auxiliary but important role in the implementation of that policy.

The Governing Council left the key ECB interest rates unchanged throughout 2018, with the main refinancing rate standing at 0.00%, the marginal lending facility rate at 0.25%, and the deposit facility rate at -0.40%. At its monetary policy meeting in June 2018, the Governing Council enhanced its forward guidance on the key ECB interest rates, saying it expected to keep them unchanged at least through the summer of 2019 and in any case for as long as necessary to ensure the evolution of inflation remained aligned with its expectations of a sustained adjustment path. The more detailed forward guidance on the key interest rates had the effect of keeping market interest rates unchanged for the rest of the year. The overnight interest rate for unsecured deposits remained just above the

Chart 10 Key ECB interest rates (percentages)



Source: Bloomberg.

deposit facility rate, which in 2018 determined the level of the shortest market rates. Amid ambiguous incoming economic data for the euro area during the year, the timing of the next increase in key ECB interest rates as implied by OIS (Overnight Index Swap) interest rates was gradually put further back. By the end of 2018, the next increase was not envisaged before the end of 2019.

Looking at the ECB's use of standard monetary policy instruments in 2018, liquidity continued to be provided through the main refinancing operations with a maturity of one week and through longer-term refinancing operations with a maturity of three months. The share of these operations in overall liquidity provided to the European banking sector was very small, since banks received most of their liquidity through the ECB's asset purchase programme (APP), comprising the third covered bond purchase programme (CBBP3), the asset-backed securities purchase programme (ABSPP), the public sector purchase programme (PSPP), and the corporate sector purchase programme (CSPP).

Monthly purchases under the APP were reduced from €60 billion to €30 billion from January 2018, under a decision taken by the ECB's Governing Council in October 2017. As regards monetary policy measures, the Governing Council's two most significant meetings in 2018 were in June and December.

At its meeting in June 2018, the Governing Council enhanced its forward guidance not only on key interest rates but also on the ECB's net purchases under the APP. According to its post-meeting statement, net purchases would be made at a monthly pace of €30 billion until the end of September 2018 and then reduced to €15 billion until the end of December 2018, when they would be discontinued. At the same time, the Governing Council announced its intention to continue reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of its net asset purchases. In September the Governing Council reiterated that purchases would be reduced to a monthly pace of €15 billion in the fourth quarter. After its December meeting, the Governing Council confirmed that APP net purchases would end in December 2018 and announced a further enhancement of its forward guidance on reinvestment: the Eurosystem would continue reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time past the date when the key ECB interest rates started to be raised. The ECB therefore plans to proceed in this way for as long as is necessary to ensure its monetary policy objectives. According to statements of ECB representatives, the ending of net purchases does not imply an end to the expansive cycle of monetary policy. An accommodative monetary policy stance is expected to accompany economic expansion for a certain time.

Liquidity provided to the banking sector through monetary policy operations and purchase programmes

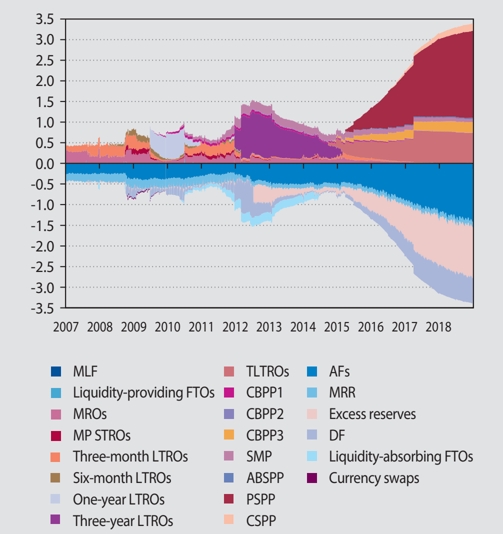
The outstanding liquidity provided by the Eurosystem to euro area banks continued to increase in 2018 and reached a new historical high of €3.4 billion. The ECB's asset purchase programme accounted for most of the new liquidity, but owing to the reduction in the monthly pace of APP purchases, the growth rate of outstanding liquidity moderated. Looking at the euro area banking sector's outstanding liquidity at the end of 2018, 78% of it came from purchase programmes and 21% from non-standard targeted longer-term refinancing operations (TLTROs) conducted in 2016 and 2017. The share of MROs and three-month operations remained at less than 1% in 2018. Since June 2018, in accordance with the ECB's pre-announced schedule, participants in the second series of TLROs (TLTRO-II) have had the option, on a quarterly basis, of early repayment of their TLRTOs. The uptake of this option among euro area banks has been muted and of the total amount made available to them through TLTRO-II, less than 2% had been repaid by the year-end. Furthermore, the last repayments of funds provided under TLTRO-I have been made. European banks lowered the considerable liquidity surplus through the deposit facility.

By the end of 2018 overall APP purchases amounted to €2.6 trillion. Národná banka Slovenska has been participating in the PSPP – encompassing purchases of sovereign debt securities and securities issued by supranational institutions and the CBPP3. The market value of NBS's holdings in its monetary policy portfolio at the end of 2018 stood at €21.8 billion, while the value of domestic government bonds in the Eurosystem's portfolio was €12 billion.

Impact of monetary policy operations on the Eurosystem balance sheet

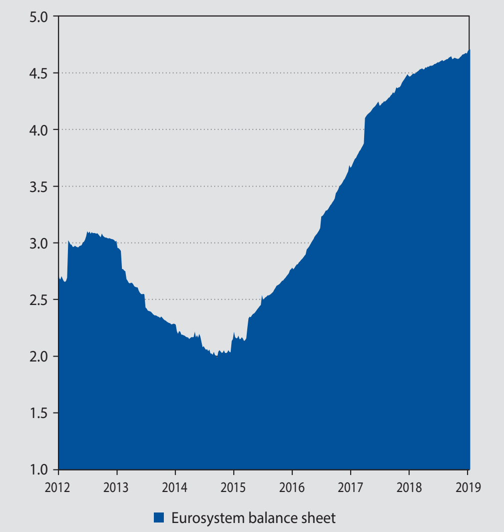
In 2018 the Eurosystem's total assets reflected the impact of the slower pace of monthly purchases under monetary policy programmes, full repayment of TLTRO-I funds, as well as early repayments of TLTRO-II funds. Nevertheless, the ECB's balance sheet expanded and by the year-end stood at a new historical high of €4.7 trillion, €0.2 trillion higher than its level at the end of 2017. Monetary policy assets made up 73% of the total assets.

Chart 11 Liquidity position of the Eurosystem (EUR trillions)



Sources: ECB and NBS calculations.
Note: MLF – marginal lending facility; FTO – fine-tuning operation; MRO – main refinancing operation; MP STRO – 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 factor; MRR – minimum reserve requirement; DF – deposit facility.

Chart 12 Total assets of the Eurosystem (EUR trillions)



Sources: Bloomberg and NBS calculations.

Box 1

EURO SHORT-TERM RATE (€STR)

Under the EU Benchmarks Regulation (BMR),[4] which entered into force on 1 January 2018, benchmark administrators are required to bring existing benchmarks into line with the BMR. After the administrator of the EONIA benchmark rate – the European Money Mar-

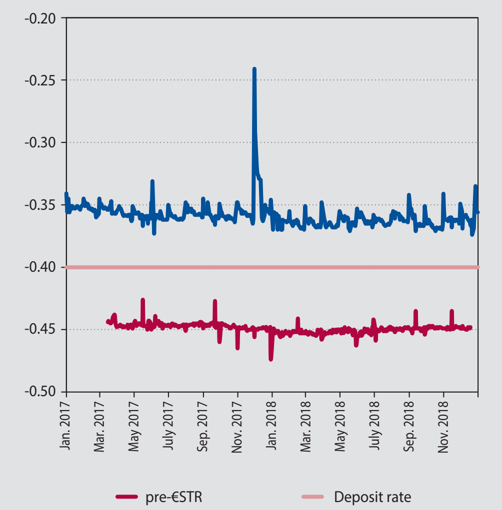
4 *Regulation (EU) 2016/2011 of the European Parliament and of the Council of 8 June 2016 on indices used in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.*

kets Institute (EMMI) – found the EONIA[5] and EURIBOR methodologies to be non-compliant with the BMR, an extension to the transition period for becoming BMR-compliant was granted to them (the BMR comes into full force on 1 January 2020). In 2018, EMMI suspended its review of the EONIA methodology and announced that the EONIA would not meet the requirements of the BMR by 1 January 2020. From that date, unless the transition period is extended, it will no longer be possible to use EONIA as a reference rate in new commercial contracts. The result of the review of the EURIBOR methodology will be announced during 2019.

It was in this context in 2018 that the ECB continued its intensive preparations for a new euro unsecured overnight interest rate, known as €STR (Euro short-term rate), which will be published on a daily basis by October 2019 at the latest. €STR is calculated from actual unsecured deposit transactions and reflects overnight borrowing costs in the European money market. The calculation includes all overnight transactions in which selected banks – 50 banks that are reporting agents for the ECB's money market statistical reporting (MMSR) dataset – borrow from credit institutions and other financial institutions. The rate is calculated as a weighted average, excluding transactions subject to market interest rates outside the range of the 25-75 percentiles. The calculation also includes transactions undertaken with non-bank institutions. A major advantage of €STR over EONIA is that it is based on a higher volume of transactions and a greater number of participating banks. €STR is less volatile owing to the lower weight of individual transactions and the exclusion of transactions in the outer percentiles.

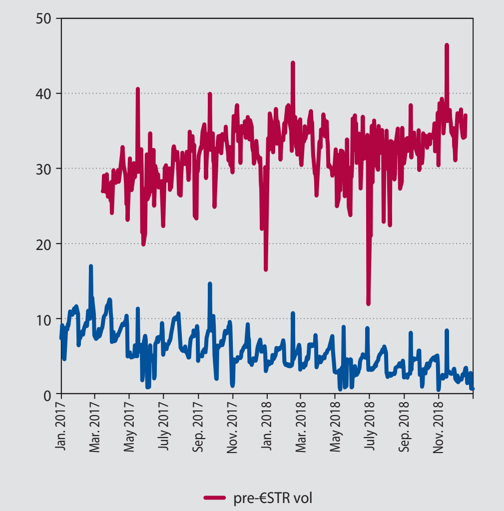
€STR will be published by no later than 09:00 on each TARGET2 business day and will be based on transactions from the previous day. From June 2018 the ECB began publishing the 'pre-€STR', as a way of giving market participants preliminary information about the level of the new benchmark. A working group on euro risk-free rates, in which the ECB has the role of secretariat, helped prepare recommendations for ensuring the smoothest possible transition of European market participants from the EONIA to €STR benchmarks. These recommendations were published at the end of 2018.

Chart A Unsecured money market interest rates (percentages)



Sources: ECB, Bloomberg.

Chart B Traded volumes included in the interest rate calculation (EUR bn)



Sources: ECB, Bloomberg.

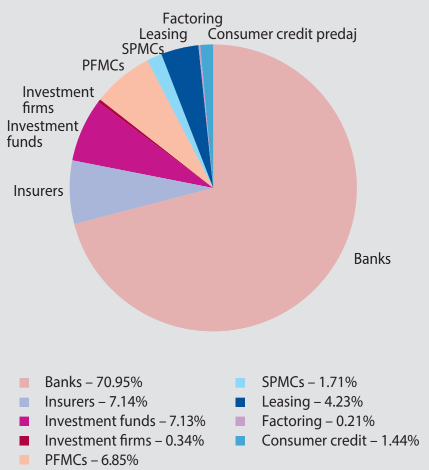
5 Euro overnight index average – a measure of the effective interest rate prevailing in the euro interbank overnight market. EURIBOR – a benchmark calculated daily for interbank deposits with a maturity of up to 12 months.

3 Financial market developments

The global macroeconomic outlook deteriorated in 2018, while several downside risks to the outlook – with potentially adverse implications for financial stability – became more pronounced. One of the most significant threats facing the global economy is the imposition of protectionist measures and the risk of an open trade war breaking out. Another ongoing risk is the mounting uncertainty and unease related to Brexit. Several episodes of volatility appeared in the financial market during 2018; the corrections concerned mainly prices of emerging market bonds and later also stock markets, which fell sharply towards the year-end.

Slovakia, like other EU countries, was experiencing an expansionary phase of the financial cycle in 2018, and the domestic economy grew by 4.1%. Slovakia's GDP growth in 2018 was driven primarily by domestic demand, underpinned mainly by household consumption and investment. The expansionary tendencies of cyclical developments were most evident in their impact on the labour market. Since the domestic economy is export oriented, the risks to Slovakia's economic growth outlook lie mainly in the external environment.

Chart 13 Financial sector assets as at 31 December 2018, broken down by market segment (percentages)



Source: NBS.
Notes: Preliminary data were used for the insurance sector, reported as at the end of 2018. PFMCs – pension fund management companies; SPMCs – supplementary pension management companies.

The Slovak banking sector's aggregate net profit for 2018 increased by 6.9%, year on year, to €640 million. The increase was due mainly to growth in interest income from the financing of non-financial corporations (NFCs), as lending rates stabilised and total NFC loans continued to increase. Interest income from retail lending also increased moderately. Another key factor behind the profit growth was banks' low losses on non-performing loans (NPLs), though this trend may not be sustainable over the long term.

The banking sector's aggregate total capital ratio[6] fell from 18.6% at the start of 2018 to 18.2% at the year-end, despite the continuation of more conservative dividend policies. The decline was partly caused by banks' transition to the new accounting standard IFRS 9. An increasingly important factor is banks' efforts to optimise the level and structure of their capital and gradually to reduce voluntary capital buffers above the level of regulatory requirements.

Annual growth in loans to households stood at 10.3% in December 2018, which compared with December 2017 was 1.4 percentage points lower. In absolute terms, total loans to households increased by €3.4 billion, which was almost identical to the corresponding figure for 2017 and therefore remained close to the all-time high of €3.55 billion. Credit growth remained higher in Slovakia than in any other EU country in 2018. The credit growth was supported by one-off effects – in particular expectations about the impact of legislative measures in force from July 2018 – and also by the ongoing trends of low interest rates, property price growth, and improvements in the macroeconomic environment, especially in the labour market. A corollary of rapid household credit growth has been a continuing increase in household indebtedness in Slovakia, which in 2018 remained the highest in the European Union. Therefore, the most significant risk is an increase in the house-

6 *The most recent capital ratio data available when this report was produced were for September 2018.*

hold sector's sensitivity to any deterioration in the economic situation.

Lending activity to the corporate sector was stable during 2018. Annual growth in loans to NFCs ranged between 4% and 6% during the year, and in the end stood at 5.14% The growth was concentrated among loans with a term of more than one year. In the breakdown of the NFC credit growth by the size and ownership of borrowers, large firms and private firms had the largest respective shares. The credit growth reported by the domestic banking sector is slightly higher than the median growth for central and eastern European (CEE) countries, as well as the median for EU countries. The low interest rate environment and continued soundness of the macroeconomic environment shaped the trends in the corporate credit market. The rate of corporate credit growth accounted for the stabilisation of NFC debt, which nevertheless remained higher than the CEE median.

NBS was responsive to developments in the domestic financial sector in 2018, particularly to the rapid increase in private sector credit and debt amid exceptionally favourable macroeconomic conditions. In July 2018 NBS increased the countercyclical capital buffer (CCyB) rate to 1.5% with effect from 1 August 2019. The bank also focused on laying down prudential conditions for bank lending. An important step in this area was the adoption of one NBS Decree amending a Decree on housing loans and another amending a Decree on consumer loans, each entering into force on 1 July 2018. The principal measures introduced by these amendments were a tightening of limits on loan-to-value (LTV) ratios and the introduction of a new limit on borrowers' debt-to-income (DTI) ratio.

The banking sector's holdings of debt securities did not change significantly in 2018, as the total amount of banks' bond investments fell slightly. Slovak government bonds remained the main component of the aggregate portfolio, constituting almost three-quarters of the total. In second place were investments in foreign government bonds. The share of aggregate bond holdings assigned to the held-to-maturity (HTM) portfolio underwent a change in 2018, as banks, following the transition to the new accounting standard IFRS 9, switched part of their bond holdings from the available-for-sale portfolio to the HTM portfolio. This has made banks' bond investments less sensitive to movements in the market value of bonds.

Favourable macroeconomic conditions continued in 2018 to support the debt servicing capacity of NFCs and households. The non-performing loan ratio for loans to households fell from 3.2% in December 2017 to 2.9% in December 2018. This drop was accounted for entirely by the housing loan portfolio, since the NPL ratio for consumer loans increased year on year. As for the corporate sector, the non-performing loan ratio for NFC loans improved significantly, from 5.2% to 3.9%.

The insurance sector[7] reported a net after-tax profit of €176 million for 2018, which compared with its profit for 2017 was lower by 1.6%. The sector's aggregate return on assets (ROA) also fell moderately, year on year, to 2.27%, while the return on equity (ROE) stood at 14.4%, although that figure masked a significant decline in equity. The aggregate solvency of insurers in Slovakia declined in 2018, particularly in the second half of the year. The sector had a solvency capital requirement (SCR) coverage ratio of 187% as at the end of 2018; by comparison, the SCR coverage ratio was 201% at the end of 2017 and was still at around that level at the end of the first half of 2018. The minimum capital requirement (MCR) coverage ratio showed a similar trend, dropping from 519% in December 2017 to 487% in December 2018. In traditional life insurance, gross premiums written fell by a quite substantial 9.8% in 2018, after increasing in the previous year. In unit-linked life insurance, on the other hand, gross premiums written maintained their upward trend in 2018, increasing by 5.8% year on year. In non-life insurance and inwards reinsurance together, growth in gross premiums written accelerated, year on year, in 2018 and at the end of the period stood at 11.2%.

In the second pillar of the pension fund sector,[8] the number of savers continued its strong growth trend in 2018 and by the end of year stood at almost 1.5 million. Most of the people who joined the second pillar in 2018 opted to invest in equity or index pension funds. The number of savers investing in these funds was

7 The insurance sector's profit was analysed on the basis of the accounting reports produced by insurers and branches of foreign insurers. Other areas were analysed using regulatory reports submitted by insurers other than branches of foreign insurers.

8 The second pillar of the Slovak pension system – the old-age pension scheme – is a largely compulsory defined-contribution scheme operated by pension fund management companies (PFMCs). The third pillar – the supplementary pension scheme – is a voluntary defined-contribution scheme operated by supplementary pension management companies (SPMCs).

further boosted by savers switching from other funds, notably from bond funds. Nevertheless, a clear majority of savers continued to invest in bond funds. The net asset value (NAV) of second-pillar funds grew more slowly, year on year, in 2018 than in 2017. This can be attributed to funds' negative performance, which to some extent offset the impact of the increase in inflows through new contributions. Behind the growth in inflows from savers were three main factors: a 25 basis point increase in the assessment base; a favourable labour market situation; and the above-mentioned expansion of the saver base. The NAV of second pillar funds stood at more than €8 billion as at the end of 2018. Among the different types of pension fund, mixed funds recorded the largest shift in asset structure during the period under review, with their equity investments declining largely as a result of the slump in share prices near the end of the year. The current pension-point value showed significant volatility over the course of 2018, in particular when stock markets were plummeting in December. The result was a significant deterioration in pension fund performance.

Developments in the third pension pillar in 2018 were similar to those in the second pillar. The growth in the number of the pillar's participants was the highest in more than ten years, bringing the total to around 800,000. The impact of rising contributions on the aggregate NAV of third-pillar funds was largely offset by the negative impact of the repricing of assets in the funds' portfolios, which occurred mainly in equity funds. The highest inflows were recorded by those funds that have an aggressive growth strategy; nevertheless, funds with a balanced strategy retained their dominant position. Looking at the asset structure of third-pillar funds in 2018, the situation was similar to that with second-pillar funds: the equity component declined and investments in bond instruments and bank deposits increased. All third-pillar funds apart from one distribution fund recorded a negative annual return.

In the context of its long-running expansion, Slovakia's investment fund sector had a less successful year in 2018. The year-on-year growth in investment funds' aggregate NAV fell from 14% in 2017 to less than one per cent in 2018. This decline stemmed from a combination of funds' somewhat lower marketability and weak performance. Compared with 2017, the net issuance of investment fund shares/units was less than half; furthermore, the impact of these net sales on the aggregate NAV was almost entirely cancelled out by the negative average return on funds, resulting from the broad-based decline in financial market asset prices. In the breakdown of net sales of shares/units by type of fund, mixed funds had by far the largest share, followed by real estate funds. Looking at the sectoral breakdown of investment fund inflows, the household sector held the leading position. The average annual return across investment funds was -3.5% as at the end of 2018.

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'). This requirement must be met on average over the maintenance period.

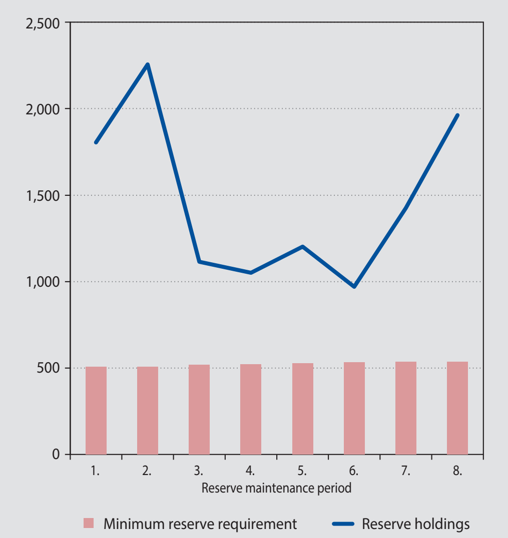
At the beginning of 2018 a total of 26 credit institutions in Slovakia were subject to minimum reserve requirements; they comprised 12 banks incorporated in Slovakia (including three home savings banks) and 14 branches of foreign credit institutions. Raiffeisen Centrobank AG Slovak Branch, a foreign bank branch, began operating in Slovakia from 9 April 2018, thereby increasing the number of foreign bank branches to 15 and the total number of credit institutions to 27. This situation remained unchanged for the rest of the year.

Excess reserves continued to be remunerated at a negative rate in 2018, as they had been since 11 June 2014. That rate was maintained at -0.40% throughout 2018. None of the three key ECB interest rates were adjusted during the year.

Before 2015 the ECB's Governing Council held its monetary policy meetings on a monthly basis, but since then it has held them at six-week intervals. This change resulted in the reserve maintenance period being extended to either 42 or 49 days, and therefore the number of periods per year fell to eight. The calendar for reserve maintenance periods is aligned with the schedule for the Governing Council's monetary policy meetings so that the start of the period falls on the potential effective date of any change in the monetary policy settings.

The average amount of reserves that banks were required to hold with Národná banka Slovenska in 2018 was €523.15 million, around 6.7% more than in 2017. In 2018 the amount of banks' actual reserve holdings at NBS was, on average, 181.7% higher than the reserve requirement, while in 2017 it had been 199.1% higher. The aggregate reserve holdings were highest in the second and eighth maintenance periods.

Chart 14 Reserve holdings and minimum reserve requirements in 2018 (EUR millions)



Source: NBS.

1.2 ELIGIBLE ASSETS

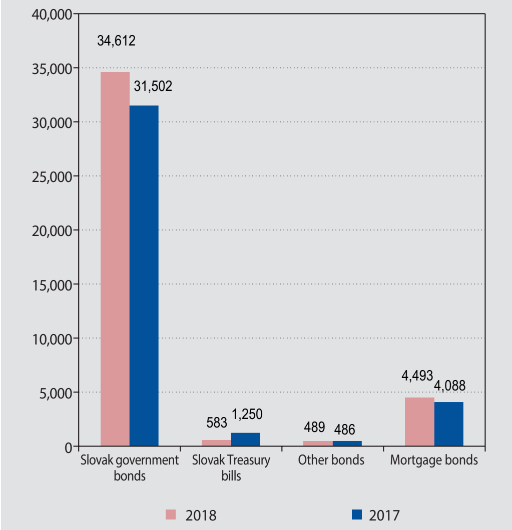
The collateral eligibility criteria for Eurosystem credit operations underwent several changes in 2018. One of the more significant was the further clarification of haircuts assigned to eligible credit claims with floating interest payments. The purpose of this change was to reduce the financial risk related to the use of credit claims and to ensure partial harmonisation with collateral eligibility criteria applicable to collateral in the form of bonds, for which there is a precisely defined interest payment structure. At the same time, the eligibility criteria for uncovered bank bonds were tightened in response to law changes in several European countries. This amendment resulted in the subordination of these bonds to other assets issued by the same company.

