



2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION³

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

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

The completion of the first pillar of the Banking Union in 2014 was followed by the implementation of its second pillar, i.e. the Single Resolution Mechanism (SRM). A legislative framework for the SRM was established in 2014. The second half of August 2014 saw the coming into force of a regulation stipulating uniform rules and procedures for the recovery and resolution of credit institutions and investment firms within the scope of the SRM and the establishment of a Single Resolution Fund (SRF) for bank resolution within the euro area, after an intergovernmental agreement was signed in May 2014 on the transfer and mutualisation of contributions to the SRF. These legal documents, along with the Bank Recovery and Resolution Directive (BRRD)⁴ represent the basic legislative pillars of the SRM. The year under review also witnessed the preparatory phase of SRM implementation.

To accomplish the key tasks of bank recovery and resolution in Slovakia, a national resolution

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

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

2.1 FINANCIAL STABILITY

In 2014, NBS was charged with another important task. The amendment to the Banking Act (effective since 1 August 2014) has implemented macroprudential policy instruments into the Slovak legislation (consisting mainly of the setting of capital buffers and risk weights for selected exposures), the use of which will be decided by the Bank Board of NBS. These decisions will be taken with a view to strengthening the resilience of the financial system and re-

³ A detailed report on the activities of the Financial Market Supervision Unit of NBS for 2014 is available on the NBS website at <http://www.nbs.sk/sk/dohlad-nad-financnym-trhom/analyzy-spravy-a-ubluka-cie-v-oblasti-financneho-trhu/sprava-o-cinnosti-dohladu-nad-financnym-trhom>

⁴ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.



stricting the increase in systemic risks in order to help maintaining the stability of the financial system as a whole. The first decision regarding the use of macroprudential policy instruments was made at the October 2014 meeting of the Bank Board.

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

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

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

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

2.2 SUPERVISION OF THE FINANCIAL MARKET

THE BANKING SECTOR

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

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

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

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

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

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

⁵ 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.

⁶ A global regulatory framework for more resilient banks and banking system; http://www.bis.org/publ/bcb189_dec2010.pdf



these proceedings was completed in the period under review with the issuance of a final decision to impose a penalty.

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

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

In 2014, a total of nine thematic on-site inspections were commenced in banks and branches of foreign banks, five of which were formally completed in the same year. Within the scope of these inspections, the FMS Unit examined four applications for the use of, or for a change in, an internal risk measurement model for capital requirement calculation for credit risk or for operational risk. One of the top priorities of on-site inspections was to assess the risk management system's effectiveness, mainly for credit risk, market risk, operational risk, and liquidity risk. In addition to this priority, on-site inspections also focused on the provision of investment and payment services, the evaluation of banks' internal systems of administration and management, and of their protection against money laundering and terrorist financing.

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

Before assuming responsibility for prudential supervision, the ECB, working closely with the national supervisory authorities, carried out a comprehensive assessment of the three largest banks, focusing on the quality of their assets and capital adequacy, with a view to strengthening the balance sheets of these banks through the

imposition of corrective measures designed to eliminate the shortcomings revealed, increasing the banks' transparency by improving the quality of available information about their condition, and strengthening the confidence of all parties concerned by assuring them that, after the adoption of corrective measures, the banks will have sufficient capital adequacy. The assessment was preceded by a preparatory phase, i.e. risk assessment.

THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

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

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

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

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

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

In 2014, one comprehensive on-site inspection of a payment institution (started in 2013) was completed and three comprehensive on-site inspections were commenced and completed, with the focus being on verifying and evaluating the provision of payment services, compliance with the conditions stipulated for the business of payment institutions, the system of internal control and internal audit, the risk management system and selected risks, and the prevention of



money laundering and terrorist financing. Another on-site inspection of a payment institution was commenced in 2014 but was not formally completed in the same year.

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

THE FOREIGN EXCHANGE SECTOR

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

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

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

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

THE INSURANCE SECTOR

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

The FMS Unit conducted 34 authorisation proceedings in 2014 (two were instituted in 2013)

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

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

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

In connection with the issuance of recommendations No 4/2013, 5/2013, 6/2013 and 7/2013⁷, transposing the guidelines of the European Insurance and Occupational Authority (EIOPA), the FMS Unit of NBS exercised off-site supervision over the course of 2014 with the aim of verifying the implementation of these recommendations in all insurance companies in the Slovak insurance market.

In compliance with the Solvency II guideline, NBS continued to cooperate in 2014 with the

⁷ NBS Recommendation No 4/2013 of 19 December 2013 on the pre-application process for internal models; NBS Recommendation No 5/2013 of 19 December 2013 on the administration and management system; NBS Recommendation No 6/2013 of 19 December 2013 on future-oriented own business risk assessment (based on the ORSA principles); and NBS Recommendation No 7/2013 of 19 December 2013 on the submission of information to Národná banka Slovenska.



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

THE PENSION SECTOR

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

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

The year under review saw the completion of six thematic on-site inspections in pension asset management companies and four thematic on-site inspections in supplementary pension management companies. These inspections were carried out to verify compliance with the rules of professional care during the management of accounts for unidentified payments, the identification and refunding of payments, and the adoption of measures in connection with the coming into force of the EMIR⁸ regulation. In addition, six thematic on-site inspections were instituted in pension asset management companies to verify the preparedness of these companies for the payment of old-age pensions in accordance with the *annuity amendment*.

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

THE FINANCIAL INTERMEDIATION AND FINANCIAL COUNSELLING SECTOR

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

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

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

⁸ 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.



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

THE SECURITIES MARKET SECTOR

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

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

Regarding the public offering of securities, 46 securities prospectuses were approved in 2014 under Article 125(2) of the Securities Act, eight supplements to securities prospectuses, and one separate registration document. Over the course of the year, 76 notification were received in regard to the approval of securities prospectuses or supplements to such prospectuses, from the supervisory authorities of other EU Member States, and three notifications were sent in regard to the approval of securities prospectuses or supplements to such prospectuses, to the supervisory authorities of other EU Member States. During 2014, six investment certificate prospectuses were approved; these prospectuses, however, are not classified as securities prospectuses under the provisions of Directive 2003/71/EC.

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

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

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

In 2014, there were seven asset management companies operating in the Slovak financial market. Asset management companies that managed special mutual funds were required to