In addition, restrictions were imposed on the own-use of covered bonds as collateral in Eurosystem credit operations. Only covered bonds meeting the requirements laid down in the EU's Credit Requirements Regulation (No 575/2013) may be used by the bond issuers as collateral in credit operations. Another change concerned the method of setting valuation haircuts applied to floating-rate marketable and non-marketable eligible assets. This involved graduating the haircuts according to the residual maturity of the eligible assets.

The value of Slovak marketable eligible assets was, on average, 8% higher in 2018 than in 2017. In absolute terms, the value of these assets at the end of 2018 was €40,177 million, which compared to its level at the end of the previous year was higher by €2,851 million. Slovak government bonds constituted almost 86.2% of these eligible assets, mortgage bonds 11.2%. Slovak Treasury bills 1.4% and other bonds around 1.2%.

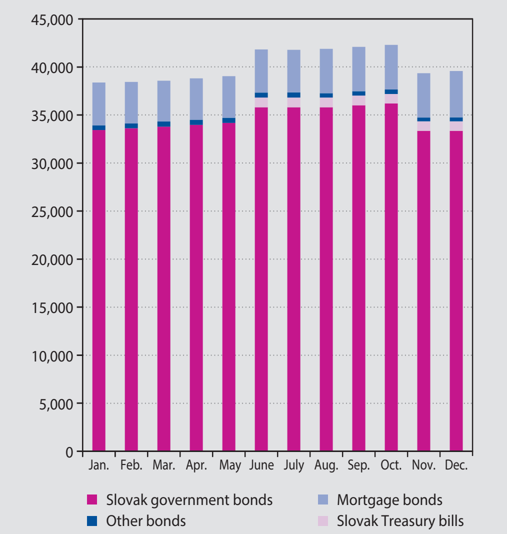
The value of collateral pledged by domestic banks in Eurosystem operations was slightly lower at end-2018 than at end-2017, while the average value for 2018 was around 4% lower compared with the previous year. The average share of government debt securities in the pledged collateral has been on a downward year-on-year trend, and in 2018 it dropped to 78%. By contrast, the average share of mortgage bonds

Chart 16 Composition of Slovak eligible assets as at end-December 2018 and end-December 2017 (EUR millions)



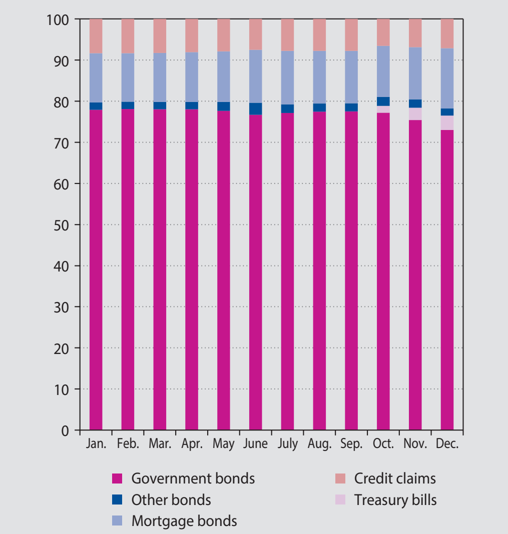
Source: NBS.

Chart 15 Composition of Slovak eligible assets in 2018 (EUR millions)



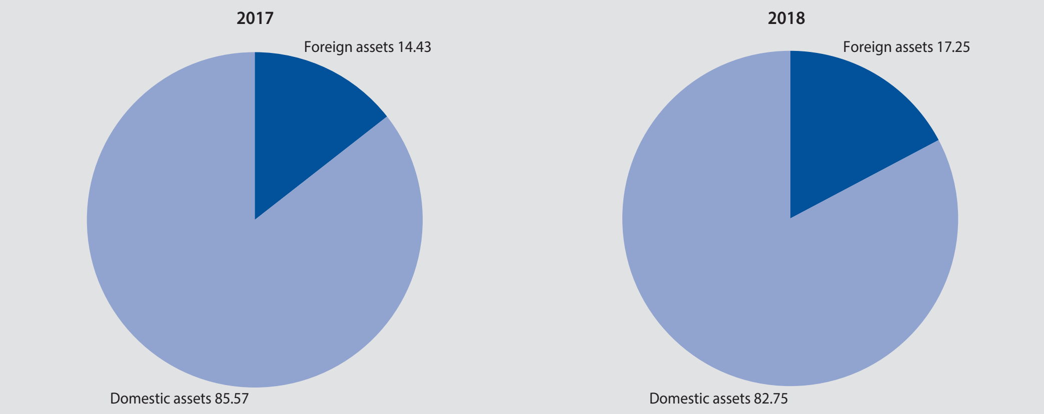
Source: NBS.

Chart 17 Eligible collateral pledged by domestic banks in Eurosystem credit operations in 2018 (percentages)



Source: NBS.

Chart 18 Use of domestic and foreign eligible assets (percentages)



Source: NBS.

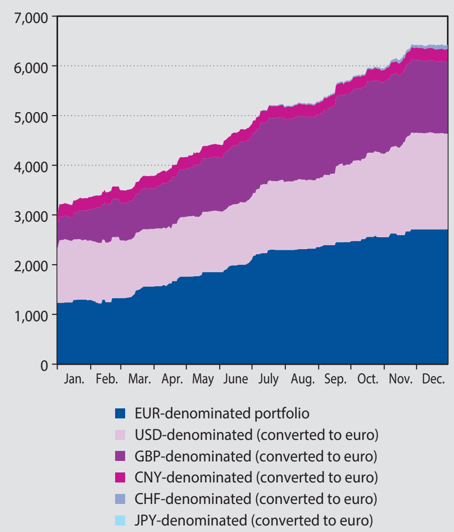
continued to increase, up to 12%. The shares of credit claims and other bonds remained broadly unchanged from the previous year, at 8% and 2% respectively.

As a share of the total collateral pledged by domestic banks, collateral issued in the domestic market fell slightly, to just under 83%. In previous years this figure had been around 90%. Slovak counterparties use a collateral pool to manage their collateral.

1.3 INVESTMENT PORTFOLIO MANAGEMENT

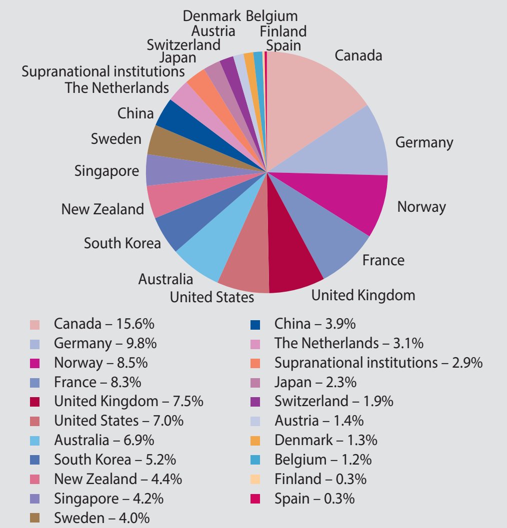
Národná banka Slovenska manages its investment portfolios in line with an investment policy adopted in 2008 and amended in 2014 and 2016. The aim of the policy is to ensure that the portfolios contribute positively to the bank's overall financial result. The total value of NBS's investment portfolios as at 31 December 2018 was €6.5 billion (at corresponding exchange rates and with securities at nominal value), or €7.65 billion including gold. Most of the portfolios are bond portfolios; these are currency hedged by including portfolios denominated in euro, US dollars, British pounds, Swiss francs and Japanese yen (where interest rate risk is managed in a standard way through interest rate swaps and futures contracts) and a portfolio of Chinese government bonds. Chart 19 shows how the total value of these portfolios changed during the year, while Chart 20 shows their geographical breakdown. In June 2018

Chart 19 Nominal value of securities in NBS bond portfolios in 2018 (EUR millions)



Source: NBS.

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



Source: NBS.

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

Box 2

FX GLOBAL CODE

The FX Global Code is a set of principles of good practice for traders in the foreign exchange market. Its objective is to promote a robust, fair, liquid, open and transparent market underpinned by high ethical standards that will benefit all forex market participants. The Code was initiated by the Bank for International Settlements (BIS) and its establishment was a joint effort of major world central banks and commercial banks. In May 2017 all ESCB central banks, including Národná banka Slovenska and the European Central Bank, undertook to incorporate the Code in their internal procedures within 12 months. On 14 May 2018 NBS and the other ESCB central banks jointly issued a Statement of Commitment to Foreign Exchange Global Code. At the same time, NBS supports the implementation of and adherence to the Code in the Slovak financial sector.

2 Financial stability and financial market supervision[9]

2.1 FINANCIAL STABILITY

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

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

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

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

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

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

The other two decisions concerned banks in Slovakia identified as 'other systemically important institutions' (O-SIIs). The list of O-SIIs is reassessed annually, and in 2018 there was no change in either the list of O-SIIs[11] or in the size of the banks additional buffer requirements, i.e. the O-SII buffer and, for some banks, the systemic risk buffer (SRB). The five O-SIIs were subject to an O-SII buffer of either 0.5% or 1%, and three of those banks were subject to an SRB of 1%. These decisions entered into force on 1 January 2019.

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

An important step in the context of macroprudential policy was taken in 2018 with the adoption of one NBS Decree amending the Consumer Loan Decree and another amending the Housing Loan Decree, with each amending Decree entering into force on 1 July 2018. A key element of these amendments was the introduction of a new debt-to-income (DTI) ratio limit, to be phased in over a period of one year. The amending Decrees are designed to mitigate risks associated with rapid household debt growth – which at the current very low interest rates is excessive. Households whose debt is too high for their income could eventually face serious debt-servicing difficulties. If there are many such cases, they may present serious problems not only for the financial sector, but also the domestic economy as a whole.

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

2.2 FINANCIAL MARKET SUPERVISION

The banking sector

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

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

In 2018 a total of 29 proceedings were initiated in which the ECB exercises decision-making power in cooperation with NBS. The majority of these proceedings concerned fit and proper assessments of persons nominated to be a member of a significant bank's statutory board or supervisory board.

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

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

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

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

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

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

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

Payment services and electronic money issuance

As at 31 December 2018 a total of 12 payment service providers were authorised to operate in the Slovak financial market; eight of them were authorised to provide payment services to an unlimited extent, and four of them, to a limited extent.

One electronic money institution was active in the Slovak financial market in 2018.

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

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

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

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

Foreign exchange activity

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

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

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

Non-bank consumer lending

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

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

The insurance sector

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

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

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

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

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

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

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

The pension fund sector

In 2018 the Slovak financial market included six pension fund management companies (PFMCs) managing a total of 19 pension funds (constituting the old-age pension scheme, the second pillar of the pension system), and four supplementary pension management companies (SPMCs) managing a total of 16 supplementary pension funds (the third pillar). Depository activities under the Old-Age Pension Scheme Act and the Supplementary Pension Scheme Act were performed by five banking institutions. As for NBS decisions that entered into force in 2018 and were issued under approval proceedings, 19 concerned the supplementary pension scheme and another 19 concerned the old-age pension scheme.

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

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

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

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

Financial intermediation and financial advisory services

As at 31 December 2018 there were 34,443 entities registered in the register of financial agents, financial advisers, financial intermediaries from other Member States operating in the insurance or reinsurance sector, and financial intermediaries from other Member States engaged in the provision of housing loans (RegFaP; hereinafter "the register"). In 2018, a total of 16 authorisations to operate as an independent financial agent and one authorisation to operate as a financial adviser took effect in 2018, and a total of 14 entities from different sectors were newly entered in the register. Under the applicable legislation issued by NBS, a financial agent or financial adviser may be entered in the register only after meeting statutory requirements, i.e. after information specifying the entity's authorised activities has been submitted to the Commercial Register and after the entity has submitted a copy of each insurance contract it has concluded, including a receipt of premium payment. During the year 48 independent financial agents were deleted from the register.

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

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

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

Off-site supervision of this sector in 2018 included evaluating independent financial agents for their compliance with the obligation to submit to NBS a statement on their provision of financial intermediation for the period from 1 January 2017 to 31 December 2017 and a MiFID II report, and ensuring that data on subordinate entities entered in the register were updated on the basis of information contained in incoming forms processed by NBS. All independent financial agents and financial advisers were required to submit to NBS by the end of 2018 information on the fulfilment in 2016 and 2017 of their obligations to prevent and detect money laundering and terrorist financing. As part of its off-site supervision, NBS also examined the provision of a financial benefit to customers in relation to financial intermediation and whether the complaints filed by natural and legal persons against financial market participants providing financial intermediation and financial advisory services were justified.

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

The securities market

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

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

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

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

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

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

Off-site supervision also covered the BSSE and two CSDs – Centrálny depozitár cenných papierov SR (CDCP) and Národný centrálny depozitár cenných papierov (NCDCP). Issuers of securities admitted to trading on the BSSE were also subject to off-site supervision in order to check their compliance with information obligations vis-à-vis Národná banka Slovenska via the NBS-maintained Central Register of Regulated Information (CERI). There were 71 such issuers registered as at 31 December 2018.

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

Five thematic on-site inspections of banking entities which concerned the provision of investment services and activities and ancillary services in accordance with the Securities Act were completed in 2018. Two of these inspections were initiated in 2017.

The investment fund sector

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

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

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

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

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

2.3 INANCIAL MARKET REGULATION

The banking sector

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

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

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

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

Payment services and electronic money issuance

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

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

Non-bank consumer lending

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

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

The insurance sector

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

The pension fund sector

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

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

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

Financial intermediation and financial advisory services

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

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

The securities market

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

The Securities Act was also subject to a package of amendments contained in the Act amending the Resolution in the Financial Market Act. These addressed transpositional inconsistencies arising from the inadequate or incorrect implementation of the EU's second Markets in Financial Instruments Directive (MiFID II). The amending provisions concerned in particular the professional competence of investment firms' employees who come into contact with customers, specifically the harmonisation of this competence level with the requirements laid down in other relevant legislation and the avoidance of divergence in conditions across the market. Provisions governing the public offering of securities were also amended, since it was necessary to bring the Securities Act into line with EU's new Prospectus Regulation, which now directly governs the public offering of securities and securities prospectuses. Provisions on the exercise of the right of squeeze-out were also amended, with the aim of simplifying the squeeze-out process (by changing what was then a contractual arrangement involving both sides). Since the Act in its previous wording did not allow the squeeze-out right to be effectively exercised for the benefit of a shareholder holding more than 95% in the company, the amendment introduced the principal of transfer of securities based on the decision of a shareholders' general meeting of the offeree company.

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

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

The investment fund sector

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

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

2.4 BANK RECOVERY AND RESOLUTION

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

At the end of 2018 the Slovak Parliament passed an Act amending the Resolution in the Financial Market Act. The amending Act entered into force on 1 January 2019, with the exception of certain points that will enter into force on 21 July 2019. The amending Act also included amendments to other laws. These amendments related not only to the issue of resolution, but also to many other areas. There were important changes concerning the resolution regime and insolvency, in particular the transposition of the EU's Directive amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy. Its enactment in Slovak law introduced a new class of claims in bank insolvency – non-preferred senior debt. Among the other changes were the following: the introduction of another new class of claims in bank insolvency – claims related to securities which have the attributes of additional Tier 1 (AT1) instruments; the defining of the term 'subordinated debt' for resolution purposes; and the simplifying and expediting of the write- down and conversion of capital instruments and of capitalisation measures.

Also in 2018 the FMS Unit was monitoring the issue of the resolution of financial institutions other than credit institutions and investment firms. Its discussions in this regard centred on insurers. In summer 2018 EIOPA published a document on potential sources of resolution funding for (re)insurers[13], which followed on from an EIOPA Opinion on the harmonisation of recovery and resolution frameworks for (re)insurers.[14] The FMS Unit was regularly expressing comments on the Opinion during its drafting.

2.5 FINANCIAL CONSUMER PROTECTION

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

Sanction proceedings conducted in 2018 concerned findings related to all types of supervision, including the handling of complaints made by financial consumers, which were not systemically remediable through less restrictive measures. Under decisions issued in 2018 which also imposed fines, NBS prohibited unfair commercial practices and unfair contractual terms, and in cases where remedy could be made, it issued remedial measures. In 2018 NBS issued a total of 11 decisions under which sanctions were imposed for a breach of consumer rights. It also initiated five sanction proceedings in this area, four of which were still in progress at the year-end. A total of eight sanction-imposing decisions entered into force in 2018.

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

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

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

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

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

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

In 2018 NBS's educational activities aimed at professionals included organising several workshop-style lectures and technical conferences on the topics of credit product promotion, information obligations when amending a contract, and the assessing of unfair contract terms and unfair commercial practices in consumer relationships. As part of its efforts to increase consumer financial literacy, NBS published a number of warnings on its website, including, for example, one entitled "What is a pyramid scheme, airplane game or Ponzi scheme?". It also produced a Slovak-language financial guide for senior citizens, called "Všetko, čo by ste mali vedieť o peniazoch" (Everything you should know about money).

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

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

3 Issuing activity and currency circulation

3.1 Cumulative net issuance of euro cash

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

Compared with the value of Slovak koruna cash in circulation just before Slovakia adopted the euro on 1 January 2009, the CNI more than doubled over the following ten years. The year-on-year increase in the issuance of euro cash demonstrates the strong demand for cash, which still retains its status as a significant means of payment in society.

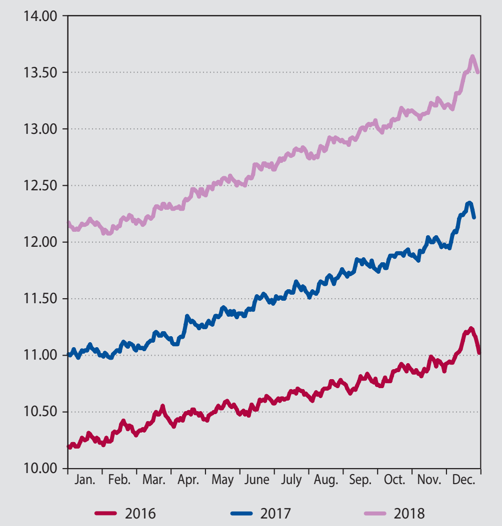
The value of the item *currency in circulation* – corresponding to Národná banka Slovenska's allocated share in the Eurosystem's production of euro banknotes (Banknote Allocation Key) – amounted to €12.4 billion[16] as at 31 December 2018. The value of euro banknotes issued in Slovakia was higher than the 'allocated' value by €884.5 million.

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

15 Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only that of euro banknotes and euro coins which NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2018 refers to the difference between the value (volume) of euro banknotes and coins put into and withdrawn from circulation between 1 January 2009, when Slovakia joined the euro area, and 31 December 2018.

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

Chart 21 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

tween €1.1 billion and €1.4 billion (Chart 21). The daily CNI is usually highest in the pre-Christmas period, and in 2018 it peaked on 21 December (at €13.65 billion)

Euro banknotes accounted for almost the entire value (98.6%) of the CNI as at 31 December 2018, but only for 19.9% of the CNI in terms of volume (representing 193 million banknotes). Euro coins, including euro collector coins, made up the remaining 80.1% (779.2 million coins). Looking at the denominational breakdown of the total number of banknotes included in the CNI, the €100 banknote had the largest share (29.5%). From 2009 to 2015 the €50 banknote had the largest share, but in subsequent years its share declined, down to 20.9% in 2018.

The coins issued in the highest volumes are the two lowest denominations (1 and 2 cent). By the end of 2018 they made up almost (62%) of all the

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

Denomination	Cumulative net issuance				Percentage share of the	
	CNI as at 31 December 2018		Annual net issuance in 2018		CNI as at 31 December 2018	
	number	value (€)	number	value (€)	number	value (€)
€500	8,704,923	4,352,461,500.00	355,237	177,618,500.00	0.90	32.23
€200	347,614	69,522,800.00	-76,388	-15,277,600.00	0.04	0.52
€100	57,012,315	5,701,231,500.00	9,525,047	952,504,700.00	5.86	42.22
€50[1)]	40,304,035	2,015,201,750.00	1,759,337	87,966,850.00	4.14	14.93
€20[1)]	35,441,809	708,836,180.00	1,182,789	23,655,780.00	3.65	5.25
€10[1)]	41,922,605	419,226,050.00	4,661,573	46,615,730.00	4.31	3.11
€5[1)]	9,257,173	46,285,865.00	392,165	1,960,825.00	0.95	0.34
Total banknotes	**192,990,474**	**13,312,765,645.00**	**17,799,760**	**1,275,044,785.00**	**19.85**	**98.60**
€2	59,607,051	119,214,102.00	5,088,542	10,177,084.00	6.13	0.88
€1	21,637,112	21,637,112.00	564,667	564,667.00	2.22	0.16
50 cent	29,571,348	14,785,674.00	1,356,223	678,111.50	3.04	0.11
20 cent	33,218,694	6,643,738.80	391,248	78,249.60	3.42	0.05
10 cent	65,671,114	6,567,111.40	5,113,329	511,332.90	6.75	0.05
5 cent	89,894,645	4,494,732.25	8,183,970	409,198.50	9.25	0.03
2 cent	194,902,109	3,898,042.18	16,290,917	325,818.34	20.05	0.03
1 cent	284,253,983	2,842,539.83	30,935,917	309,359.17	29.24	0.02
Total coins	**778,756,056**	**180,083,052.46**	**67,924,813**	**13,053,821.01**	**80.10**	**1.33**
Collector coins	478,800	9,752,890.00	66,107	1,177,380.00	0.05	0.07
Total banknotes and coins	**972,225,330**	**13,502,601,587.46**	**85,790,680**	**1,289,275,986.01**	**100.00**	**100.00**

Source: NBS.
1) Combined data for both the first series of euro banknotes (ES1) and the new Europa series (ES2).

coins in the CNI, and their share is increasing year by year (in 2017 it was 61%). In value terms, however, the combined share of these two denominations was only 3.7%.

Looking at euro banknotes in Slovakia in average per capita[17] terms, their number and value in 2018 were 33 and €2,301. For coins (including collector coins), the corresponding figures were 136 and €33. For banknotes and coins together, their average per capita value was €2,334. The most numerous banknote denomination in the CNI in per capita terms was the €100 banknote, at around 9.5, while the most numerous coins were the 1 cent coin (49) and the 2 cent coin (34).

As a consequence of coin migration, the currency in circulation in Slovakia includes, besides Slovak euro coins, a large share of coins from other euro area countries. An analysis made in 2018[18] showed that the countries whose coins made up the largest shares of non-Slovak euro coins in circulation in Slovakia were Germany (22.7%), Austria (15.1%) and Italy (9.6%). In the breakdown of non-Slovak euro coins by denomination, €1 coins have the highest share and 2 cent coins the lowest share.

3.2 SLOVAK KORUNA BANKNOTES AND COINS

By 31 December 2018, i.e. ten years after Slovakia adopted the euro, unredeemed Slovak koruna banknotes totalled 18.77 million (including 10.05 million 20 koruna banknotes). Their combined face value was around SKK 2.16 billion (€71.7 million). The face value of unredeemed Slovak koruna banknotes was only around 1.42% of the total value of koruna banknotes issued (by 31 December 2007). Unredeemed Slovak koruna commemorative coins had a total value of SKK 0.7 billion (€23.2 million) by the end of 2018.

In per capita terms, koruna banknotes unredeemed by the end of 2018 numbered 3.4 and had a face value of SKK 396.7 (€13.2). The SKK 20 denomination was the most numerous of these banknotes, at almost two per capita. A total of 48,600 koruna banknotes were redeemed in 2018, and their combined face value was SKK 27.5 million (€0.91 million). Compared with 2017, the number and value of Slovak banknotes redeemed in 2018 were lower by, respectively, 16.7% (9,700 banknotes) and 19.5% (SKK 6.7 million, or €0.2 million).

3.3 PRODUCTION OF EURO BANKNOTES AND COINS

In accordance with the ECB's Guideline on the production of euro banknotes, NBS was allocated the production of 30.40 million €5 banknotes of the new Europa series (ES2) in 2018. NBS contracted out the production of the banknotes to the German company Giesecke and Devrient, which produced them at its printing works in Leipzig and delivered them on schedule.

Besides this allocation, the production of 54.1 million ES2 €50 banknotes that NBS had been allocated for 2017 was completed in January 2018. These banknotes were produced by the Berlin-based printing works Bundesdruckerei GmbH. The later than scheduled completion of the order was caused by a delay in the delivery of quality control sensors from an Italian supplier. The production delay was accepted by the ECB's Executive Board in accordance with an ECB Guideline.

In 2018 NBS also commissioned the production of euro coins intended for circulation (Table 6).

On 3 January 2018 Národná banka Slovenska issued a €2 commemorative coin marking the 25th anniversary of the establishment of the Slovak Republic. A total of one million of the coins were issued, after being delivered to NBS by the end of 2017.

All the Slovak euro coins commissioned by NBS are produced by the state-owned Kremnica Mint (Mincovňa Kremnica). Those minted in 2018 included

Table 6 Circulation euro coins delivered to NBS logistical stocks in 2018

Denomination	Number of coins delivered	Number of coins transferred
€2	10,000,000	
€1		20,000,000
5 cent	8,000,000	
2 cent	12,103,500	
1 cent	20,580,000	
Total	**50,683,500**	**20,000,000**

Source: NBS.

17 The population of Slovakia was 5,449,719 million as at 30 October 2018, according to the Statistical Office of the Slovak Republic. The calculations used the average number and average value of euro banknotes and euro coins in the CNI in 2018.

18 Every year NBS takes a random sample of 2,000 euro coins of each denomination and sorts them according to their national side.

Table 7 Collector coins issued by Národná banka Slovenska in 2018

Denomination	Feature	Number of coins issued: Total	Number of coins issued: of which proof	NBS Notification of coin issuance
€25[1,3]	25th anniversary of the establishment of the Slovak Republic	10,100	6,900	No 229/2017
€10[1)]	1150th anniversary of the recognition of the Slavonic liturgical language	8,800	5,900	No 2/2018
€10[1)]	300th anniversary of the birth of Adam František Kollár	7,500	4,950	No 3/2018
€10[1)]	200th anniversary of the first time a steamer sailed on the Danube River in Bratislava	8,400	5,650	No 32/2018
€10[1)]	150th anniversary of the birth of Dušan Samuel Jurkovič	7,600	5,050	No 149/2018
€10[1)]	The spontaneous, non-violent civic resistance to the Warsaw Pact invasion of August 1968	9,500	6,650	No 181/2018
€10[1)]	100th anniversary of the establishment of the Czechoslovak Republic	10,800	7,550	No 219/2018
€100[2)]	Bratislava coronations – 400th anniversary of the coronation of Ferdinand II	4,250	4,250	No 267/2018

Source: NBS.
1) Silver collector euro coin.
2) Gold collector euro coin.
3) This is Slovakia's first ever €25 silver collector coin and so far the only Slovak collector coin that is .999 pure silver.

26,000 coins of each denomination that were used in five annual collector sets of Slovak euro coins.

In accordance with its issuance schedule for commemorative and collector euro coins, NBS also issued eight collector coins in 2018, seven of which were struck in silver and one in gold (Table 7).

In 2018 NBS not only took delivery of collector euro coins issued in that year, but also, at the end of the year, was frontloaded with 10,600 €10 silver collector coins commemorating the 10th anniversary of the introduction of the euro in Slovakia. This coin was issued on 8 January 2019. NBS outsources the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

3.4 PROCESSING OF EURO BANKNOTES AND COINS

In 2018 Národná banka Slovenska put 367.8 million euro banknotes into circulation, and a total of 350 million euro banknotes were returned to NBS from circulation.

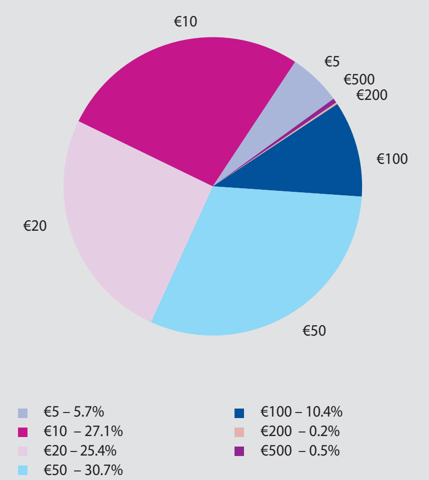
During the year NBS processed 348.1 million euro banknotes (after processing 341.1 million in 2017). The total number of euro banknotes returned to NBS was approximately two times higher than the average number of euro banknotes issued by NBS. Therefore, each euro banknote issued by NBS was returned to it once every six months on average.[19] In this way, NBS checks the authenticity and fitness for circulation of returned banknotes, with the aim of maintaining the integrity of the currency and public confidence in euro banknotes. Public satisfaction with the quality of euro banknotes was again confirmed in 2018 by a face-to-face public opinion poll and an online poll in the euro area. In the face-to-face poll, 91% of respondents expressed satisfaction with the quality of euro banknotes in circulation (the figure in the online poll was 88.6%). The slight increase in satisfaction compared with the previous polls is related to the phasing-in of the new Europa series of euro banknotes.

The €50 banknote was the most frequently processed denomination in 2018 (Chart 22), being among the most common euro banknotes in circulation and also the most frequently issued via cash dispensers.

In its processing of euro banknotes during 2018, NBS identified 55.8 million banknotes as unfit for circulation and subsequently destroyed them.

19 Some cash is kept out of circulation and is therefore not returned to NBS for processing.

Chart 22 Denominational breakdown of euro banknotes processed by NBS in 2018



Source: NBS.

Compared with 2017, the number of unfit banknotes destroyed by NBS was more than twice as high in 2018, owing to the end of the parallel issuance of ES1 and ES2 €50 banknotes from April 2018 as well as to the fact that the settings for the sorting of €500 and €200 banknotes were changed from March 2018.[20]

The higher volume of banknotes sorted as unfit was reflected in the average unfit rate for euro banknotes, which, due to the destruction of ES1 €50 banknotes, increased more than twofold to 16.0% (from 6.8% in 2017).

In 2018 a total of 335.7 million euro coins were put into circulation by NBS, and 267.8 million euro coins were returned to NBS from circulation. Since coins have a longer lifespan than banknotes, only around 226,500 of the 266.8 million euro coins processed in 2018 were sorted as unfit (the number of coins processed in 2017 was 271 million). In terms of the numbers processed, the differences between coin denominations were not as great as those between banknote 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.

3.5 COUNTERFEIT BANKNOTES AND COINS RECOVERED IN SLOVAKIA

A total of 2,807 counterfeit banknotes and coins were recovered in Slovakia in 2018, approximately one-third fewer than were recovered in 2017 (Table 8).

Euro counterfeits accounted for 97% of all the counterfeits recovered. The total number of counterfeits recovered in 2018 was the lowest in any since the introduction of the euro (2009). The large drop in 2018 was due to the fact that previous years' figures included several instances where police managed to seize significant numbers of counterfeit euro banknotes and euro coins before they entered circulation. The situation in Slovakia mirrors that in the wider euro area, where the number of counterfeit banknotes recovered from circulation fell gradually over the past three years.

Of the total number of counterfeits recovered in 2018, banknotes accounted for 1,553 and coins for 1,249. Only 4.3% of the counterfeits were seized by police before entering circulation; the rest (95.7%) were withdrawn from circulation by banks, foreign bank branches, non-bank entities, and cash-in-transit companies.

Banks operating in Slovakia recovered almost half (45.5%) of all the counterfeits; Národná

Table 8 Number of counterfeit banknotes and coins recovered in Slovakia

Q1-Q4	EUR	SKK	Other	Total
2016	13,465	11	87	**13,563**
2017	4,045	3	781	**4,829**
2018	2,720	5	82	**2,807**

Source: NBS.

20 The year-on-year change in the volume of euro banknotes sorted and destroyed was related to the entry into circulation of the new Europa series banknotes in different scenarios and to the application of an additional varnish layer to the €5 and €10 banknotes. Since April 2018 all first series €50 banknotes returned to NBS have been destroyed.

Table 9 Number of euro counterfeits recovered in Slovakia

	Denomination										
Q1-Q4	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	Total
2016	320	121	9,820	24	54	526	1,748	472	145	235	13,465
2017	201	109	771	37	44	340	1,853	290	66	334	4,045
2018	179	97	973	32	51	141	704	393	54	96	2,720

Source: NBS.

banka Slovenska recovered almost one-quarter (23.3%), cash-in-transit companies 19.8%, the police 4.3%, and other non-bank entities 7.1%.

One third of all counterfeits was recovered in Bratislava Region (33.4%), while the fewest were recovered in Trenčín Region (3.3%, or 92 counterfeits).

A moderate improvement in the quality of counterfeits was observed in 2018, 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.

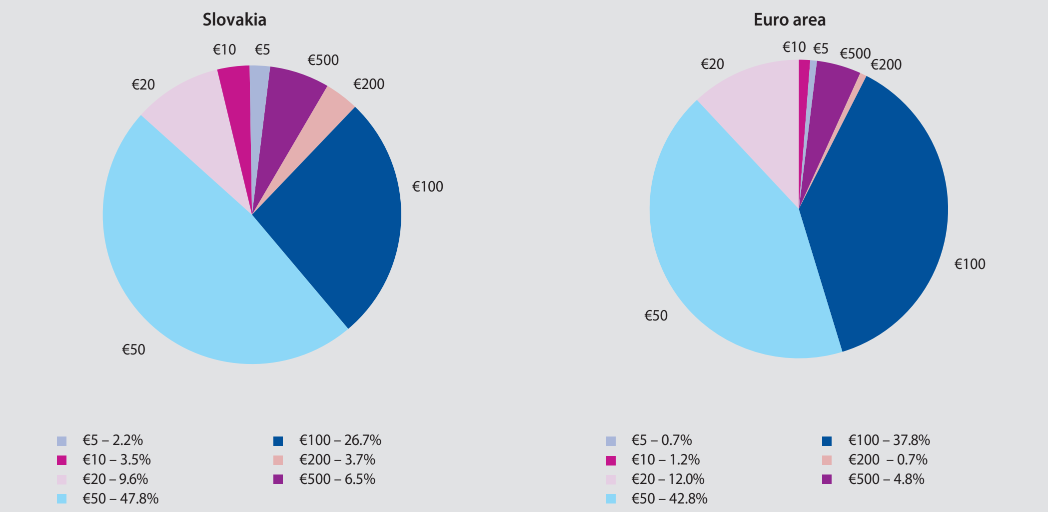
Euro counterfeits

A total of 2,720 counterfeit euro banknotes and coins were recovered in Slovakia in 2018 and they had an overall face value of €138,922.50 (Table 9).

The number of counterfeit euro banknotes recovered from circulation in Slovakia has been stable for a long period of time, at between 200 and 300 per month. The overall number of banknotes recovered has reflected the impact of particular cases (one or two per year) in which sizeable quantities of counterfeits were seized by police before they entered circulation. 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.

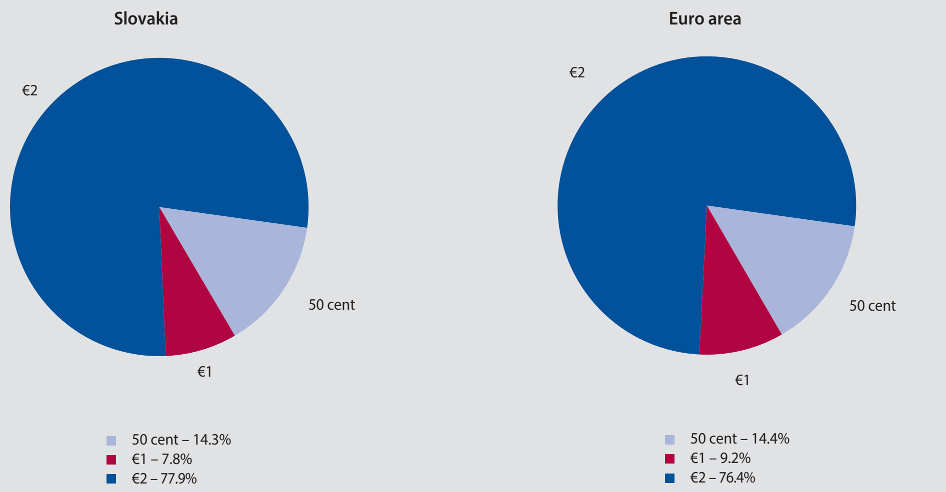
Compared with 2017, the number of euro banknote counterfeits recovered in Slovakia was 50.4% lower in 2018, at 1,471. The denominational breakdown of euro banknote counterfeits recovered in

Chart 23 Denominational breakdown of counterfeit euro banknotes recovered in Slovakia and the euro area in 2018 (percentages)



Source: NBS.

Chart 24 Denominational breakdown of counterfeit euro coins recovered in Slovakia and the euro area in 2018 (percentages)



Source: NBS.

Slovakia has remained approximately the same in recent years. In 2018 counterfeit €50 and €100 banknotes accounted for, respectively, 47.8% and 26.7% of the total. In the euro area as a whole, that order was the same, with €50 and €100 making up, respectively, 42.8% and 37.8% of the total.

Of the total number of counterfeit euro banknotes and coins recovered in the euro area in 2018, 0.21% were recovered in Slovakia. Over the long term, Slovakia's share of all counterfeits recovered in the euro area is below 1%, which means Slovakia is among the countries with the lowest incidence of euro counterfeits

The number of euro coin counterfeits recovered in Slovakia peaked in 2013 (at 5,742) and has been gradually falling since. It currently stands at around 100 per month. The same trends can be seen across the euro area, where the number of counterfeit euro coins recovered from circulation fell moderately last year for a fourth successive year.

A total of 1,249 euro coin counterfeits were recovered in Slovakia in 2018, all of which had been in circulation. The technical quality of euro coin counterfeits is generally very high. Counterfeit €2 coins made up 77.9% of the total. Recent years have seen counterfeit 50 cent coins recovered in greater numbers than counterfeit €1 coins. In the euro area as a whole, the denominational breakdown of counterfeit euro coins recovered in 2018 was very similar to that in Slovakia.

Slovak koruna counterfeits and foreign currency counterfeits

Following the introduction of the euro into cash circulation, the number of Slovak koruna counterfeits fell sharply. Five Slovak koruna counterfeits were recovered in 2018. Although the period in which Slovak koruna banknotes may be exchanged for euro at NBS is indefinite, further cases of koruna counterfeits showing up are expected to be very occasional.

Compared with 2017, the total number of foreign currency counterfeits recovered in Slovakia was significantly lower in 2018. Of the 55 US dollar counterfeits recovered, $100 banknote counterfeits were, as in previous years, the most numerous, making up 95% of the total. The other foreign currency counterfeits included 25 British pound counterfeits and two Czech koruna counterfeits.

4 PAYMENT SERVICES AND PAYMENT SYSTEMS

4.1 PAYMENT SERVICES

The principal legislation governing payment services and payment systems in Slovakia is the Payment Services Act, which transposes into Slovak law the European Union's Second Payment Services Directive (PSD II)[21] with effect from 13 January 2018. An amendment to the Payment Services Act was passed in 2018, which among other things lays down conditions for the abolition of the Permanent Court of Arbitration as an out-of-court dispute resolution mechanism. Consumer disputes will instead be resolved through an alternative dispute resolution entity. At the EU level, work continued on the drafting of implementing acts and guidelines required by PSD II and on the process of amending the EU Regulation on cross-border payments.

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;
- Regulation (EU) No 2015/751 on interchange fees for card-based transactions; and
- delegated and implementing regulations pursuant to PSD II.

Further components of the legal framework include two decrees of Národná banka Slovenska: Decree No 8/2009 laying down the structure of domestic and international bank account numbers and details about the issuance of an identification code converter; and Decree No 6/2013 on direct debit creditor identifiers and the register of direct debit creditor identifiers.

In 2018 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 out-of-court dispute settlement). Under the above-mentioned amendment to the Payment Services Act, consumer disputes related to the provision of payment service will be resolved by the SBA's Alternative Dispute Resolution Institute.

4.2 PAYMENT SYSTEMS IN SLOVAKIA

4.2.1 TARGET2 AND TARGET2-SK

Since 2009 Národná banka Slovenska has been operating the TARGET2 component system known as TARGET2-SK (T2-SK). In 2018 T2-SK did not experience any operational incidents that would have been serious enough to jeopardise the system and its participants, nor any other incidents that would have disrupted the smooth processing of payments.

Besides ensuring the day-to-day operation of T2-SK, Národná banka Slovenska provides advice and support to the system's participants and performs regular testing of recovery procedures. The central bank 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.

The Eurosystem's TARGET services also include dedicated cash accounts (DCAs) held at one or more national central banks. DCAs are used solely for the settlement in central bank money of the cash leg of the securities transactions. They are provided by the TARGET2-Securities (T2S) technical platform.

21 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC.

In November 2018 the Eurosystem successfully launched another facet of its payment services: TARGET Instant Payment Settlement (TIPS). TIPS offers secure settlement of instant payments in euro at any time of day and on any day of the year in a few seconds.

In 2018 NBS organised two working meetings with T2-SK participants, which focused on providing further information about the incoming TIPS and on changes related to the deployment of a new version of the T2 system.

NBS adopted and published the following decisions in 2018:

- Decision No 9/2018 of 27 November 2018 on conditions for opening and administering TIPS dedicated cash accounts (TIPS DCAs) in TARGET2-SK;
- Decision No 10/2018 of 27 November 2018 on conditions for opening and administering T2S dedicated cash accounts (T2S DCAs) in TARGET2-SK;
- Decision No 11/2018 of 27 November 2018 amending Decision No 7/2015 on conditions for opening and administering PM accounts in TARGET2-SK;
- Decision 12/2018 of 27 November 2018 amending Decision No 4/2010 on settlement procedures for TARGET2-SK ancillary systems, as amended.

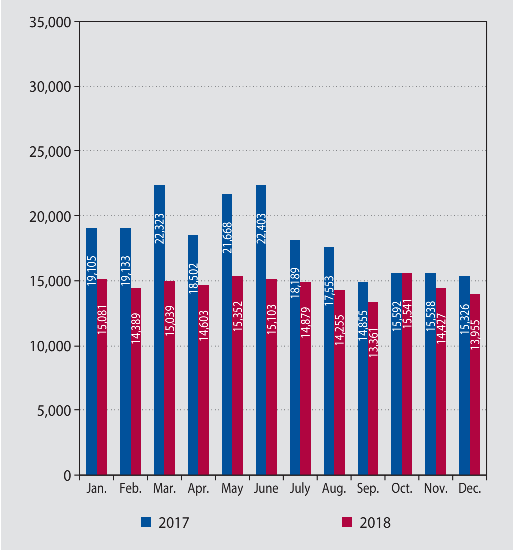
4.2.2 Payments processed by TARGET2-SK

T2-SK had 36 participants at the end of 2018, including 32 direct participants and the following four ancillary systems: the Slovak Interbank Payment System; Sia Slovakia, s. r. o. (the new name of the company previously called First Data Slovakia); and two central securities depositories — Centrálny depozitár cenných papierov SR, a. s. (CDCP) and Národný centrálny depozitár cenných papierov (NCDCP). The following two institutions became direct participants in T2-SK in 2018: Expobank CZ, a. s.; and Raiffeisen Centrobank AG, a foreign bank branch.

In 2018 T2-SK processed more than 170,000 transactions with a total value of over €500 billion. Compared with 2017, T2-SK traffic fell in number by almost 20% (by over 43,000 transactions) but increased in value by 9.5% (over €47 billion) (Charts 25 and 26).

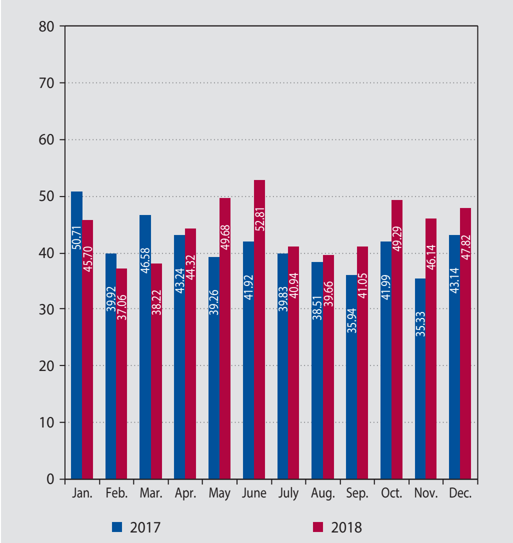
T2-SK had 255 operating days in 2018, and its average daily traffic by number and value was 691 transactions and more than €2 billion.

Chart 25 Number of transactions processed by T2-SK in 2017 and 2018



Source: NBS.

Chart 26 Value of transactions processed by T2-SK in 2017 and 2018 (EUR billions)



Source: NBS.

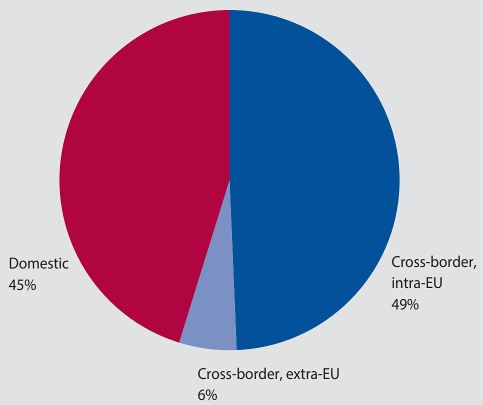
Looking at the payment traffic in 2018 broken down into customer and interbank transactions, customer payments had the higher share by number (65:35), while interbank payments predominated in terms of value (7:93).

A total of 24 EU national central banks were connected to TARGET2 by the end of 2018. Of the total number of payments sent by T2-SK participants in 2018, 45% were domestic and 55% were cross-border. Domestic payments accounted for 52% of the total value of payments, and cross-border payments for 48% (Charts 27 and 28).

4.2.3 The Slovak Interbank Payment System (SIPS)

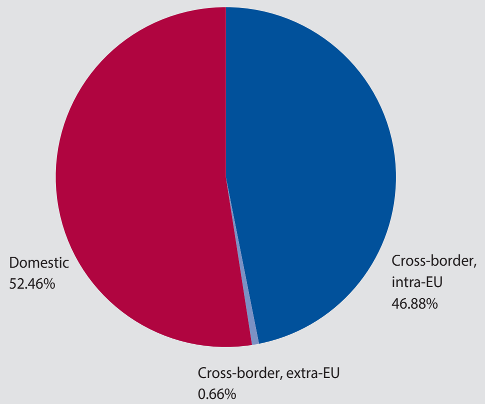
Established in 2003 and operated by Národná banka Slovenska, the Slovak Interbank Payment System (SIPS) is a retail payment system used for the processing and clearing of payments in euro. SIPS processes domestic SEPA[22] credit transfers (SCTs) and SEPA direct debits (SDDs), as well as cross-border SCTs and SDDs. As regards SCTs and SDDs sent to payment service providers that are not participants in SIPS, Národná banka Slovenska ensures their processing through STEP2, a pan-European automated clearing house in which it is a direct participant.

Chart 27 Number of payments sent by T2-SK participants in 2018 broken down by destination



Source: NBS.

Chart 28 Value of payments sent by T2-SK participants in 2018 broken down by destination



Source: NBS.

SIPS processes and clears the payments of its participants over four clearing cycles on each business day. Since SIPS is a T2-SK ancillary system, the final cash positions after each cycle undergo final settlement in T2-SK.

During 2018 SIPS functionalities were brought into closer alignment with STEP2 functionalities and with the rulebooks issued by the European Payments Council for SCTs and SDDs. In 2018 NBS began the second phase of its modernisation of the SIPS clearing centre. This will last until 2020, resulting in the launch of a new clearing centre module equipped with upgraded information technology.

NBS also issues creditor identifiers to creditors wishing to collect SEPA direct debits. Such creditors may be natural or legal persons. All the creditor identifiers are recorded in a register maintained since 2013 by NBS and previously

22 SEPA – Single European Payments Area.

by the Slovak Banking Association. A total of 487 creditor identifiers were issued in the years from 2013 to 2018.

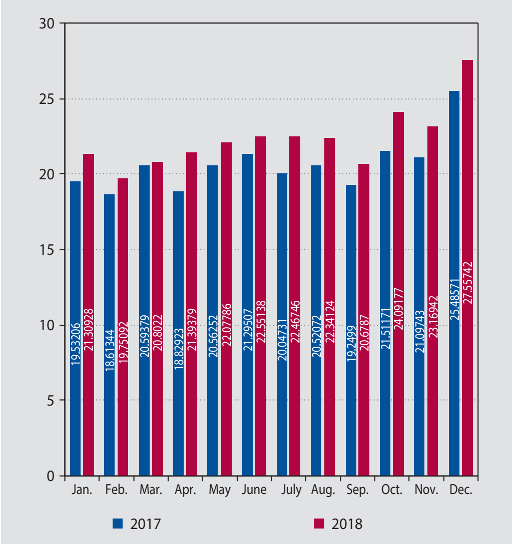
4.2.4 Payments processed by SIPS

SIPS statistics

The number of SIPS participants changed once in 2018, when Expobank CZ, a. s. connected to the system. At the end of the year there were 25 payment service providers participating in SIPS, of which 22 were domestic and three were foreign.

In 2018 a total of 238.6 million transactions with a total value of €268.2 billion were processed by SIPS. Compared with the previous year, the number of transactions increased by around 5% and the value of transactions rose by more than 8% (Charts 29 and 30).

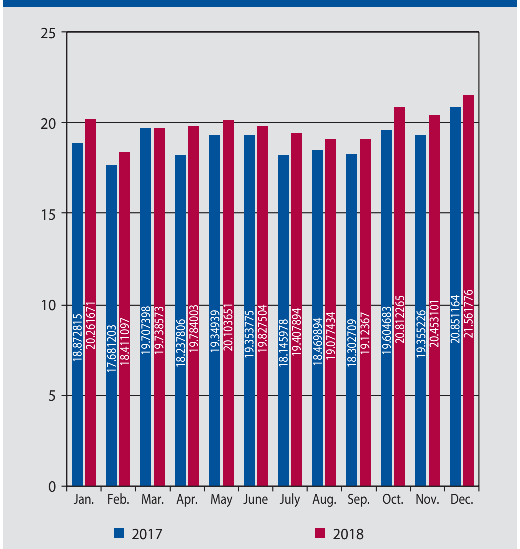
Chart 30 Value of transactions processed by SIPS in 2017 and 2018 (EUR billions)



Source: NBS.

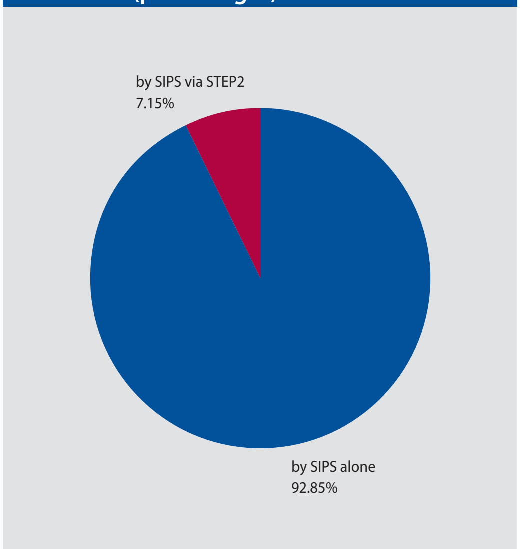
Almost 93% of the total transactions were domestic transactions processed by SIPS alone, and more than 7% were cross-border transactions processed by SIPS via STEP2. Of the total value of the transactions, domestic transactions and cross-border transactions accounted for 72% and 28% respectively, maintaining the trend of the previous year (Charts 31 and 32).

Chart 29 Number of transactions processed by SIPS in 2017 and 2018 (millions)



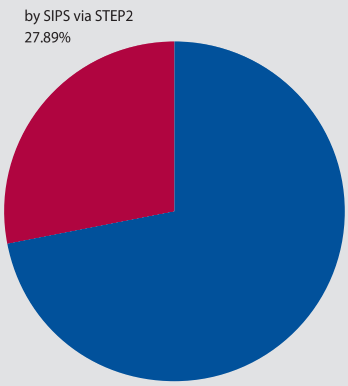
Source: NBS.

Chart 31 Breakdown of number in 2018 between transactions processed by SIPS alone and transactions processed by SIPS via STEP2 (percentages)



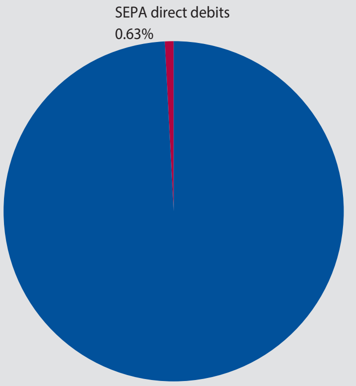
Source: NBS.

Chart 32 Breakdown value of transactions in 2018 between transactions processed by SIPS alone and transactions processed by SIPS via STEP2 (percentages)



Source: NBS.

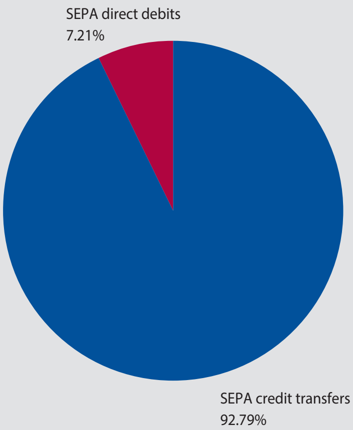
Chart 34 Breakdown of value of cross-border SEPA transactions in 2018 between credit transfers and direct debits (percentages)



Source: NBS.

As for the breakdown of cross-border SEPA transactions between credit transfers and direct debits, credit transfers accounted for the vast majority of transactions in terms of both number and value (Charts 33 and 34).

Chart 33 Breakdown of number of cross-border SEPA transactions in 2018 between credit transfers and direct debits (percentages)



Source: NBS.

4.2.5 Payment cards

Valid payment cards issued by banks in Slovakia numbered 5,228,729 at the end of 2018, representing a year-on-year increase of just under one percent. Of that total, the vast majority were either VISA or MasterCard cards and 95.6% were contactless. The number of transactions conducted by domestically issued payment cards in 2018 was more than 562 million and the total value of these transactions was almost €27 billion. Compared with the previous year, the number and value of transactions increased by 16.9% and 12.3% respectively.

Card acceptance

There were 2,778 automated teller machines (ATMs) in Slovakia at the end of 2018, fifty-two more than at the end of 2017. Compared with 2017, the number of ATM withdrawals increased by 1.3% and the total value of money withdrawn rose by 6%, to almost €15 billion.

In Slovakia at the end of 2018 there were 45,330 point-of-sale (POS) terminals in operation and 2,897 merchants accepting card payments online. The total number of such transactions in 2018 exceeded 14 million and their total value was almost €0.6 billion, representing year-on-year increases of 22.3% and almost 18% respectively.

The launch of Google Pay in 2018 was a new development in the use of mobile devices to make card payments. In February 2018 five banks in Slovakia introduced the service for holders of MasterCard and VISA cards issued by the banks.[23]

4.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS

Securities settlement systems (SSSs) and their links

In 2018 Národná banka Slovenska, as part of the Eurosystem, cooperated in the drafting of an official view on each of the two central securities depositories based in Slovakia – CDCP and NCDCP – in accordance with the CSD Regulation.[24] Authorisation applications of CDCP and NCDCP were assessed by NBS in its capacity as a relevant authority under Article 12(1) of the CSD Regulation.

For both CDCP and NCDCP, the Eurosystem issued a favourable opinion that included a number of recommendations. Meeting them will help bring the two Slovak CSDs into full compliance with the requirements of the CSD Regulation. The final opinion was approved by the ECB's Governing Council.

TARGET2-Securities and other Eurosystem projects

The TARGET2-Securities (T2S) system operated reliably in 2018. NBS participated in the testing of a T2S upgrade – release 2.0 – which was deployed in June 2018 and allows currencies besides the euro to be used for settlement in T2S. Several changes in T2S participation took place in 2018, as follows:

- in October 2018 the Danish krone became available for settlement in T2S, after the Danish RTGS system, Kronos2, was connected to T2S and after VP Securities – a Danish central securities depository – migrated its Danish krone settlement to the platform (it previously used T2S only for euro settlement);
- ID2S, a new French CSD, migrated to T2S;
- the Central Bank of Ireland joined T2S;
- VP Lux ceased operating in 2018, so ceased its participation in T2S.

Change proposals that will form future T2S releases are always put out for consultation in national markets. In 2018 NBS took part in a written consultation concerning harmonisation and it monitored compliance with harmonisation standards within the national market.

5 Statistics

Národná banka Slovenska (NBS) develops, collects, compiles and disseminates a wide range of statistics which support the monetary policy of the euro area, the stability of the financial system in Slovakia, various other tasks of the European System of Central Banks (ESCB), and the tasks of the European Systemic Risk Board (ESRB), Eurostat, the Bank for International Settlements (BIS) and other international institutions. Based on data reported by financial and non-financial agents, the statistics are used not only by internal users at NBS, but also by financial market participants, public sector entities, the media, and the general public.

5.1 STATISTICAL DEVELOPMENTS

In 2018 monetary and financial statistics for the banking sector were affected by an amendment to the Banking Act relating to the classification of mortgage loans for statistical purposes. Methodological changes and new requirements introduced by the European Central Bank (ECB) for the reporting of capital, reserves and positions in respect of the Single Resolution Mechanism did not affect the legal framework for data collection. Internal processes were focused on technical improvements in the compilation and analysis of data.

23 Sources: banks and foreign bank branches.

24 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

A qualitative survey of selected banking sector participants in 2018 focused on the options for the introduction of the Integrated Reporting Framework (IReF) in the euro area. The banking sector was informed about the latest developments in statistical reporting based on data models and about projects for connecting banks' internal systems with reporting obligations via the Banks' Integrated Reporting Dictionary (BIRD). The stability of requirements stems from work on the use of micro data from credit registries for compiling aggregated data and on integrated reporting for the banking sector.

Data quality in the ECB's securities databases – to which Národná banka Slovenska contributes data on a regular basis – underwent further improvement in 2018. The ECB launched an enhanced version of its interactive Data Quality Management tool in the Centralised Securities Database (CSDB). This tool gives central banks greater flexibility over the transmission and quality control of securities data, and it includes additional functionalities of data 'historisation' and data revision. A key step towards the interconnection of key ECB databases was taken in 2018, with the testing of the linkage and consistency of reference data between the CSDB and the Register of Institutions and Affiliates Database (RIAD). Data on Slovak issuers have been brought into 99.3% alignment.

Reporting for investment funds pursuant to an ECB Guideline was expanded in 2018 by the addition of a new subdivision dedicated to monitoring investment funds for whether they are, or are not, undertakings for collective investment in transferable securities (UCITS). As for statistics on other financial intermediaries (factoring, leasing and consumer credit companies), the reporting sample underwent changes at the start of 2018 due to the acquisition and dissolution of some of the firms included in it. The sample of reporting agents is compiled for a period of three years. The new reporting sample, compiled on the basis of a questionnaire, will be in place for the years 2019 to 2021.

In the quarterly financial accounts statistics, work continued in 2018 on harmonising these statistics with the balance of payments (b.o.p) and international investment position (i.i.p.) data. Significant alignment of data between these two areas of statistics took place in 2018.

There were notable changes in government finance statistics in 2018. ECB requirements laid down by Guideline ECB/2018/13 on government finance statistics (amending Guideline ECB/2013/23) were modified in response to the needs of fiscal statistics users. The changes were focused on ensuring harmonisation with the ESA 2010 transmission programme (ESA TP), better comparability of data between EU countries, clarification of terminology, and also on excluding indicators which can be inferred from the transmitted data.

In February 2018 Národná banka Slovenska and the Financial Directorate of the Slovak Republic signed an *Agreement on cooperation in the provision of statistical data and statistical information*. The Agreement is a response to the need for the numerical and categorical specification of statistical data related to individual economic indicators, in accordance with the requirements of international institutions and with legal acts of the ECB. When established, the financial indicators database will be used in the compilation of balance of payment statistics, financial account statistics, statistics on other financial intermediaries, and statistics required for monetary analyses. By making use of these data, NBS raises the quality of the data collected and fills in gaps in the data for previous periods.

In March 2018 Národná banka Slovenska and the Statistical Office of the Slovak Republic (SO SR) signed Addendum No 2 to their *Framework agreement on cooperation in the provision of statistical data and statistical information.*

In August 2018 NBS signed a contract on the purchase of Qlik licenses, including the provision by the supplier of advice and training on this business intelligence tool. The purpose of the purchase is to enhance the quality and processing of data. The tool was subsequently equipped with modules from the areas of securities statistics, balance sheet statistics, interest rate statistic, statistics on other financial intermediaries, balance of payments statistics, financial account statistics, foreign direct investment statistics, and services statistics.

In the area of capital market statistics, the provisions of NBS Decree No 3/2012, which lays down reporting requirements for asset management companies and for pension funds' depositories, had to be brought in line with the Collective Investment Act in 2018 following the amendment of that law. This required drafting a new decree which repealed the original decree and entered into force on 31 December 2018: Decree No 11/2018 on reporting by asset management companies, foreign asset management companies, autonomous investment funds, and depositories of investment funds for the purposes of financial market supervision. The amendment to the Collective Investment Act introduced the option of engaging in new forms of collective investment through investment companies with variable share capital (SICAV). Revisions were consequently made to the categorisation of funds and to the definitions of certain core terms.

Another significant development in 2018 was the entry into force of the EU's Markets in Financial Instruments Directive and Regulation (MiFID II/MiFIR).[25] The objective of these new legal acts, as well as many related regulations and documents, is to increase investor protection and the transparency of financial instrument trading in the European Union. This will be achieved by strengthening European rules for securities markets and by new regulation. The MiFID II/MiFIR package entered into force on 3 January 2018; in response, a number of amendments were made to NBS Decree No 13/2014 on reporting for supervisory purposes by investment firms and branches of foreign investment firms. The Directive's implementation resulted in the establishment of new reports which differed from previous ones mainly in regard to the collection of transaction data (changes in the reporting template and in the collection system). In addition, automated transmission was introduced for the monthly transmission of these reports' statistical data from NBS to the European Securities and Markets Authority (ESMA) and for the exchange of statistical data with other central banks.

As for insurance market statistics in 2018, attention was focused on meeting the requirements of the ECB and the European Insurance and Occupational Pensions Authority (EIOPA), in particular on satisfying new requirements and increasing the quality of reported data. The ECB expanded requirements concerning the reporting of data for a new item – 'reconciliation reserve'. As a result, historical data going back to the first quarter of 2016 had to be revised. This revision process included adding non-financial asset data not previously reported and a breakdown of investment fund investments by type of fund. Based on the audited data available from the annual reporting under Solvency II, annual data for 2016 and 2017 were revised. For the first time, available data for branches of insurance undertakings from other EU Member States were analysed by comparing them with data from national sources and from EIOPA sources. Meetings were held with NBS's Securities Market, Insurance and Pension Funds Supervision Department, and Regulation Department with the objective of defining internal controls for the Solvency II taxonomy applicable in 2019. The introduction of the Qlik business intelligence tool for insurance market reports entailed a significant shift towards the automatisation of checks of data input sources used in the processing of output datasets transmitted to the ECB.

In the area of pension fund statistics, processes were brought to a completion in 2018 which had been undertaken in preparation for European institutions' new legislative regulations aimed at meeting requirements for the collection of pension fund data. The ECB issued a Regulation on statistical reporting requirements for pension funds,[26] by which it shortened reporting deadlines and expanded the composition of data in respect of the geographic breakdown of counterparties. Deadlines for reporting quarterly and annual data on occupational pension schemes to EIOPA were introduced in 2018 under a Decision of the EIOPA Board of Supervisors.[27] The data will be collected and then transmitted to EIOPA via the NBS information system Statistics Collection Portal. The new requirements for reporting data to the ECB and EIOPA will apply as of the third quarter of 2019.

The most significant development concerning balance of payments statistics in 2018 was the adoption of an ECB Guideline on statistical reporting in the field of external statistics,[28] which enters into force from March 2021. Under this Guideline, the ECB introduces new requirements concerning the monetary presentation of select-

25 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.
Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

26 Regulation (EU) 2018/231 of the European Central Bank of 26 January 2018 on statistical reporting requirements for pension funds (ECB/2018/2).

27 Decision of the Board of Supervisors on EIOPA's regular information requests towards NCAs regarding provision of occupational pensions information (EIOPA-BoS/18-114).

28 Guideline (EU) 2018/1151 of the European Central Bank of 2 August 2018 amending Guideline ECB/2011/23 on the statistical reporting requirements of the European Central Bank in the field of external statistics (ECB/2018/19).

ed items of the international investment position, an expanded breakdown of b.o.p. financial instruments, and more detailed sectoral and geographical breakdowns.

Another important activity in 2018 was the continuing work on the amendment of Regulation (EC) No 184/2005 of the European Parliament and of the Council on Community statistics concerning balance of payments, international trade in services and foreign direct investment, and the implementation of the new Framework Regulation Integrating Business Statistics (FRIBS). The extension of requirements will in future concern mainly statistics on cross-border services.

In April 2018 representatives of NBS and the Slovak Statistical Office held a working meeting which resulted in the establishment of a working group focusing on non-resident transactions in foreign trade. NBS also cooperated with the SO SR on the issue of gross national income, which was related to a Eurostat mission that included several rounds of methodological questions on balance of payments data.

Reporting for entities which, when reporting via the new information system, are subject to a reporting obligation under the Foreign Exchange Act was expanded in 2018 to include new requirements in the form of three annual reports. The statistical reporting obligation for non-bank entities is governed by the Foreign Exchange Act (and amending Act No 372/1990 on non-indictable offences, as amended), as amended by Act No 602/2003. Reporting templates and details about the structure, scope and content of reported data, about reporting methods, procedures and deadlines, and about where to report data are laid down in NBS Decree No 280/2015 of 25 September 2018 on reporting in accordance with the Foreign Exchange Act.

5.2 INFORMATION SYSTEMS

For the collection, processing and storage of data received from reporting agents for statistical and supervisory purposes, Národná banka Slovenska uses its information system Statistics Collection Portal (IS SCP). In 2018 a new taxonomy was implemented in the IS SCP for the reporting of supervisory data required by the European Banking Authority (EBA), EIOPA and the ECB. Functionalities related to ESMA reporting and certain functionality components were upgraded.

By the end of 2018 4,075 reporting agents were registered in the IS SCP, including 29 from the banking sector, 38 engaged in other financial intermediation, 54 from the insurance sector, 134 from the capital market (investment firms, investment funds, asset management companies, the securities exchange, and central securities depositories), 45 from the pension fund sector and 3,775 entities reporting to NBS under the NBS Decree on reporting in accordance with the Foreign Exchange Act.

In 2018 a total of 160 reporting templates were designed for data collection requirements under national law, 306 as required by the EBA, 109 as required by EIOPA, and two in accordance with the EU's Alternative Investment Fund Managers Directive.

The transformation of historical data from selected reporting statements collected in 2015 and earlier and their migration to the IS SCP continued in 2018. At the same time, work continued on the preparation of a meta description for the migration of other reporting statements.

Business intelligence (BI) modules continued to be developed in 2018 in order to ensure the quality of data and improvements in their processing. BI development included the implementation of a 'proof of concept' process, which involved loading data to databases and connecting to BI tools.

A new data collection development project established in NBS in 2018 is expected to result in common authentication of reporting agents, a more efficient functionality distribution in individual collection systems, the development of a data warehouse, and the further use of BI tools.

6 Economic research

Through its economic research activities, Národná banka Slovenska (NBS) provides answers to some of the complex questions related to financial, economic and monetary developments at home and abroad. In 2018 these activities were spread almost evenly among the key thematic areas specified in the bank's medium-term research strategy. A slightly higher number of research projects focused on financial stability, while the other research areas that produced interesting findings included the following: the euro and convergence; economic modelling; monetary policy; fiscal policy; the labour market; and the real economy.

The trend of giving greater visibility to NBS research work continued in 2018. The number of NBS research outputs published in foreign journals included in Current Contents rose in 2018, and there was increasing cooperation with experts from other central banks and from other domestic and foreign institutions.

Nine new specialist articles by NBS staff members were published in peer-reviewed journals in 2018. Of those articles, eight were published in respected foreign journals, including, for example, the Journal of International Money and Finance, Economics Letters, the Review of World Economics, and the Journal of Financial Stability. A number of NBS research outputs of regional interest were published in the Slovak journal Ekonomický časopis.

NBS research outputs are mostly published in a standard manner as peer-reviewed papers, analyses, or commentaries, all of which are freely available on the NBS website.[29] In 2018, five working papers and one occasional paper were published on the NBS website, and NBS researchers contributed to the same number of papers published on the following websites of foreign institutions: the European Central Bank (ECB); the Oesterreichische Nationalbank; the Becker Friedman Institute; and Birbeck, University of London.

Studies in the area of financial stability looked at financial literacy, income inequality, and financial transaction taxes. A detailed study of differences in financial literacy across countries showed that differences in basic individual characteristics (education, age, sex) explain only one-third of the financial literacy gaps across countries. It confirms that there is scope to reduce cross-country differences in financial literacy by improving socio-economic conditions.

Another study looked at the potential impact of introducing a financial transaction tax and found that such a tax could have several adverse consequences. The tax reduces trading volumes by raising transaction costs. When transaction costs rise, experts have a greater incentive to misreport information, so the quality of advice worsens and trading volumes decline.

A study of income inequality concluded that an increase in income inequality in Slovakia is associated with stronger economic growth in the short run. This is not found to be the case for the euro area, where, in the short run, an increase in income inequality has a greater downward impact on domestic demand and weighs on economic growth. In the long run, however, policies that reduce income gaps are beneficial for both Slovakia and the euro area as a whole.

Research related to economic modelling produced interesting outcomes in regard to selecting the optimal methods for testing the symmetry of macroeconomic and financial time series. Other research outcomes in this area are important for the accurate calculation of prediction intervals and for fan-chart modelling.

In 2018 NBS staff analyses falling under the broadly defined topic of the euro and convergence provided evidence that Slovakia has in recent years stopped catching up with advanced EU economies. The process of catching up with average EU productivity is being hampered by, among other factors, low efficiency firms, including those that do not demonstrate sufficient viability. Looking at the Slovak economy's development over a longer term indicates that

29 *The full texts are available at http://www.nbs.sk/sk/publikacie/publikacie-vyskumu a http://www.nbs.sk/sk/menova-politika/analyticke-komentare.*

the trends of economic fundamentals have been affected by the introduction of the euro. Since the euro changeover, Slovakia's overall growth in output and productivity has been stronger than it would have been if the country had not adopted the euro.

The international cooperation in which NBS research staff are heavily engaged centres largely on activities related to ESCB research clusters and networks. With the Wage Dynamics Network (WDN) having ceased operation, there were only two ESCB research networks operating in 2018.

In 2018 NBS members of the Household Finance and Consumption Network (HFCN) focused on cleansing and imputing data from the third wave of the Household Finance and Consumption Survey. Once the data from Slovakia has been harmonised with that from other countries, a new dataset of information on the financial situation and consumption of European households will be available. This dataset will support responses to key questions about monetary policy transmission to households and the impact of monetary policy decisions on financial stability.

In 2018 a new ESCB research network called PRISMA (price-setting micro data analysis) was established with the task of conducting in-depth analysis of price-setting behaviour of individual firms. Its main objective is to document the relationship between price-setting and aggregate inflation dynamics. Among the key questions in this area is whether price-setting behaviour changes according to the business cycle or to the monetary policy stance.

In addition to these networks there are three ESCB research clusters whose purpose is to support close cooperation between researchers at ESCB national central banks, largely via workshops and joint research projects. In 2018 the first cluster addressed the issue of the optimal design of monetary policy under uncertainty. NBS involvement in the clusters in 2018 centred on the second cluster, which produced new findings on the microeconomic determinants of productivity growth and competitiveness. Under the third cluster, which has a financial stability remit, discussions took place on the implications of bank capital and liquidity requirements for bank behaviour and money markets.

Besides being involved with ESCB research networks and clusters, NBS also cooperates closely with the Competitiveness Research Network (CompNet) – an independent network dedicated to research on competitiveness. One of the network's most important activities in 2018 was the completion of a new firm-level based dataset covering 18 EU countries.

In 2018 NBS research staff participated not only in events organised by national central banks, but also presented their latest research findings at several domestic and foreign conferences hosted by academic and supranational institutions.

The bank's cooperation with academia continued to be enriched in 2018 by the visiting researcher programme. Under this programme, one foreign researcher had a short internship at NBS and worked together with one NBS expert on joint research on the topic of digital skills in the Slovak market place.

As part of its efforts to promote its research outputs and to extend its cooperation with the external environment, NBS hosted 25 research-related seminars in 2018. Around half of them were opportunities for NBS researchers to present their own studies at various stages of completion and to receive informed feedback. The others included presentations from invited experts from abroad. In June 2018 the bank hosted an international conference entitled "The Challenges for Central Banking", which was divided into three sessions focusing on different topics: the goals of financial stability and price stability; the nature and significance of financial cycles; and the future of financial services. The three discussion panels included a total of 12 prominent experts (four on each panel), most of whom were foreigners from international financial institutions, commercial banks, or academia.

7 European affairs and international cooperation

7.1 European affairs

European Union

From the perspective of Národná banka Slovenska, the most important EU event in the first half of 2018 was the informal meeting of the ECOFIN Council held in April in Sofia (Bulgaria). Attended by the NBS Governor, Jozef Makúch, and the NBS Deputy Governor, Ľudovít Ódor, the meeting focused mainly on convergence policy inside and outside the euro area as well as on the further reduction of fragmentation within the capital markets union.

In September Governor Makúch and the Executive Director of the NSB Financial Market Supervision Unit, Vladimír Dvořáček, attended the informal ECOFIN Council meeting in Vienna. The participating central bank governors and finance ministers discussed mainly the financial stability implications of increasing interest rates and the economic potential and risk of crypto assets.

7.2 Cooperation with international institutions

International Monetary Fund (IMF) / World Bank Group (WBG)

The most important events of the Bretton Woods Institutions in 2018 were the Spring and Annual Meetings of the IMF/WGB, held respectively in Washington DC and Bali (Indonesia). The Spring Meetings in April included the presentation of the latest editions of the IMF's multilateral surveillance documents: the World Economic Outlook (WEO) and the Global Financial Stability Report (GFSR). Other issues under discussion included ways of broadening the use of special drawing rights and changes in the Financial Sector Assessment Program (FSAP).

At the Annual Meetings in October, the IMF's Board of Governors, including the NBS Governor as the Governor for Slovakia, discussed the IMF's Annual Report and financial statements as well as the autumn editions of the WEO and GFSR. Delegates were briefed on the third Progress Report on the 15th General Review of Quotas and held discussions on ways to streamline the IMF's operation and on the review of the IMF staff remuneration system. They also discussed the opportunities and challenges presented by the penetration of technological innovations and financial services (Fintech).

In May 2018 an IMF staff team visited NBS as part of the bilateral discussions that the IMF holds with Slovakia under Article IV of the IMF's Articles of Agreement. The staff team spoke with NBS representatives about Slovakia's macroeconomic developments and outlook, about its balance of payments performance, about the state of Slovakia's financial sector, and about the current situation regarding domestic macroprudential policy. According to the IMF staff, the Slovak banking sector is sound, and the macroprudential policy measures taken by NBS are correctly aimed at slowing down elevated credit growth and at building needed buffers.

Organisation for Economic Co-operation and Development (OECD)

An OECD 'policy mission' to Slovakia took place in October 2018. As part of the mission, the OECD staff team visited Národná banka Slovenska, where it met with Deputy Governor NBS Ľudovít Ódor and other representatives of the bank. The OECD visitors were informed about current macroeconomic indicators in Slovakia and about the situation in the domestic financial market.

NBS representatives regularly participate 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 and in meetings of the National Contact Point established at the Slovak Economy Ministry for the OECD Guidelines on Multinational Enterprises.

European Bank for Reconstruction and Development (EBRD)

The 27th Annual Meeting of the EBRD's Board of Governors was held in May 2018, with NBS represented at the event by Vladimír Martvoň, Director of the NBS Governor's Office. The gathering took place under the central theme "Energising Economies".

Bank for International Settlements (BIS)

At its 88th Annual General Meeting (AGM) held in Basel in June 2018, the BIS approved its 2017/18 financial results, 2017/18 Annual Report, and 2018 Annual Economic Report. NBS was represented at the event by Governor Jozef Makúch and Deputy Governor Ľudovít Ódor. The attending central bank governors and representatives also discussed the credit implications of the global financial crisis.

The AGM was preceded by the 17th BIS Annual Conference, entitled "Ten years after the Great Financial Crisis: what has changed?", which looked at the impact of the global financial crisis on the international banking scene. The NBS representatives at the conference were Governor Makúch and Deputy Governor Ódor.

The NBS Governor also attends the BIS's bimonthly All Governors' Meeting, which discusses current issues in the central banking sector. In 2018 these meetings addressed issues such as the future use of the Legal Entity Identifier, risks related to banknote counterfeiting, the use of artificial intelligence in financial services, risks arising from property market cycles, and the latest changes in the Basel III rules.

7.3 INTERNATIONAL ACTIVITIES IN THE FIELD OF SUPERVISION

European Systemic Risk Board (ESRB)

In 2018 there were four regular meetings of the ESRB General Board, whose members include the NBS Governor, Jozef Makúch, and the Executive Director of the NBS Financial Market Supervision Unit, Vladimír Dvořáček.

Each meeting of the General Board evaluated the risks to the stability of the EU financial system, which remained elevated throughout 2018 amid significant political uncertainties globally and within the EU. Among the other matters discussed at the meetings were the following: the adverse scenario prepared for the 2018 EU-wide insurance stress test by EIOPA; macroprudential approaches to prevent the emergence of system-wide non-performing loan problems; the monitoring of developments in EU derivates markets; financial stability risks that could stem from cyber incidents; and key concepts towards a common framework for macroprudential stance.

The General Board also discussed and subsequently published several key documents in 2018, including the following: the "Review of Macroprudential Policy in the EU in 2017", which presents macroprudential measures taken by EU Member States; the third "EU Shadow Banking Monitor", the main purpose of which is to identify potential risks to financial stability; and the "Report on vulnerabilities in the EU commercial real estate sector", which assesses trends and risks arising from the commercial real estate market (doing so on the basis of both cross-country comparison and country-specific analyses).

The General Board also considered the need to establish a broader macroprudential toolkit for insurance. The implementation of the Solvency II regime has given rise to several questions concerning the relationship between Solvency II and macroprudential policy. For this reason, both the ESRB and EIOPA have established working groups to examine systemic risk in the insurance sector and the macroprudential instruments available under Solvency II and to propose possible additional instruments to be included in the upcoming Solvency II review. A report on this issue was published in November 2018.

European Banking Authority (EBA)

As a member of the EBA, Národná banka Slovenska helps ensure the performance of tasks resulting from decisions of the EBA Board of Supervisors. NBS is represented at the EBA by the Executive Director of the Financial Market Supervision Unit, Vladimír Dvořáček, and by the General Director of the Banking and Payment Services Supervision Department, Tatiana Dubinová. The FMS Unit has for many years participated in the work of EBA committees and working groups. It submits comments on EBA documents concerning the regulation and functioning of the financial market in regard to banking, consumer protection, and anti-money laundering (including guidelines and opinions issued by the Joint Committee of the European Supervisory Authorities under EU anti-money laundering and countering the financing of terrorism legislation).

In 2018 NBS's ongoing cooperation with the EBA focused on the drafting of implementing technical standards (ITSs) and regulatory technical standards (RTSs) required under the EU's Capital Requirements Regulation and Directive (CRR/CRD IV) and related legal acts. The implementing and regulatory technical standards are aimed at meeting new requirements for an enhanced system of supervision over banks and investment firms, as well as at implementing certain specific CRR/CRD IV articles.

NBS cooperates with the EBA at all levels of competence, from working groups to the highest approval bodies.

European Insurance and Occupational Pensions Authority (EIOPA)

In 2018 EIOPA continued pursuing its objectives to improve consumer protection, to ensure an effective and consistent level of regulation and of cross-country cooperation through national supervisory authorities, and, in particular, to ensure regulations translate into harmonised supervisory practice. NBS is represented at EIOPA by the Executive Director of the Financial Consumer Protection and Regulation Division, Júlia Čillíková, while the FMS Unit has a long history of supporting EIOPA activities through the involvement of its staff members in various EIOPA Working Groups.

NBS staff members are assigned to EIOPA Working Groups of a permanent nature in the areas of both insurance and occupational pensions. This cooperation is aimed mainly at coordinating activities, ensuring a uniform approach and common strategy in the areas mentioned, and facilitating the exchange of information and experience between representatives of EIOPA members.

European Securities and Markets Authority (ESMA)

NBS staff have for many years been participating in ESMA activities. The bank is represented at ESMA by the Executive Director of the FMS Unit, Vladimír Dvořáček, and members of the FMS Unit staff participate actively in ESMA working groups. ESMA's tasks include, among other things, supporting improvements in the internal market's functioning (including by contributing to a sound, effective and consistent level of regulation and supervision), promoting the integrity, transparency, efficiency and well-functioning of financial markets, and enhancing consumer protection in the capital market. There are NBS staff members on ESMA Standing Committees and in ESMA working groups. In order to coordinate activities and ensure a uniform approach and common strategy in key areas of interest, based on specific financial market conditions and the exchange of information between relevant NBS representatives in individual ESMA working groups, the FMS Unit in 2018 organised regular coordination meetings of NBS representatives in ESMA bodies and ESMA working groups.

In 2018 ESMA continued to implement the document entitled "ESMA Strategic Orientation 2016-2020", whose main purpose is to promote supervisory convergence across the EU. ESMA is also devoting much attention to issues related to Brexit, so as to minimise the impact of Brexit on the European capital market.

7.4 TECHNICAL COOPERATION WITH EXTERNAL INSTITUTIONS

In 2018 Národná banka Slovenska continued its long-standing technical cooperation programmes with the central banks of Belarus and Ukraine. For representatives of the National Bank of the Republic of Belarus (NBRB), NBS organised a seminar on the main accounting principles applied by non-EU central banks in accordance with the standards applied by EU central banks. For its part, the NBRB invited NBS staff members to three seminars, on accounting, payment systems, and security systems. As for the cooperation with the National Bank of Ukraine (NBU), NBS organised four seminars for NBU representatives, on the topics of communication, financial stability, human resources, and investment metals. Also in 2018, NBS provided technical cooperation to the North Macedonian central bank by holding a course that instructed representatives of the Macedonian bank on the NBS building management system.

As part of an EU-funded project, staff members of the NBS Financial Consumer Protection Department were engaged in technical cooperation with the National Bank of Serbia in 2018.

8 Communication

To mark the 25th anniversary of the establishment of Národná banka Slovenska (NBS), several events were held in 2018. In May the bank hosted a symposium attended by current and former members of the NBS Bank Board and by representatives of Česká národní banka (ČNB) and the academic community. In the same month, many NBS staff took part in a symbolic 25 km hike. In June the bank organised an international conference entitled "The Challenges for Central Banking", whose participants included representatives of central banks, the Slovak Finance Ministry and other leading financial and economic institutions. The anniversary-themed events culminated with the NBS Open Day in September, when more than 4,000 members of the public took the opportunity to take a tour inside the bank's main building. In the exhibition room of the same building, a total of six exhibitions were held during the course of the year, displaying works by domestic artists and by the naive artists of Kovačica (Serbia).

The bank's communication activities centre on providing technical and general information on current developments in the Slovak and European economies and on the activities of financial market participants. The information is variously aimed at professionals, the general public, research and educational institutions, and the media. The bank looks to provide regular, reliable, transparent and timely information on monetary policy decisions, macroeconomic developments, financial market supervision, payment systems, foreign exchange operations and the management of foreign reserves, and the issuance of euro banknotes and coins.

The bank may be contacted by email at the addresses provided on its website. In 2018 it received 3,455 emails, including requests for information, suggestions, and complaints (about supervised entities). A total of 2,890 emails were received at the addresses dedicated to communication with the public: info@nbs.sk and webmaster@nbs.sk. Another 51 were requests for information under the Freedom of Information Act (No 211/2000), received at infozakon@nbs.sk. The rest, 514, were received at the address for media enquiries, press@nbs.sk. The bank also fielded enquiries by telephone and from people who came to its main building in person.

Publications

Through its technical publications published in Slovak and English, NBS provides information and analysis from its main fields of activity. In 2018 these publications included the Annual Report, Financial Stability Report (biannual), Analysis of the Slovak Financial Sector, Monthly Bulletin, Report on the International Economy (quarterly), Report on the Slovak Economy (quarterly), Medium-Term Forecast (quarterly), and Statistical Bulletin (quarterly).[30] The bank also published five working papers,[31] 13 Analytical Commentaries, and 148 Flash Commentaries. On the basis of the Eurosystem/ESCB principles of multilingual communication, NBS participates in the drafting of Slovak language versions of ECB official publications. In 2018 these Slovak texts included the ECB Annual Report, the ECB Annual Report on supervisory activities, the ECB Convergence Report, and four editions of the ECB Economic Bulletin,[32] all of which are available on the NBS website in PDF format and also include QR codes to further improve their accessibility.

Printed information materials are another of the NBS's important communication tools. In 2018 the bank published eight leaflets accompanying the issuance of collector coins, a document entitled "Vybrané ekonomické a menové ukazovatele SR" (Selected Economic and Monetary Indicators of Slovakia), and a booklet entitled "Slovenské zberateľské a pamätné mince 2009 – 2017" (Slovak collector and commemorative coins 2009–2017). In addition, as part of its efforts to promote financial literacy, the bank produced a financial guide for senior citizens, called "Všetko, čo by ste mali vedieť o peniazoch" (Everything you should know about money), and expanded its public information material "Poznaj svoje peniaze" (Know your money). The bimonthly banking journal Biatec[33] has been a key part of the bank's publishing activities since 1993. Published on the NBS website, Biatec articles analyse, evaluate, and theorise about developments in the areas of monetary policy, macroeconomy, and financial market supervision.

30 *http://www.nbs.sk/sk/publikacie/publikacie-nbs*
31 *http://www.nbs.sk/sk/publikacie/publikacie-vyskumu*
32 *http://www.nbs.sk/sk/publikacie/publikacie-ecb*
33 *http://www.nbs.sk/sk/publikacie/biatec-odborny-bankovy-casopis*

Website

The development of the NBS website in line with current digital trends continued in 2018. Several sections of the website were modified to make their pages clearer and more navigable and their content easier to understand. Among them was the financial consumer protection section, where NBS warnings to the general public are published. At the same time, the bank continued to analyse ways in which it could further develop and innovate its web pages. The website was equipped with a new SSL certificate in 2018 in order to increase its security and reliability. In 2018 the website had more than 2.6 million visitors and over 16 million page views.

Educational activities, competitions and campaigns

For primary school, secondary school and university students, NBS organises talks on the main tasks of the central bank and on such topics as the euro currency, banknote and coin security features, Eurosystem monetary policy and the Slovak banking system, and financial consumer protection. It also holds workshops aimed at promoting financial literacy. In 2018 these talks and workshops were visited by almost 3,200 students from 106 schools and universities. At the same time, the number of students visiting the bank's permanent exhibition – "Od slovenskej koruny k euru" (From the Slovak koruna to the euro) – continues to increase steadily.

Generation €uro Students' Award

The seventh edition of the ECB's annual Generation €uro Students' Award, held in 12 countries including Slovakia, was completed in 2018. Slovakia regularly ranks among the countries with the highest number of participating teams relative to national population. A total of 114 teams from Slovakia entered the 2018 competition and the Slovak final was held on 23 March 2018.

NBS Open Day

An Open Day was held at NBS's main building on 22 September, and like previous such events, it attracted considerable public interest. This Open Day highlighted the fact that NBS was marking its 25th anniversary in 2018. Visitors had the opportunity to put questions to the NBS Governor and to view the room where the Bank Board meetings are held. Among the other attractions were a preview of the new €100 and €200 euro banknote designs, a presentation of counterfeit currency, and a display of rare exhibits from the NBS Archives.

Information campaign for the new series of euro banknotes

On 17 September 2018 the ECB unveiled to the public the new €100 and €200 banknotes which will complete the Europa series of banknotes when they enter into circulation on 28 May 2019. The Slovak public had the opportunity to see the new banknote designs at the NBS Open Day – at an ECB information stand giving out the first information materials on the new banknotes.

Internal communication

NBS continued to develop its internal communication activities in 2018. These are aimed at informing the bank's employees about important facts that affect their work and also at ensuring their active involvement in NBS matters. A number of internal campaigns for NBS staff were conducted during 2018. The bank's intranet is a key tool of internal communication, and in 2018 it was upgraded with new modules. In order to strengthen bilateral employer-employee communication, NBS staff were surveyed twice in 2018: once about their satisfaction with the intranet and once about their satisfaction with staff benefits. During the year NBS staff took part in several internal events aimed at strengthening team spirit through the combining of work and leisure activities. One event entitled "Charity Christmas Market" featured the sale of sheltered workshop products, with the proceeds going to people with disabilities.

Registry and archives

The NBS registry staff ensure and oversee everything related to the maintenance of the bank's registry records. Since 2016 the efficiency of this work has been improved by an e-office file management system. In 2018 the functionality of this system and its user support was further developed. In 2018 the registry staff examined and received from NSB employees 5,200 complete files recorded in the e-office system.

As for the NBS Archives, in 2018 their staff were involved in the preparation of a nationwide exhibition entitled "Towards Slovak Statehood" organised under the aegis of the Slovak Interior Ministry and in cooperation with the K 13 Košice Cultural Centre. The exhibition was devoted to the 100th anniversary of the former Czechoslovak Republic, the 50th anniversary of the Prague Spring, and the 25th anniversary of the establishment of the Slovak Republic. The exhibition included a separate display of materials from the NBS Archives which documented monetary developments in Slovakia over the period 1918–2008.

As part of ongoing improvements to services provided to the public, 2018 saw the further expansion of the electronic recording of archival fonds and collections and of their processing in an independent information system. In 2018 the NBS Registry and Archives Section handled 162 external and internal requests, including requests for information, for permission to conduct research, for data retrieval, and for certified copies of documents. Most enquiries concerned documentation about various properties and about personages in the history of the Slovak financial sector.

Documentation centre

The NBS Documentation Centre provides NBS employees with library and information services, including research, consultation and lending services. The library's online catalogue contains more than 156,600 bibliographical entries, mostly from the economic and financial literature. In

2018 the Centre processed more than 2,769 new documents requested by NBS employees for the purposes of their technical and analytical activities in the areas of financial systems, financial supervision and regulation, monetary policy, EU policy, statistics, and law and jurisprudence.

The Centre provides access to e-books and articles from specialist databases, as well as online access to domestic and foreign press. Among the external users of the Centre's information services are professionals from Slovakia and students from universities at home and abroad (mainly students studying economics or law). The Centre's communication with the public consists mostly of research queries on banking and economic topics (186 in 2018).

In 2018 members of the Centre's staff gave a presentation about their professional experience at an ESCB international conference held at the Maltese central bank and at an international conference in Saint Petersburg (Russia).

Museum of coins and medals in Kremnica

Administered by Národná banka Slovenska, the Museum of Coins and Medals in Kremnica maintains collections containing almost one hundred thousand items. The most interesting items are on public display at the Museum's permanent exhibitions, including "Two Faces of Money: Money and Medal-Making in the History of Slovakia", "The Town Castle with St Catherine's Church", and "The Charm of Stoneware Gardens: The Kremnica Stoneware Factory between 1815 and 1956" (at the Townhouse).

In 2018 the Museum issued two publications: "Kremnické čipkárske školy 1888–1953" (Krem-

nica Lacemaking Schools 1888–1953) and "Matej Bel – Dejiny mesta Kremnice" (Matej Bel – A History of Kremnica). The Museum also co-organised four specialist visiting lectures separately with the Society for Human Studies, the Slovak Historical Society at the Slovak Academy of Sciences, and the Institute of History of the Slovak Academy of Sciences. In 2018 the Museum Gallery hosted five art exhibitions: "Mať tak o koliesko viac!" (If only to a have a screw loose!); "Giorgio de Chirico – Marc Chagall: PRÍBEHY" (STORIES); "Kremnické gagy 2018" (Kremnica Gags 2018); "Cesta kremnickej čipky" (The journey of Kremnica lace), and one exhibition of two artists' work organised as part of international academic co-operation. A further two exhibitions were presented at the Two Faces of Money exhibition: "24. ročník Medzinárodného sympózia umeleckého šperku Kremnica 2018" (24th International Symposium of Jewellery Art – Kremnica 2018); and "Vznik Československej republiky 1918: Kremnická mincovňa a jej postavenie v novom štáte" (The 1918 Establishment of the Czechoslovak Republic: the Kremnica Mint and Its Position in the New State) (this exhibition runs until 30 June 2019).

Most of the events organised by the Museum are accompanied by educational programmes and creative workshops. With 2018 being the 25th anniversary of Národná banka Slovenska, the Museum ran a series of 25 free admission days to selected exhibitions over the course of the year. In 2018 the Museum again participated in the annual "Night of the Museums", an international event that takes place in Slovakia under the name "Noc múzeí a galérií" (Night of the Museums and Galleries). In summer the Museum held a series of family events: "The Charm of Ceramics"; "Spectres at the Castle"; "Picnic at the Castle"; and "Museum Stories". As part of European Heritage Days, a Europe-wide event with the motto "Europe – a common heritage", the Museum held a finissage of the Charm of Stoneware Gardens exhibition. Also in 2018 the Museum organised an educational community project for senior citizens, entitled "Jeseň v múzeu" (Autumn at the Museum). In November the Museum hosted a poetry event as part of the international travelling poetry festival "Pars Poetry 2018". The end of the year saw a number of Christmas events at the Museum, including an Advent concert at the Town Castle accompanied by Christmas mini-markets (with live nativity scene), and a special holiday event entitled "Rozprávkové Vianoce" (Fairytale Christmas). The Museum's programme of events for the year was rounded off with five concerts at St Catherine's Church.

During 2018 almost fifty thousand people from Slovakia and abroad visited the Museum's various exhibitions and events.

9 Legislation

Národná banka Slovenska (NBS) produces legislation in accordance with its legislative competences under Article 30 of Act No 566/1992 on Národná banka Slovenska, as amended ('the NBS Act'). If NBS drafts any primary legislation concerning currency circulation, it is required under Article 30(1) of the NBS Act to submit the draft legislation to the Slovak Government. NBS and the Slovak Finance Ministry jointly submit to the Slovak Government any draft primary legislation concerning payment systems, payment services, or the financial market (including the banking sector and the role and remit of NBS). The central bank's legislative competences also encompass the drafting and issuance of secondary legislation of general application in the form of NBS regulations and decrees. NBS's authority to issue secondary legislation is based on Article 56(1) of the Constitution of the Slovak Republic, according to which the central bank may issue legislation of general application where authorised by statutory law to do so.

AMENDMENTS MADE IN 2018 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 566/1992 on Národná banka Slovenska, as amended, was amended in 2018 by Act No 177/2018.

Act No 747/2004 on financial market supervision (and amending certain laws), as amended, was amended in 2018 by Act No 214/2018 and Act No 373/2018.

Act No 483/2001 on banks (and amending certain laws), as amended, was amended in 2018 by Act No 18/2018, Act No 69/2018, Act No 108/2018, Act No 109/2018, Act No 177/2018, Act No 345/2018 and Act No 373/2018.

Act No 371/2014 on resolution in the financial market (and amending certain laws), as amended, was amended in 2018 by Act No 177/2018 and Act No 373/2018.

Act No 186/2009 on financial intermediation and financial advisory services (and amending certain laws), as amended, was amended in 2018 by Act No 177/2018 and Act No 214/2018.

Act No 310/1992 on home savings, as amended, was amended in 2018 by Act No 277/2018.

Act No 202/1995 – the Foreign Exchange Act (including amendments to Act No 372/1990 on non-indictable offences, as amended) was amended in 2018 by Act No 177/2018.

Act No 492/2009 on payment services (and amending certain laws), as amended, was amended in 2018 by Act No 177/2018 and Act No 373/2018.

Act No 566/2001 on securities and investment services (and amending certain laws), as amended, was amended in 2018 by Act No 177/2018 and Act No 373/2018.

Act No 429/2002 on stock exchanges, as amended, was amended in 2018 by Act No 177/2018 and Act No 373/2018.

Act No 203/2011 on collective investment, as amended, was amended in 2018 by Act No 177/2018 and Act No 373/2018.

Act No 39/2015 on insurance (and amending certain laws), as amended, was amended in 2018 by Act No 18/2018, Act No 109/2018, Act No 177/2018, Act No 213/2018 and Act No 214/2018.

Act No 381/2001 on compulsory motor third party liability insurance (and amending certain laws), as amended, was amended in 2018 by Act No 373/2018.

Act No 43/2004 on the old-age pension scheme (and amending certain laws), as amended, was amended in 2018 by Act No 109/2018, Act No 177/2018 and Act No 317/2018.

Act No 650/2004 on the supplementary pension scheme (and amending certain laws), as amended, was amended in 2018 by Act No 109/2018, Act No 177/2018 and Act No 317/2018.

Act No 129/2010 on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended, was amended in 2018 by Act No 18/2018, Act No 177/2018, Act No 214/2018 and Act No 373/2018.

Act No 90/2016 on housing loans (and amending certain laws), as amended, was amended in 2018 by Act No 214/2018 and Act No 373/2018.

Act No 276/2009 on measures to mitigate the effects of the global financial crisis on the banking sector (and amending certain laws) was amended in 2018 by Act No 177/2018.

IMPLEMENTING LEGISLATION OF GENERAL APPLICATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2018

Decrees promulgated in the Collection of Laws by the publication of their full text

Decree No 280/2018 of Národná banka Slovenska of 25 September 2018 on reporting in accordance with the Foreign Exchange Act.

Decrees promulgated in the Collection of Laws of the Slovak Republic by the publication of a notification of their issuance

Decree No 1/2018 of Národná banka Slovenska of 6 February 2018 on how to demonstrate compliance with conditions for an authorisation to act as an independent financial agent and for an authorisation to act as a financial adviser.

Decree No 2/2018 of Národná banka Slovenska of 6 February 2018 amending Decree No 6/2010 of Národná banka Slovenska laying down the elements of an application for the prior approval of Národná banka Slovenska under Article 28(1) of the Banking Act.

Decree No 3/2018 of Národná banka Slovenska of 6 February 2018 amending Decree No 16/2001 of Národná banka Slovenska on the elements of an authorisation application for a bank or foreign bank branch and on how to demonstrate compliance with the conditions for the authorisation.

Decree No 4/2018 of Národná banka Slovenska of 13 February 2018 amending Decree No 8/2012 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska, as amended.

Decree No 5/2018 of Národná banka Slovenska of 13 February 2018 on professional examinations and professional certification examinations for financial intermediation and financial advisory services.

Decree No 6/2018 of Národná banka Slovenska of 29 May 2018 amending Decree No 10/2017 of Národná banka Slovenska laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans.

Decree No 7/2018 of Národná banka Slovenska of 29 May 2018 amending Decree No 10/2016 of Národná banka Slovenska laying down detailed provisions on the assessment of borrowers' ability to repay housing loans.

Decree No 8/2018 of Národná banka Slovenska of 29 May 2018 laying down a template document for the principal elements of insurance contracts.

Decree No 9/2018 of Národná banka Slovenska of 21 August 2018 amending Decree No 18/2008 of Národná banka Slovenska on the liquidity of banks and branches of foreign banks and the liquidity risk management process of banks and branches of foreign banks and on the amendment of Decree No 11/2007 of Národná banka Slovenska on reporting for supervisory and statistical purposes by banks, branches of foreign banks, investment firms and branches of foreign investment firms, as amended.

Decree No 10/2018 of Národná banka Slovenska of 21 August 2018 on the Register of Bank Loans and Guarantees.

Decree No 11/2018 of Národná banka Slovenska of 25 September 2018 on reporting by asset management companies, foreign asset management companies, autonomous investment funds, and depositories of investment funds for the purposes of financial market supervision.

Decree No 12/2018 of Národná banka Slovenska of 25 September 2018 on the register of financial agents, financial advisers, financial intermediaries from other Member States operating in the insurance or reinsurance sector, and financial intermediaries from other Member States engaged in the provision of housing loans.

Decree No 13/2018 of Národná banka Slovenska of 6 November on the covered bond register.

Decree No 14/2018 of Národná banka Slovenska of 6 November on the submission of a Covered Bond Register and Mortgage Register for supervisory purposes .

Decree No 15/2018 of Národná banka Slovenska of 6 November amending Decree No 16/2014 of Národná banka Slovenska on the disclosure of information by banks and branches of foreign banks, as amended by Decree No 13/2015 of Národná banka Slovenska.

Decree No 16/2018 of Národná banka Slovenska of 11 December 2018 on reporting on the performance of financial intermediation and reporting on the performance of financial advisory services.

Decree No 17/2018 of Národná banka Slovenska of 18 December 2018 amending Decree No 13/2014 of Národná banka Slovenska of 29 July 2014 on reporting for supervisory purposes by investment firms and branches of foreign investment firms, as amended.

Decree No 18/2018 of Národná banka Slovenska of 18 December 2018 amending Decree No 13/2017 of Národná banka Slovenska on reporting for supervisory purposes by banks and branches of foreign banks.

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 on Národná banka Slovenska ('the NBS Act'). In addition to its main building in Bratislava, the central bank has five regional offices in the territory of Slovakia. When Slovakia adopted the euro on 1 January 2009, NBS simultaneously joined the Eurosystem, which comprises the European Central Bank (ECB) and the national central banks of euro area countries. The NBS Governor is a member of the ECB's Governing Council, the Eurosystem's highest decision-making body.

Among the ways in which the bank contributes to the activities of the Eurosystem and the ESCB is through its involvement in Eurosystem/ESCB committees and working groups meeting in Eurosystem, ESCB and SSM compositions. The committees operating in 2018 were as follows:

- Accounting and Monetary Income Committee (AMICO)
- Banknote Committee (BANCO)
- Committee on Controlling (COMCO)
- Eurosystem/ESCB Communications Committee (ECCO)
- Financial Stability Committee (FSC)
- Information Technology Committee (ITC)
- Internal Auditors Committee (IAC)
- International Relations Committee (IRC)
- Legal Committee (LEGCO)
- Market Operations Committee (MOC)
- Monetary Policy Committee (MPC)
- Organisational Development Committee (ODC)
- Payment and Settlement Systems Committee (PSSC)
- Risk Management Committee (RMC)
- Statistics Committee (STC)
- Budget Committee (BUCOM)
- Human Resources Conference (HRC)

10.2 Organisation and management

The Bank Board of Národná banka Slovenska

The highest governing body of Národná banka Slovenska is the Bank Board, whose authority and powers are specified in the NBS Act, other generally applicable legislation, and the Organisational Rules of NBS.

The number of sitting Bank Board members in 2018 stood at four until 19 February and increased to five on 20 February, when the new Deputy Governor assumed his position. From that date, the Bank Board consisted of the NBS Governor, one Deputy Governor and three other members.

The Governor and Deputy Governor(s) 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.

The NBS Bank Board as at 31 December 2018

Front row (from the left): Jozef Makúch (Governor), Ľudovít Ódor (Deputy Governor).
Back row (from the left): Karol Mrva (Executive Director of the Risk Management, Settlement, Payment Systems and Cash Management Division), Vladimír Dvořáček (Executive Director of the Prudential Supervision Division and Financial Market Supervision Unit), Ľuboš Pástor, external member.

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 Bank Board members as at 31 December 2018:
- Jozef Makúch, Governor;
- Ľudovít Ódor, Deputy Governor (from 20 February 2018);
- Vladimír Dvořáček, Executive Director of the Prudential Supervision Division and Financial Market Supervision Unit;
- Karol Mrva, Executive Director of the Risk Management, Settlement, Payment Systems and Cash Management Division;
- Ľuboš Pástor, external member.

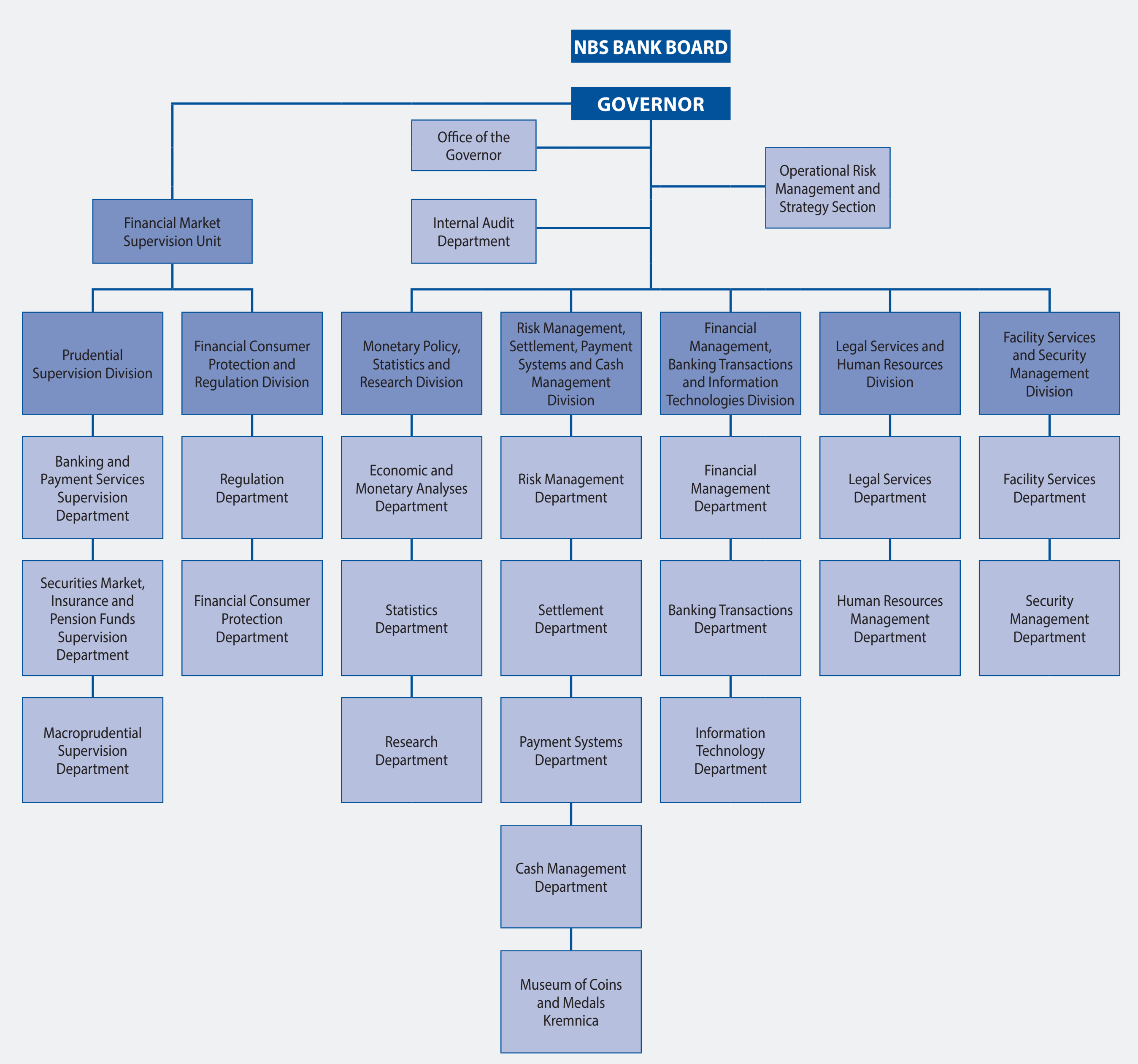
The Executive Board of Národná banka Slovenska

The Executive Board of Národná banka Slovenska was established by the Bank Board with effect 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 Executive Board members as at 31 December 2018:
- Jozef Makúch, Governor (Chair of the Executive Board);
- Viliam Ostrožlík, Executive Director of the Facility Services and Security Management Division (Vice-Chair of the Executive Board from 1 April 2018);

NBS organisational structure as at 31 December 2018



- Karol Mrva, Executive Director of the Risk Management, Settlement, Payment Systems and Cash Management Division;
- Vladimír Dvořáček, Executive Director of the Prudential Supervision Division and Financial Market Supervision Unit;
- Miroslav Uhrin, Executive Director of the Financial Management, Banking Transactions and Information Technology Division;
- Júlia Čillíková, Executive Director of the Regulation and Financial Consumer Protection Division;
- Janette Šamová, Executive Director of the Legal Services and Human Resources Division (from 1 July 2018);
- Renáta Konečná, General Director of the Economic and Monetary Analysis Department.

Upon his retirement as Executive Director of what was then called the Legal Services and Cash Management Division, Štefan Králik ceased to be a member and Vice-Chair of the Executive Board on 31 March 2018.

Two amendments to the NBS Organisational Rules were approved in 2018, one of which entered into force that year and the other on 1 January 2019. The amendments resulted in changes to the NBS organisation structure and to the remits of certain organisational units.

10.3 HUMAN RESOURCES

Národná banka Slovenska had 1,110 employees as at 31 December 2018. A total of 69 employees ended their employment with the bank in 2018 and 90 were hired. There were 92 recruitment campaigns for 104 vacancies.

Staff exchanges between ESCB national central banks, the European Central Bank and other international financial institutions support staff mobility within the ESCB, the exchange of experience and know-how, and staff development. A total of ten NBS employees were on secondment during the whole or part of 2018, either at the ECB, EIOPA or the Cross-National Data Center in Luxembourg.

The rules and principles of staff remuneration at the bank are laid down in an internal NBS Work Regulation. The average monthly salary in 2018 was €2,367.10.

Severance payments were made to 22 employees who left the bank on grounds of retirement, early retirement or invalidity.

The number of NBS employees enrolled in the supplementary pension scheme stood at 926 as at 31 December 2018.

10.4 TRAINING AND DEVELOPMENT

To support employees in their educational and professional development, the Human Resources Management Department, in cooperation with the bank'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 2018 were attended by 999 employees and focused on the following areas:

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

In 2018 a number of NBS employees pursued their professional development by attending events organised abroad by ESCB national central banks, national supervisory authorities, and other institutions, including the Joint Vienna Institute, the Financial Stability Institute, and the Federal Reserve Bank of New York.

Every year a number of NBS employees conduct professional training by performing teaching, lecturing and consultation activities. In 2018 a total of 86 employees from 19 departments were engaged in such activity.

Thirteen undergraduate students completed internships at the bank in 2018, including four studying in Slovakia and nine studying in other European Union countries.

In 2018 NBS hosted two international training projects, entitled "Interpersonal Communications" and "English in Legal and Contractual Central Banking Practice".

10.5 ENVIRONMENTAL POLICY

Národná banka Slovenska is well established as an institution that takes a responsible approach to the impact of its activities on the environment. It strictly complies with Slovak legislation and European Commission recommendations on environmental matters which lay down procedures to support environmentally friendly operations. In 2018 the bank implemented several measures aimed at meeting the priorities and objectives of its environmental policy.

The bank's air-conditioning systems and fixed fire-fighting equipment are subject to regular servicing and inspections to ensure that they do not leak any undesirable substances into the air. In 2018 the wastewater treatment plant at the NBS property on Cukrová Street in Bratislava was replaced with a modern, ecological and fully biological plant that does not use any chemical substances, therefore eliminating the risk of the plant discharging damaging chemicals that could contaminate the sewerage system and groundwater. The renovation of the boiler room at the NBS local office in Žilina included replacing the gas boilers with condensing boilers, thereby reducing gas consumption by 20% and also cutting CO2 emissions. Thanks to the modernisation of the ventilation equipment at the NBS facility in Nový Smokovec, the installation of new LED lighting at eight NBS properties (including the main building, regional offices, and the recreational facility VUZ Bystrina), and the installation of new regulating elements, NBS managed to reduce electricity consumption in 2018 and ensure greater efficiency at the end points of consumption. In procuring and purchasing information and communication technologies (ICT), electronic appliances and equipment, other goods, construction work, and services, the bank ensures that environmental specifications and requirements are included in contract notices and that they are taken into account in the offer evaluation criteria and in the contractual terms and conditions. In this way, NBS demonstrates its preference for energy-saving and environmentally sustainable products and services. The bank disposes of its waste in compliance with the requirements of municipal waste separation, and in 2018 its separately collected waste included 3.52 tonnes of paper and cardboard packaging, 15 tonnes of paper, and 1.3 tonnes of wood. Plastic waste is also separated out. Hazardous waste and other waste from all NBS properties are disposed of solely by contracted waste disposal companies that satisfy the bank's requirements for environmentally friendly waste disposal and recycling.

In 2018 NBS continued to support environmental initiatives both at the global level (*Earth Day* and *Earth Hour*) and in Slovakia (*Bike to Work*).

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2018

C

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Národná banka Slovenska

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 (hereinafter the "Bank" or "NBS"), which comprise the balance sheet as at 31 December 2018, the income statement for the year then ended, and notes, which include a summary of significant accounting policies and accounting methods.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, 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 (hereinafter the "ECB Guideline") and the Act on Accounting No. 431/2002 Coll. as amended (hereinafter the "Act on Accounting").

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

This is an English language translation of the original Slovak language document.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Information Disclosed in the Annual Report

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

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

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

- Information disclosed in the annual report prepared for 2018 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting and Act on NBS.

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

Bratislava, 5 March 2019

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

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

This is an English language translation of the original Slovak language document.

NÁRODNÁ BANKA SLOVENSKA
Financial statements as at 31 December 2018 – Balance Sheet
(in thousands of EUR)

BALANCE SHEET
of Národná banka Slovenska

	ASSETS	Note	31 Dec 2018 EUR '000	31 Dec 2017 EUR '000
A1	Gold and gold receivables	1	1,142,102	1,102,289
A2	Claims on non-euro area residents denominated in foreign currency	2	7,093,274	3,805,316
A3	Claims on euro area residents denominated in foreign currency	3	877,053	440,484
A4	Claims on non-euro area residents denominated in euro	4	2,025,916	1,052,919
A5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	1,166,540	1,081,700
A6	Other claims on euro area credit institutions denominated in euro	6	16,529	19,114
A7	Securities of euro area residents denominated in euro	7	22,276,945	20,084,383
A8	General government debt denominated in euro		0	0
A9	Intra-Eurosystem claims	8	10,492,010	9,792,091
A10	Items in course of settlement		0	0
A11	Other assets	9	5,068,450	5,129,342
A12	Loss for the year		0	0
	TOTAL ASSETS		**50,158,819**	**42,507,638**

	LIABILITIES	Note	31 Dec 2018 EUR '000	31 Dec 2017 EUR '000
L1	Banknotes in circulation	10	12,428,298	11,818,378
L2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	2,282,672	1,953,084
L3	Other liabilities to euro area credit institutions denominated in euro	12	2,371,382	766,202
L4	Debt certificates issued		0	0
L5	Liabilities to other euro area residents denominated in eur	13	973,855	1,603,134
L6	Liabilities to non-euro area residents denominated in euro	14	25,113,626	22,160,110
L7	Liabilities to euro area residents denominated in foreign currency	15	1,557,192	750,512
L8	Liabilities to non-euro area residents denominated in foreign currency	16	1,912,559	844,082
L9	Counterpart of special drawing rights allocated by the IMF	17	413,818	404,353
L10	Intra-Eurosystem liabilities	18	884,468	219,343
L11	Items in course of settlement		0	0
L12	Other liabilities	19	463,235	354,487
L13	Provisions	20	675,559	643,849
L14	Revaluation accounts	21	552,022	504,595
L15	Capital and reserves	22	357,797	357,797
L16	Profit for the year	35	172,336	127,712
	TOTAL LIABILITIES		**50,158,819**	**42,507,638**

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This version of the accompanying financial statement 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 2018 – Profit and Loss Account
(in thousands of EUR)

PROFIT AND LOSS ACCOUNT of Národná banka Slovenska

	Note	31 Dec 2018 EUR '000	31 Dec 2017 EUR '000
1.1 Interest income		320,899	161,076
1.2 Interest expense		(114,720)	(50,162)
1 Net interest income	24	**206,179**	**110,914**
2.1 Realised gains/(losses) arising from financial operations		16,328	32,513
2.2 Write-downs on financial assets and positions		(38,314)	(12,611)
2.3 Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks		(30,000)	0
2 Net result of financial operations, write-downs and risk provisions	25	**(51,986)**	**19,902**
3.1 Fees and commissions income		2,752	2,190
3.2 Fees and commissions expense		(1,111)	(1,040)
3 Net income/(expense) from fees and commissions	26	**1,641**	**1,150**
4 Income from equity shares and participating interests	27	**17,603**	**14,381**
5 Net result of pooling of monetary income	28	**99,658**	**78,139**
6 Other income	29	**16,044**	**13,094**
Total net income		**289,139**	**237,580**
7 Staff costs	30	**(47,456)**	**(45,573)**
8 Administrative expenses	31	**(23,369)**	**(19,300)**
9 Depreciation of tangible and intangible fixed assets	32	**(9,022)**	**(8,758)**
10 Banknote production services	33	**(4,911)**	**(93)**
11 Other expenses	29	**(3,161)**	**(7,684)**
12 Income tax and other government charges on income	34	**(28,884)**	**(28,460)**
Profit for the year	35	**172,336**	**127,712**

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NOTES

to the Financial Statements as at 31 December 2018

Bratislava, 5 March 2019

This version of the accompanying financial statement 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.

(in thousands of EUR)

A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska (the "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 of 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 2018, the Bank Board had the following structure:

Name	Term of Office in the Bank Board		Current Position	Date of Appointment
	from	until		
doc. Ing. Jozef Makúch, PhD.	01/01/2006	12/01/2021	Governor	12/01/2015
Mgr. Ľudovít Ódor	20/02/2018	20/02/2024	Deputy Governor	20/02/2018
RNDr. Karol Mrva	01/06/2012	02/06/2023	Member	02/06/2017
Ing. Vladimír Dvořáček	02/04/2014	02/04/2019	Member	02/04/2014
prof. Mgr. Ľuboš Pástor, M.A. PhD.	15/03/2015	15/03/2021	Member	15/03/2015

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Legal framework and accounting principles

The Bank applies 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"). When recognising transactions not regulated by the ECB Guideline, the Bank observes International Financial Reporting Standards. 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 fundamental 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 only held on the balance sheet 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 valued reliably.

Foreign exchange transactions, financial instruments excluding securities, and the corresponding accruals, are subject to the economic principle. 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 and transactions with 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. Interest accruals are reported separately from the financial instrument in "Other assets" or "Other liabilities". Accruals of premium and discount are reported together with the financial instrument.

When preparing the financial statements, the Bank acts in accordance with the recommended harmonised disclosures for Eurosystem national central banks' annual accounts.

The Bank does not prepare consolidated financial statements in accordance with Article 22 of the Act on Accounting.

(b) Valuation of assets and liabilities

Financial assets and liabilities, excluding held-to-maturity securities, securities held for monetary policy purposes and non-marketable participating interests, are valued 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 valued for each ISIN separately and interest rate swaps and futures agreements are valued individually. For gold, no distinction is made between price and currency revaluation differences.

Securities held for monetary policy purposes are valued at amortised 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 organisations and multilateral development banks acquired under the public sector purchase programme on the secondary market ("PSPP") is created in percentage 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") or 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).

Current accounts and deposits granted/received and loans are valued at face value.

(in thousands of EUR)

Participating interests, except the BIS Investment Pool Sovereign China equity fund denominated in CNY ("BISIP") and Exchange Traded Funds denominated in USD ("ETF"), are valued at historical cost and are subject to an impairment test. A provision is recognised for the impairment in participating interests through profit/loss. The BISIP equity fund is valued at the net asset value of the fund provided by the Bank for International Settlements ("BIS") in Basel, Switzerland on a monthly basis. The ETF funds are valued at mid-market prices on a monthly basis for each security (ISIN) separately.

The exchange rates of key foreign currencies against EUR 1, used to value the assets and liabilities as at 31 December 2018, were as follows:

Currency	31 Dec 2018	31 Dec 2017	Change
GBP	0.89453	0.88723	0.00730
USD	1.14500	1.19930	(0.05430)
JPY	125.85000	135.01000	(9.16000)
XDR	0.82277	0.84203	(0.01926)
CNY	7.87510	7.80440	0.07070
EUR/ozs*	1,120.961	1,081.881	39.08000

* 1 ozs (troy ounce) = 31.1034807 g

(c) Accounting and recognition of income

Realised profits and losses are derived from the daily valuation 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 recognised directly in the profit and loss account.

Unrealised profits and losses result from the monthly valuation of assets and liabilities and represent the difference between the average value and the month-end accounting and mid-market value of the respective financial instrument or currency. Unrealised profits are shown in equity on revaluation accounts (see Note 21). Unrealised losses in excess of unrealised revaluation profits from the given financial instrument or currency are recognised in the profit and loss account. Unrealised losses on a financial instrument or currency are not netted off against unrealised profits made on another financial instrument or currency. In the event of an unrealised loss at year-end, the average acquisition cost is adjusted to the year-end exchange rate or fair value of the valued item. Unrealised revaluation losses on interest rate swaps and marketable securities are amortised to income in the following years.

Premiums and discounts of acquired securities are recognised in the profit and loss account as interest income.

According to the agreed recommended harmonised 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 recognised as repurchase transactions with gold (see Notes 12 and 14). 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, securities are valued at transaction costs. Fees which are not part of the transaction costs are directly recognised in the profit and loss account and are not considered as part of the average cost of the securities.

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

(f) Derivatives

Foreign exchange 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 recognised 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 paid or received interest that is accrued.

The forward position of foreign exchange 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 valued individually for each transaction based on generally accepted valuation models using corresponding yield curves derived from quoted interest rates.

For interest rate or foreign exchange swaps, if there is an increase or decrease in the net swap position, a collateral adjustment in the form of deposits with a daily extension is agreed upon contractually with selected counterparties. Payment of interest is on a monthly basis (see Notes 9 and 19).

The Bank recognises 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 as securities. The initial deposit in the form of securities is not accounted for. The daily settlement of revaluation differences on the margin account is recognised in the profit and loss account.

(g) Reverse transactions

Reverse transactions are the transactions that the Bank conducts under reverse repo agreements or collateralised loan transactions.

Repo agreements (repo transactions) are recognised as a collateralised inward deposit on the liabilities side of the balance sheet, and the item provided as collateral remains on the assets side of the balance sheet. Securities provided under a repo transaction remain part of the Bank's portfolio.

Reverse repo agreements (reverse transactions) are recognised as a collateralised outward loan on the assets side of the balance sheet. Securities accepted under a reverse repo 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. Income from these transactions are recognised 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 of the total amount of banknotes in circulation is 8%. Pursuant to the Decision cited above, the NBS's share of the total issue of euro banknotes within the Eurosystem is 1.0095%. The share of banknotes in circulation is recognised under liabilities "Banknotes in circulation" (see Note 10).

The difference between banknotes allocated according to the Banknote Allocation Key and banknotes in circulation represents an interest-bearing claim or liability within the Eurosystem. They are disclosed under "Intra-Eurosystem claims or liabilities".

Interest income or interest expense from these claims/liabilities is disclosed net in the Bank's profit and loss account under "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 issues 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 and is recognised in the year in which originated as an interim distribution of the ECB's profit (see Note 27).

Under Article 33 of the Statute, the ECB's remaining net profit is reallocated 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 recognised on the balance sheet irrespective of their input price. The assets listed under separate regulations are recognised on the off-balance sheet and in records maintained for collection items at 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.

(in thousands of EUR)

Fixed assets held for sale are recognised 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 improvements to immovable cultural	30
2. Separable components built into structures identified for separate depreciation	4 - 20
3. Utility networks	20
4. Machines and equipment	2 - 12
5. Transport means	4 - 6
6. Fixtures and fittings	4 - 12
7. Intangible fixed assets - purchased software	2 - 10
8. Other intangible fixed assets	4 or as per contract

(k) Taxes

In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes, as amended, the NBS is not a corporate income tax payer. 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 financial risks to hedge against foreign exchange rate, interest rate, credit and gold price risks (see Notes 20 and 25), which is presented in the Bank's equity.

The level of the general provision is reassessed at year-end and is based on the estimated potential loss in a one-year horizon, taking into account historical scenarios of financial market developments in relation to the total investment reserves. The provision also includes the NBS's share on the credit risks resulting from monetary policy refinancing operations and the Eurosystem intervention purchase programmes.

Compared to the previous period, the Bank adjusted the methodology for calculating the estimated level of the general provision for financial risks. When measuring financial risks, the Bank applies expected shortfall at the confidence level of 99%, where the risk value is determined by simulated development of risk factors related to the investment portfolio. Credit risk values were taken from the outputs generated by the ECB as part of a regular analysis of the financial risks and buffers at the level of individual national central banks. For the risk assessment calculations, the financial assets are considered at market prices except for monetary policy portfolios, which are taken at amortised cost from accounting books. In accordance with the approved approach, the Bank Board may reflect on additional factors that are expected to have an impact on the risk value when making a decision on the final level of the general provision.

The rationale and the level of this provision is reassessed on an annual basis and is subject to the approval of the Bank Board. Based on the Bank Board's decision, the provision is used to cover future losses from financial activities.

(in thousands of EUR)

(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. Losses 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 2018	31 Dec 2017	Change
Gold in repo transactions	1,137,196	1,097,554	39,642
Gold stored in banks	3,142	3,033	109
Gold in stock	1,764	1,702	62
	1,142,102	**1,102,289**	**39,813**

As at 31 December 2018, gold totalled 1,019 thousand t oz. (1,019 thousand t oz. as at 31 December 2017), of which 1,014 thousand t oz. were used in repo transactions, 3 thousand t oz. deposited with correspondent banks and 2 thousand t oz. deposited with the Bank.

As at 31 December 2018, the market price of gold was EUR 1,120.961 per t oz. (EUR 1,081.881 per t oz. as at 31 December 2017). The changes in the account balances were associated with revaluation differences (see Note 21).

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

	31 Dec 2018	31 Dec 2017	Change
Receivables from/Payables to the IMF	585,016	537,434	47,582
Balances with banks and security investments, external loans and other external assets	6,508,258	3,267,882	3,240,376
	7,093,274	**3,805,316**	**3,287,958**

Receivables from / Payables to the International Monetary Fund

	31 Dec 2018		31 Dec 2017		
	Equivalent mil. XDR	EUR '000	Equivalent mil. XDR	EUR '000	Change EUR '000
Receivables from the IMF:	**1,301**	**1,580,244**	**1,300**	**1,543,947**	**36,297**
1) Member's quota	1,001	1,215,672	1,001	1,188,685	26,987
a) Member's contribution	820	995,228	848	1,006,513	(11,285)
b) Reserve position	181	220,444	153	182,172	38,272
- Foreign exchange part of Member's quota	138	167,695	153	182,172	(14,477)
- Reserve position of FTP	43	52,749	0	0	52,749
2) Nostro account in the IMF	300	364,572	299	355,262	9,310
Payables to the IMF:	**820**	**995,228**	**848**	**1,006,513**	(11,285)
1) Loro accounts in the IMF	803	974,636	896	1,063,215	(88,579)
2) Currency valuation adjustment account	17	20,592	(48)	(56,702)	77,294
Total reported amount (net)		**585,016**		**537,434**	**47,582**

(in thousands of EUR)

In January 2018, the IMF purchased a portion of the foreign exchange part of the Member's quota amounting to XDR 15 million. Within the Financial Transaction Plan, the NBS provided funds totalling XDR 43 million, thus decreasing loro accounts and Member's contribution. As a result, the structure of the Member's quota changed, however keeping its amount on the same level.

Payables to the IMF represent the IMF loro accounts and the associated currency valuation adjustment account. Liabilities in local currency change depending on the IMF representative exchange rate. A significant part of payables on the IMF loro accounts consists of a note of EUR 813,935 thousand (EUR 867,740 thousand as at 31 December 2017).

The Bank records a payable 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 2018	31 Dec 2017	Change
Debt securities	2,827,791	1,299,913	1,527,878
Other	3,680,467	1,967,969	1,712,498
	6,508,258	**3,267,882**	**3,240,376**

The caption "Debt securities" mainly consists of securities denominated in USD, GBP, CHF and CNY. As at 31 December 2018, the Bank mainly records securities issued by monetary financial institutions.

The caption "Other" mainly includes cash on nostro accounts in foreign currency. An increase in the caption "Other" is related to foreign exchange swaps.

3. Claims on euro area residents denominated in foreign currency

	31 Dec 2018	31 Dec 2017	Change
Debt securities	875,675	439,698	435,977
Current accounts	1,378	786	592
	877,053	**440,484**	**436,569**

The caption "Debt securities" consists of securities denominated in GBP, USD, CHF and JPY. As at 31 December 2018, the Bank mainly records securities issued by monetary financial institutions.

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

	31 Dec 2018	31 Dec 2017	Change
Debt securities	2,025,434	1,052,339	973,095
Current accounts	482	580	(98)
	2,025,916	**1,052,919**	**972,997**

As at 31 December 2018, the Bank mainly records securities issued by monetary financial institutions.

(in thousands of EUR)

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

	31 Dec 2018	31/12/2017	Change
Main refinancing operations	101,000	0	101,000
Targeted longer-term refinancing operations (TLTRO)	0	16,160	(16,160)
Targeted longer-term refinancing operations (TLTRO II)	1,065,540	1,065,540	0
	1,166,540	**1,081,700**	**84,840**

As at 31 December 2018, the Bank recorded main refinancing operations amounting to EUR 101,000 thousand. The main refinancing operations are weekly liquidity-providing reverse transactions, usually with a one-week maturity.

Within longer-term operations concluded in 2016, as at 31 December 2018 the Bank recognised targeted longer-term refinancing operations (TLTRO II) with a maturity of 4 years. Targeted longer-term refinancing operations are intended to support bank lending to the non-financial private sector, excluding loans to households for purchases of residential real estate. The final interest rate for these operations was determined based on the volume of provided loans in the defined period (see Note 24).

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

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

	31 Dec 2018	31 Dec 2017	Change
Redistribution loan	15,828	18,435	(2,607)
Current accounts	701	679	22
	16,529	**19,114**	**(2,585)**

A redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. For 2018, the interest rate for the redistribution loan remained at 0.50% p.a. (0.50% p.a. as at 31 December 2017).

As at 31 December 2018, the NBS recorded a state guarantee for the provided redistribution loan in the amount of EUR 16,350 thousand on the off-balance sheet (EUR 19,085 thousand as at 31 December 2017). 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 2018	31 Dec 2017	Change
Securities held for monetary policy purposes	21,573,530	19,881,042	1,692,488
Other securities	703,415	203,341	500,074
	22,276,945	**20,084,383**	**2,192,562**

(in thousands of EUR)

Debt securities held for monetary policy purposes

Under this caption, the Bank disclosed securities purchased under the SMP, CBPP1, CBPP3 and PSPP programmes. They are mainly issued by public authorities and monetary financial institutions of the euro area.

The purchase of securities under the CBPP1 programme was terminated in June 2010 and terminated under the SMP programme in September 2012. The decrease in securities purchased under the CBPP1 and SMP programmes by EUR 169,303 thousand compared to the previous year was due to the maturity of securities. The CBPP3 programme was announced by the Governing Council of the ECB in October 2014. The PSPP programme was announced by the Governing Council of the ECB in January 2015. In 2018, the Eurosystem continued to purchase securities as part of expanding asset purchase programmes ("APP"), which include CBPP3, PSPP, ABSPP and the corporate sector purchase programme ("CSPP") for the purchase of corporate securities. The monthly pace of combined net APP purchases by the Eurosystem was EUR 30 billion on average until September 2018 and EUR 15 billion from October 2018 until the end of the year when the net purchases ended. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Income on securities with a source in the Slovak Republic is net of withholding tax (see Note 34).

Securities acquired under all monetary policy programmes are valued on an amortised cost basis and are subject to an impairment test. The amortised 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 only provided for comparison purposes):

	31 Dec 2018		31 Dec 2017		Change	
	Amortised Cost	Market Value	Amortised Cost	Market Value	Amortised Cost	Market Value
CBPP1	9,994	10,444	35,096	36,432	(25,102)	(25,988)
CBPP3	2,085,143	2,113,588	2,162,630	2,194,187	(77,487)	(80,599)
SMP	183,288	203,662	327,489	358,309	(144,201)	(154,647)
PSPP gov.	8,898,258	9,133,327	8,422,354	8,572,256	475,904	561,071
PSPP supr.	10,396,847	10,354,207	8,933,473	8,880,406	1,463,374	1,473,801
	21,573,530	**21,815,228**	**19,881,042**	**20,041,590**	**1,692,488**	**1,773,638**

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. On the basis of the results of the impairment test on securities acquired for monetary policy purposes performed as at 31 December 2018 and pursuant to the decision of the Governing Council of the ECB which has deemed it appropriate to establish a buffer, the NBS created a provision for impairment losses (see Note 20).

Other securities

Under this caption, as at 31 December 2018, the Bank recognised securities held for trading issued mainly by the euro area monetary financial institutions.

(in thousands of EUR)

8. Intra-Eurosystem claims

	31 Dec 2018	31 Dec 2017	Change
Participating interest in ECB	262,722	262,722	0
Claims equivalent to the transfer of foreign reserves	447,672	447,672	0
Other Intra-Eurosystem claims (net)	9,781,616	9,081,697	699,919
	10,492,010	**9,792,091**	**699,919**

Participating interest in the ECB

As at 31 December 2018, the Bank recorded a participating interest in the ECB's subscribed capital of EUR 83,623 thousand 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 Governing Council of the ECB, 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.

(in thousands of EUR)

As at 31 December 2018, 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
Národná banka Slovenska	**0.7725**	**83,623,179.61**	**83,623,179.61**	**1.0974**
Suomen Pankki – Finlands Bank	1.2564	136,005,388.82	136,005,388.82	1.7849
*Subtotal euro area NCBs**	*70.3915*	*7,619,884,851.40*	*7,619,884,851.40*	*100.0000*
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 Naţională 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	
*Subtotal non-euro area NCBs**	*29.6085*	*3,205,122,218.22*	*120,192,083.17*	
Total*	**100.00**	**10,825,007,069.61**	**7,740,076,934.57**	

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

Claims equivalent to the transfer of foreign reserves

The NBS records a claim from the transfer of foreign reserves to the ECB of EUR 447,672 thousand (EUR 447,672 thousand as at 31 December 2017), in accordance with Article 30 (1) of the Statute. The claim bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2018, the Bank recorded no interest income from the claim equivalent to the transfer of foreign reserves due to the interest rate of 0% p.a.

(in thousands of EUR)

Other claims within the Eurosystem (net)

Claims within the Eurosystem represent the NBS's position towards other members of the European System of Central Banks ("ESCB") arising from cross-border transactions. This caption comprises the claim of the NBS against other central banks and the ECB arising from operations within TARGET 2, which amounted to EUR 9,667,872 thousand as at 31 December 2018 (claim of EUR 8,991,962 thousand as at 31 December 2017). The position bears an interest rate for the main refinancing operations. The Bank recorded no interest as at 31 December 2018 due to the interest rate of 0% p.a.

The caption also comprises a receivable from monetary income of EUR 100,670 thousand (EUR 78,895 thousand as at 31 December 2017, see Note 28) and a receivable from the NBS's share in the ECB's profit for 2018 of EUR 13,074 thousand (EUR 10,840 thousand as at 31 December 2017, see Note 27).

9. Other assets

	31 Dec 2018	31 Dec 2017	Change
Tangible and intangible fixed assets	115,399	122,348	(6,949)
Other financial assets	99,247	53,624	45,623
Off-balance sheet instruments revaluation differences	0	540	(540)
Accruals and prepaid expenses	281,469	235,052	46,417
Accumulated losses from previous years	4,534,268	4,661,980	(127,712)
Sundry	38,067	55,798	(17,731)
	5,068,450	**5,129,342**	**(60,892)**

Tangible and intangible fixed assets

This caption comprises fixed assets of the NBS as at 31 December 2018:

	Tangible Assets, Advances and Assets under Construction	Intangible Assets, Advances and Assets under Construction	TOTAL
Acquisition cost as at 1 January 2018	**255,970**	**38,671**	**294,641**
Additions	1,852	4,613	6,465
Disposals	10,100	2,820	12,920
Acquisition cost as at 31 December 2018	**247,722**	**40,464**	**288,186**
Accumulated depreciation as at 1 January 2018	**144,656**	**30,659**	**175,315**
Additions	6,822	2,200	9,022
Disposals	7,966	354	8,320
Accumulated depreciation and provisions as at 31 December 2018	**143,512**	**32,505**	**176,017**
Carrying amount of tangible and intangible assets as at 1 January 2018	**111,314**	**8,012**	**119,326**
Carrying amount of tangible and intangible assets as at 31 December 2018	**104,210**	**7,959**	**112,169**

As at 31 December 2018, the NBS recognised fixed assets held for sale in the amount of EUR 3,230 thousand (EUR 3,022 thousand as at 31 December 2017).

(in thousands of EUR)

Other financial assets

	31 Dec 2018	31 Dec 2017	Change
Equity shares in ETF funds	47,123	0	47,123
Equity shares in BISIP fund	44,826	42,684	2,142
Shares of BIS	7,173	7,009	164
Shares of SWIFT	92	92	0
Inštitút bankového vzdelávania, n.o.	33	33	0
Share certificates of RVS, a.s.	0	3,806	(3,806)
	99,247	**53,624**	**45,623**

Since June 2018, the Bank has purchased shares in Exchange Traded Funds ("ETF") denominated in USD, which are in the form of marketable securities and are traded as common shares on a stock exchange.

As at 31 December 2018, the Bank recognised shares within the BISIP programme which represents an indirect form of investing in the on-shore Chinese government bonds' market. The bank's share represents 1.35% of the fund's total value (1.57% share of the fund's total value as at 31 December 2017, see Section B, Note b).

The Bank's share in the BIS capital represents 0.51% (0.51% as at 31 December 2017). The participating interest in BIS is recognised 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).

The Bank holds shares of SWIFT, representing a 0.0245% capital share (0.0245% capital share as at 31 December 2017).

Since 2008, the Bank has recognised a contribution to the registered capital of Inštitút bankového vzdelávania NBS, n. o. Bratislava. The Bank holds a 100% share in the company.

In June 2018, the General Assembly of RVS, a.s. v likvidácii (in liquidation) approved the distribution of the company's liquidation balance. The NBS share in the liquidation balance amounted to EUR 3,770 thousand. An impairment of EUR 36 thousand was charged to the Bank's expenses (see Note 25).

Accruals and prepaid expenses

This caption mainly includes accrued bond coupons in the amount of EUR 241 170 thousand (EUR 201 900 thousand as at 31 December 2017).

Sundry

	31 Dec 2018	31 Dec 2017	Change
Deposits - collaterals to derivatives	13,830	37,070	(23,240)
Fair value of interest rate swaps - profits	12,737	8,491	4,246
Investment loans granted to employees	4,545	5,789	(1,244)
Interest rate futures	2,671	920	1,751
Other	4,284	3,528	756
	38,067	**55,798**	**(17,731)**

(in thousands of EUR)

The purpose of the deposits granted – collaterals to derivatives – is to secure counterparty credit risk in the case of a decrease in the value of swap transactions on the part of the NBS. The year-on-year decrease in the volume of deposits is due to an increase in the market price of swap transactions on the part of the NBS.

10. Banknotes in circulation

	31 Dec 2018	31 Dec 2017	Change
Euro banknotes in circulation issued by the NBS	13,312,766	12,037,721	1,275,045
Euro banknotes not issued by the NBS	(884,468)	(219,343)	(665,125)
Total volume of euro banknotes in line with the NBS Banknote Allocation Key	**12,428,298**	**11,818,378**	**609,920**

As at 31 December 2018, the Bank issued banknotes amounting to EUR 13,312,766 thousand, which is an increase of EUR 884,468 thousand (increase of EUR 219,343 thousand as at 31 December 2017) compared to the volume allocated to the NBS by the Banknote Allocation Key (see Section B, Note h). This difference represents a liability of the NBS to the Eurosystem (see Note 18).

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

	31 Dec 2018	31 Dec 2017	Change
Current accounts covering the minimum reserve system	2,191,672	1,831,084	360,588
Deposit facility	91,000	122,000	(31,000)
	2,282,672	**1,953,084**	**329,588**

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 fulfilment of monetary reserves of credit institutions over the set maintenance period, as published by the ECB. The MRS bear interest of 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 of -0.40% p.a. for the deposit facility. As at 31 December 2018, the net interest income resulting from this liability amounts to EUR 4,025 thousand (EUR 3,735 thousand as at 31 December 2017, 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 2018, a negative interest rate of -0.40% p.a. was valid for this type of transactions.

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

	31 Dec 2018	31 Dec 2017	Change
Liabilities from repo transactions	2,259,118	563,905	1,695,213
Liabilities from repo transactions with gold	103,300	201,374	(98,074)
Deposits received to repo transactions	8,877	757	8,120
Interbank clearing in Slovakia (SIPS)	87	166	(79)
Tri-party repo transactions	0	0	0
	2,371,382	**766,202**	**1,605,180**

The interest rate applicable to repo transactions denominated in EUR ranges from -0.10 to - 0.43% p.a. (from -0.42 to -0.45% p.a. as at 31 December 2017).

(in thousands of EUR)

13. Liabilities to other euro area residents denominated in euro

	31 Dec 2018	31 Dec 2017	Change
General government	889,453	1,496,564	(607,111)
Other liabilities	84,402	106,570	(22,168)
	973,855	**1,603,134**	**(629,279)**

Given a change in the sector recognition methodology, the comparative period of 2017 was restated (the restatement was in the amount of EUR 77 thousand).

General government

Under this caption, the Bank recognised current accounts and term deposits of the general government. The bulk of this caption includes current accounts of the State Treasury.

Other liabilities

	31 Dec 2018	31 Dec 2017	Change
Client current accounts	36,912	63,408	(26,496)
Client term deposits	41,157	37,463	3,694
Current accounts of auxiliary financial institutions	6,333	5,699	634
	84,402	**106,570**	**(22,168)**

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

	31 Dec 2018	31 Dec 2017	Change
Client current accounts	20,038,566	20,026,527	12,039
Liabilities from received term deposits	3,688,275	1,230,000	2,458,275
Liabilities from repo transactions with gold	964,630	903,498	61,132
Liabilities from repo transactions	419,973	0	419,973
Deposits received to repo transactions	2,182	85	2,097
	25,113,626	**22,160,110**	**2,953,516**

"Client current accounts" are mainly funds in the TARGET2 accounts of clients who are not subject to MRS. The interest rate for client current accounts is -0.40% p.a. (see Note 24).

"Liabilities from received term deposits" represent national central banks' deposits with a maturity of 1-3 months at an interest rate ranging from -0.40% to -0.41% p.a. (-0.40% p.a. as at 31 December 2017).

The interest rate applicable to repo transactions ranges from -0.35 to -0.38% p.a.

Given a change in the sector recognition methodology, the comparative period of 2017 was restated.

(in thousands of EUR)

15. Liabilities to euro area residents denominated in foreign currency

	31 Dec 2018	31 Dec 2017	Change
Liabilities from repo transactions	1,526,606	750,505	776,101
State Treasury current accounts in foreign currency	18	7	11
Liabilities from received deposits	30,568	0	30,568
	1,557,192	750,512	806,680

The interest rate applicable to repo transactions in USD ranges from 3.00 to 3.30% p.a. (1.77 to 4.51% p.a. as at 31 December 2017) and the interest rate applicable to repo transactions in GBP ranges from 1.10 to 1.30% p.a.

The interest rate applicable to received deposits denominated in USD is 3.75% p.a.

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

	31 Dec 2018	31 Dec 2017	Change
Liabilities from repo transactions	1,581,555	748,193	833,362
Liabilities from received deposits	331,004	95,889	235,115
	1,912,559	844,082	1,068,477

The interest rate applicable to repo transactions in GBP ranges from 0.90 to 1.25% p.a. (from 0.66 to 0.70% p.a. as at 31 December 2017), the interest rate applicable to repo transactions in USD ranges from 2.59 to 3.60% p.a. (from 2.00 to 6.75% p.a. as at 31 December 2017).

The interest rate applicable to received deposits denominated in USD ranges from 2.80 to 3.86% p.a. (from 1.75 to 6.50% p.a. as at 31 December 2017).

17. Counterpart of special drawing rights allocated by the IMF

As at 31 December 2018, the Bank recorded a liability to the IMF from the allocation of EUR 413,818 thousand (EUR 404,353 thousand as at 31 December 2017). The liability from the allocation is denominated in XDR. As part of the general allocation and special allocation, the IMF allocated XDR 265 million and XDR 75 million to the Slovak Republic, respectively.

18. Intra-Eurosystem liabilities

This position is the net liability of the NBS from the allocation of euro banknotes within the Eurosystem, which amounted to EUR 884,468 thousand (EUR 219,343 thousand as at 31 December 2017). The position bears interest rate at the rate for the main refinancing operations. As at 31 December 2018, the Bank has no interest expense resulting from the liability from the euro banknote allocation within the Eurosystem due to the interest rate of 0% p.a.

19. Other liabilities

	31 Dec 2018	31 Dec 2017	Change
Off-balance sheet instruments revaluation differences	39,146	11,923	27,223
Accruals and income collected in advance	34,759	16,918	17,841
Sundry	389,330	325,646	63,684
	463,235	354,487	108,748

(in thousands of EUR)

Accruals and income collected in advance

As at 31 December 2018, the bulk of accruals was represented by interest expense from euro-denominated interest rate swaps of EUR 18,578 thousand (EUR 9,969 thousand as at 31 December 2017).

Sundry

	31 Dec 2018	31 Dec 2017	Change
Euro coins in circulation	189,836	175,605	14,231
SKK banknotes in circulation	71,737	72,650	(913)
Deposits - collaterals to derivatives	50,000	5,900	44,100
SKK coins in circulation	23,185	23,186	(1)
Fair value of interest rate swaps - losses	20,403	14,718	5,685
Other	34,169	33,587	582
	389,330	**325,646**	**63,684**

The value of interest rate swaps as at 31 December 2018 represented the cumulative year-end revaluation loss, which is gradually amortised to the profit and loss account under net realised gains from interest rate swaps in accordance with the ECB Guideline (see Note 25).

The purpose of received deposits (collateral to derivatives) is to secure the NBS credit risk in the event of a decrease in the value of swap transactions on the part of the counterparty. The year-on-year increase in deposits is connected with the decrease of the market value of swap transactions on the part of the counterparty.

20. Provisions

	31 Dec 2018	31 Dec 2017	Change
General provisions for financial risks	660,000	630,000	30,000
Provision for losses from monetary policy operations	1,768	756	1,012
Other	13,791	13,093	698
	675,559	**643,849**	**31,710**

In accordance with the Bank Board's decision, the general provision for financial risks was increased by EUR 30,000 thousand as at 31 December 2018 due to the changed methodology and an increase in the volume of the Bank's investment reserves (see Note 25 and section B, Note I).

As a result of the impairment test conducted on securities purchased within the corporate sector purchase programme ("CSPP"), the Governing Council has deemed it appropriate to establish a buffer totalling to EUR 161 million against credit risks in monetary policy operations during 2018. In accordance with Article 32 (4) of the Statute, this buffer is funded by all the national central banks of the Eurosystem in proportion to their subscribed capital key shares in the ECB prevailing in 2018. As a result, the NBS established a provision of EUR 1,768 thousand (see part B, paragraph b and Note 28).

The size of the provision for losses on monetary policy operations created in the amount of EUR 756 thousand in 2017 was calculated taking into account the information regarding the sale of the securities from CSPP portfolio in January 2018. Therefore the loss realised in 2018 was fully covered by usage of the provision.

As at 31 December 2018, the Bank's "Other provisions" represented mainly provisions for payables to employees of EUR 9,566 thousand (EUR 8,501 thousand as at 31 December 2017).

(in thousands of EUR)

21. Revaluation accounts

	31 Dec 2018	31 Dec 2017	Change
Revaluation accounts of gold	508,868	469,055	39,813
Revaluation accounts of securities	18,272	12,799	5,473
Revaluation accounts of derivatives	12,737	8,491	4,246
Revaluation accounts of foreign currency	6,377	10,977	(4,600)
Revaluation accounts of equity shares (BISIP, ETF)	5,768	3,273	2,495
	552,022	**504,595**	**47,427**

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, 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 2018, the closing balance of the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2017). 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 ÚFT with the NBS, ÚFT's general reserves of EUR 3,462 thousand were transferred to the NBS's general reserves.

As at 31 December 2018, the closing balance of the NBS's capital reserves was EUR 882 thousand (EUR 882 thousand as at 31 December 2017).

(in thousands of EUR)

Summary of changes in equity and accumulated losses

	Statutory Fund	Capital Reserves	General Reserves	General Provision for Financial Risks	Revaluation Accounts Gain/(Loss)	Accumulated (Loss) from Previous Years	Profit/(Loss) for the Current Year	Equity
1. Balance as at 31 Dec 2017	**16,041**	**882**	**340,874**	**630,000**	**504,595**	**(4,661,980)**	**127,712**	**(3,041,876)**
2. Transfer of profit for 2017 to accumulated loss from previous years						127,712	(127,712)	
3. Transfer to statutory fund								
4. Transfer to general reserves								
5. Change in the general provision for financial risks				30,000				30,000
6. Change in revaluation accounts of securities					5,473			5,473
7. Change in revaluation accounts of derivatives					4,246			4,246
8. Change in revaluation accounts of gold					39,813			39,813
9. Change in revaluation accounts of foreign currencies					(4,600)			(4,600)
10. Change in revaluation accounts of equity shares in BISIP and ETF funds					2,495			2,495
11. Profit for the current reporting period							172,336	172,336
12. Change for the reporting period				30,000	47,427	127,712	44,624	249,763
13. Balance as at 31 Dec 2018	**16,041**	**882**	**340,874**	**660,000**	**552,022**	**(4,534,268)**	**172,336**	**(2,792,113)**

23. Off-balance sheet instruments

	31 Dec 2018		**31 Dec 2017**		**Change**	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Foreign exchange swaps in EUR	4,328,593	535,703	2,093,482	99,468	2,235,111	436,235
Foreign exchange swaps in USD	365,008	144,555	96,781	106,729	268,227	37,826
Foreign exchange swaps in CNY	0	16,698	0	15,504	0	1,194
Foreign exchange swaps in GBP	167,119	438,487	1,364	12,398	165,756	426,088
Foreign exchange swaps in JPY	0	13,190	0	10,814	0	2,376
Foreign exchange swaps in CZK	0	3,665,837	0	1,958,097	0	1,707,741
Foreign exchange swaps in CHF	0	85,386	0	0	0	85,386
	4,860,720	**4,899,855**	**2,191,626**	**2,203,010**	**2,669,094**	**2,696,845**

	31 Dec 2018		**31 Dec 2017**		**Change**	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Foreign exchange forwards in EUR	2,266	0	0	0	2,266	0
Foreign exchange forwards in CNY	0	2,277	0	0	0	2,277
	2,266	**2,277**	**0**	**0**	**2,266**	**2,277**

	31 Dec 2018		**31 Dec 2017**		**Change**	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Interest rate futures in EUR	0	296,600		50,000	0	246,600
Interest rate futures in GBP	60,367	348,787	169,066	312,208	(108,699)	36,579
Interest rate futures in USD	0	17,467		10,006	0	7,461
Interest rate futures in CHF	0	63,005		0	0	63,005
	60,367	**725,858**	**169,066**	**372,213**	**(108,699)**	**353,645**

(in thousands of EUR)

24. Net interest income

	31 Dec 2018	31 Dec 2017	Change
Investments in EUR:	**90,661**	**23,179**	**67,482**
net income from current accounts and term deposits	92,610	12,716	79,894
net income from securities	2,533	9,989	(7,456)
net expense from derivatives	(13,784)	(10,579)	(3,205)
net income from repo transactions	9,214	10,952	(1,738)
other	88	101	(13)
Investments in foreign currency:	**21,888**	**8,380**	**13,508**
net income from securities	56,160	26,582	29,578
net income/(expense) from derivatives	5,377	2,236	3,141
net expense from current accounts and term deposits	(4,725)	(3,220)	(1,505)
net expense from repo transactions	(36,847)	(18,026)	(18,821)
compensation from MF SR	1,923	808	1,115
Monetary policy operations:	**93,630**	**79,355**	**14,275**
net income from securities	93,739	79,349	14,390
net expense from deposits and loans	(4,134)	(3,729)	(405)
net income from MRS	4,025	3,735	290
	206,179	**110,914**	**95,265**

The increase in “Net income from current accounts and term deposits” denominated in EUR is mainly related to remuneration of clients’ term accounts (see Note 14).

The increase in net interest income from securities denominated in foreign currency is due to purchases of securities (see Notes 2 and 3).

The increase in net interest income from monetary policy operations is due to purchases of securities held for monetary policy purposes (see Note 7).

As at 31 December 2018, the Bank records no interest on remuneration of the claim from the transfer of foreign reserves, remuneration of euro-banknotes and TARGET2 remuneration due to an interest rate of 0% p.a. (see Notes 8 and 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 2018:

(in thousands of EUR)

	Balance Sheet Item	31 Dec 2018	31 Dec 2017	Change
Investments in EUR				
Gross interest income, of which:		**98,084**	**18,865**	**79,219**
Current accounts and term deposits	L6	93,925	13,936	79,989
Repo transactions	L3, L6	4,159	4,929	(770)
Gross interest expense, of which:		**(41)**	**(13)**	**(28)**
Current accounts	A6	(41)	(13)	(28)
Investments in foreign currency:				
Gross interest expense, of which:		**(13)**	**(58)**	**45**
Current accounts	A2, A3	(13)	(58)	45
Monetary policy operations				
Gross interest income, of which:		**4,211**	**3,928**	**283**
MRS	L2	4,025	3,735	290
Deposit facility	L2	186	193	(7)
Gross interest expense, of which:		**(4,321)**	**(3,940)**	**(381)**
Longer-term refinancing operations	A5	(4,321)	(3,940)	(381)

Development of interest rates announced by the ECB:

With Effect fom	Marginal Lending Facility	Main Refinancing Operations	Deposit Facility
16 March 2016	0.25% p.a	0.00% p.a	-0.40% p.a

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

	31 Dec 2018	31 Dec 2017	Change
Realised gains from financial operations	**16,328**	**32,513**	**(16,185)**
Net gains from interest rate swaps	11,577	12,851	(1,274)
Net gains from sale of securities	2,828	18,720	(15,892)
Net foreign exchange gains	1,959	942	1,017
Net loss from equity shares upon a company's liquidation	(36)	0	(36)
Write-downs on financial assets and positions	**(38,314)**	**(12,611)**	**(25,703)**
Losses from securities revaluation	(18,939)	(4,460)	(14,479)
Losses from interest rate swaps revaluation	(16,927)	(1,158)	(15,769)
Losses from foreign currency revaluation	(2,448)	(6,993)	4,545
Transfer to/from provisions for foreign exchange rate, interest rate, credit and gold price risks	**(30,000)**	**0**	(30,000)
General provision for financial risks	(30,000)	0	(30,000)
	(51,986)	**19,902**	**(71,888)**

(in thousands of EUR)

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

	31 Dec 2018	31 Dec 2017	Change
Fees and commissions from investment operations:	**85**	**117**	**(32)**
Net profit from operations with clients	215	216	(1)
Net profit from operations with securities	9	10	(1)
Net loss from operations with banks	(88)	(71)	(17)
Net loss from interest rate futures	(24)	(5)	(19)
Other	(27)	(33)	6
Fees and commissions from monetary policy operations:	**1,489**	**963**	**526**
Net profit from operations with securities	2,065	1,527	538
Net loss from operations with banks	(576)	(564)	(12)
Net profit from exchange of euro coins	**67**	**70**	**(3)**
	1,641	**1,150**	**491**

27. Income from equity shares and participating interests

	31 Dec 2018	31 Dec 2017	Change
Interim distribution of the ECB's profit of the current year	13,074	10,840	2,234
Share in the ECB's profit of the previous year	3,150	2,490	660
Dividends from BIS shares	812	1,051	(239)
Dividends from ETF funds	567	0	567
	17,603	**14,381**	**3,222**

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 currency is the euro, as amended, represents the net annual income from the assets of the national central bank, 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 in proportion to NBS's share on the paid-up capital of the ECB after the end of each financial year (1.0974%).

Monetary income pooled by the NBS for 2018 into the common pool of monetary income of the Eurosystem amounted to EUR 37,154 thousand. The monetary income equivalent to the 1.0974% share of the NBS amounted to EUR 133,959 thousand. The difference of EUR 96,805 thousand (EUR 78,928 thousand as at 31 December 2017) represents the net result of the pooling of monetary income. NBS income increased by EUR 3,865 thousand as a result of a revision of the Eurosystem monetary income for 2016 and 2017 (income decreased by EUR 33 thousand as at 31 December 2017 as a result of a revision for 2016).

This item also contains the Bank's share in the provision against losses in monetary policy operations of EUR 1,768 thousand which was established in relation to securities held in the CSPP portfolio, as well as the dissolving of the provision established in 2017 against losses in monetary policy operations (EUR 756 thousand as at 31 December 2017) due to the sale of bonds in January 2018 (see Note 20).

(in thousands of EUR)

29. Other income and other expenses

As at 31 December 2018, the most significant portion of the Bank's "Other income" was represented by income from fees and contributions from financial market entities of EUR 9,554 thousand (EUR 8,186 thousand as at 31 December 2017), earned fees from participation in settlement systems of EUR 3,109 thousand (EUR 3,011 thousand as at 31 December 2017), and income from sale of commemorative and collector coins of EUR 1,715 thousand (EUR 1,473 thousand as at 31 December 2017).

As at 31 December 2018, the Bank's "Other expenses" mainly represented costs of the minting of general circulation and collector coins, including costs of related services, of EUR 3,033 thousand (EUR 4,359 thousand as at 31 December 2017).

30. Staff costs

	31 Dec 2018	31 Dec 2017	Change
Wages and salaries	(31,293)	(29,678)	1,615
Social security costs	(11,346)	(10,875)	471
Other employee costs	(4,817)	(5,020)	(203)
	(47,456)	**(45,573)**	**1,883**

As at 31 December 2018, the average FTE number of employees was 1,097 (1,094 as at 31 December 2017), of who 104 were managers (104 as at 31 December 2017).

Wages and employee benefits of the members of the Bank Board for 2018 amounted to EUR 633 thousand (EUR 617 thousand in 2017). As at 31 December 2018 and 2017, the Bank recorded no outstanding loans to the members of the Bank Board.

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

31. Administrative expenses

As at 31 December 2018, this item mainly included costs for technical support and IS maintenance, repairs and maintenance, energy consumption and telecommunications costs totalling EUR 10,373 thousand (EUR 9,707 thousand as at 31 December 2017).

Costs for audit and verification of the financial statements by the auditor amounted to EUR 89 thousand as at 31 December 2018 (EUR 86 thousand as at 31 December 2017). As at 31 December 2018, 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 fixed assets

	31 Dec 2018	31 Dec 2017	Change
Depreciation of tangible fixed assets	(6,822)	(6,713)	109
Depreciation of intangible fixed assets	(2,200)	(2,045)	155
	(9,022)	**(8,758)**	**264**

33. Banknote production services

As at 31 December 2018, the costs of printing euro banknotes were EUR 4,911 thousand (EUR 93 thousand as at 31 December 2017).

34. Income tax and other charges on income

According to Article 43 of Act No. 595/2003 Coll. on Income Tax, as amended, the NBS is a payer of tax on income (proceeds) from bonds issued in the jurisdiction of the Slovak Republic. In 2018, the NBS paid a withholding tax of EUR 28,884 thousand (EUR 28,460 thousand at 31 December 2017). The increase by EUR 424 thousand compared to the preceding period was due to an increase in securities for monetary policy purposes (see Note 7).

35. Profit for the year

The Bank's result of operations as at 31 December 2018 was a profit of EUR 172,336 thousand (profit of EUR 127,712 thousand as at 31 December 2017). The bulk of the profit was generated by net interest income (see Note 24).

(in thousands of EUR)

D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 20 February 2019, the Governing Council of the ECB decided to distribute the ECB's net profit for 2018 to individual central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 4,215 thousand from the profit distribution is recognised in the 2019 reporting period.

In accordance with Article 29 (3) of the Statute the weightings assigned to national central banks of the ESCB shall be adjusted every five years. The most recent such adjustment took place on 1 January 2019, when the NBS capital key was adjusted to 0.8004% (0.7725% until 31 December 2018), the NBS Eurosystem key to 1.1497% (1.097% until 31 December 2018) and the NBS banknote allocation key to 1.0575% (1.0095% until 31 December 2018).

As a result of the anticipated exit of the United Kingdom of Great Britain and Northern Ireland from the European Union in 2019 and the subsequent withdrawal of the Bank of England from the ESCB, the readjustment of the shares of the ESCB's national central banks in the ECB's share capital is expected in 2019.

No significant events occurred subsequent to 31 December 2018 that would require any further adjustments to the 2018 financial statements.

Bratislava, 5 March 2019

doc. Ing. Jozef Makúch, PhD.	Ing. Miroslav Uhrin	Ing. Jana Langerová
Governor	Executive Director Division for Financial Management, Banking Transactions and Information Technology	Director Financial Management Department

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Národná banka Slovenska

SUPPLEMENT TO THE INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT
Pursuant to Article 27 (6) of Act No. 423/2015 Coll.

To the Bank Board of Národná banka Slovenska:

I. We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS") as at 31 December 2018 presented on pages 70 - 99 of the accompanying annual report of the Bank. We issued an Independent Auditor's Report on the Audit of Financial Statements dated 5 March 2019 in the wording as follows:

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Národná banka Slovenska (hereinafter the "Bank" or "NBS"), which comprise the balance sheet as at 31 December 2018, the income statement for the year then ended, and notes, which include a summary of significant accounting policies and accounting methods.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, 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 (hereinafter the "ECB Guideline") and the Act on Accounting No. 431/2002 Coll. as amended (hereinafter the "Act on Accounting").

Basis for Opinion

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

II. Report on Other Legal and Regulatory Requirements

Report on Information Disclosed in the Annual Report – Supplement to the Independent Auditor's Report

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

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

We evaluated whether the Bank's annual report includes information whose disclosure is required by the Act on Accounting and Act on NBS.

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

- Information disclosed in the annual report prepared for 2018 is consistent with the financial statements for the relevant year; and
- The annual report includes information pursuant to the Act on Accounting and Act on NBS.

Furthermore, based on our understanding of the Bank and its position, 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 after the date of issuance of the report on the audit of financial statements. There are no findings that should be reported in this regard.

Bratislava, 30 April 2019

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

On behalf of
Deloitte Audit s.r.o.
Licence SKAu No. 014

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Abbreviations

AIFMD	Alternative Investment Fund Managers Directive
BI	business intelligence
BIRD	Bank's Integrated Reporting Dictionary
BIS	Bank for International Settlements
Brexit	The United Kingdom's withdrawal from the European Union
BSSE	Bratislava Stock Exchange / Burza cenných papierov v Bratislave, a.s.
CDCP	Centrálny depozitár cenných papierov SR, a.s. (a central securities depository)
CERI	a database of regulated information and other data compiled in accordance with the Stock Exchange Act and the Securities Act
ČNB	Česká národní banka
CSDB	Centralised Securities Database
DTI	debt-to-income (ratio)
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESCB	European System of Central Banks
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	European Union
FMS Unit	Financial Market Supervision Unit of Národná banka Slovenska
FRIBS	Framework Regulation Integrating Business Statistics
FSAP	Financial Sector Assessment Program
GDP	gross domestic product
GFSR	Global Financial Stability Report
IFRS	International Financial Reporting Standard
IS SCP	information system Statistics Collection Portal
ITS	implementing technical standard
MCR	minimum capital requirement
MPSVaR SR	Ministry of Labour, Social Affairs and Family of the Slovak Republic
NBS	Národná banka Slovenska
NCDCP	Národný centrálny depozitár cenných papierov, a.s. (a central securities depository)
O-SII	other systemically important institution
PRIIP	packed retail and insurance-based investment product
RegFaP	the register of financial agents, financial advisers, financial intermediaries from other Member States operating in the insurance or reinsurance sector, and financial intermediaries from other Member States engaged in the provision of housing loans, pursuant to the Act on financial intermediation and financial advisory services
ROA	return on assets
ROE	return on equity
RTS	regulatory technical standard
SBA	Slovak Banking Association
SCR	solvency capital requirement
second pillar	the old-age pension scheme – operated by pension fund management companies (PFMCs)
SICAV	investment companies with variable share capital
SR	Slovak Republic

SSM	Single Supervisory Mechanism
third pillar	the supplementary pension scheme – operated by supplementary pension management companies (SPMCs)
WEO	World Economic Outlook

Short titles and abbreviations of legal acts

Consumer Loan Decree	Decree No 10/2017 of Národná banka Slovenska of 14 November 2017 laying down detailed provisions on the assessment of borrowers' ability to repay consumer loans
Housing Loan Decree	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
Alternative Dispute Resolution Act	Act No 391/2015 on alternative dispute resolution for consumer disputes (and amending certain laws), as amended
AML/CFT Act	Act No 297/2008 on the prevention of money laundering and terrorist financing (and amending certain laws)
Arbitration Act	Act No 244/2002 on arbitration
Banking Act	Act No 483/2001 on banks (and amending certain laws), as amended
Collective Investment Act	Act No 203/2011 on collective investment, as amended
Consumer Arbitration Act	Act No 335/2015 on consumer arbitration
Consumer Credit Act	Act No 129/2010 on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended
Financial Intermediation Act	Act No 186/2009 on financial intermediation and financial advisory services (and amending certain laws), as amended
Financial Market Supervision Act	Act No 747/2004 on financial market supervision (and amending certain laws), as amended
Foreign Exchange Act	Act No 202/1995 – the Foreign Exchange Act (and amending Act No 372/1990 on non-indictable offences, as amended), as amended
Insurance Act	Act No 39/2015 on insurance (and amending certain laws), as amended
Payment Services Act	Act No 492/2009 on payment services (and amending certain laws), as amended
Old-Age Pension Scheme Act	Act No 43/2004 on the old-age pension scheme (and amending certain laws), as amended
Resolution in the Financial Market Act	Act No 371/2014 on resolution in the financial market (and amending certain laws)
Securities Act	Act No 566/2001 on securities and investment services (and amending certain laws), as amended
Supplementary Pension Scheme Act	Act No 650/2004 on the supplementary pension scheme (and amending certain laws), as amended
Delegated Regulation No 529/2014	Commission Delegated Regulation (EU) No 529/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach
AML Directive	Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC

CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC
CRR	Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012
CSD Regulation	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012
EMIR	Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories
Insurance Distribution Directive	Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution
Insurance Mediation Directive	Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation
IORP II Directive	Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision
MiFID	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU
MiFIR	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012
PRIIP Regulation	Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products
Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC
PSD II	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC

Solvency II Directive	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) (recast)
ESMA Guidelines on sound remuneration policies under the AIFMD	ESMA Guidelines of 3 July 2013 on sound remuneration policies under the AIFMD (ESMA/2013/232)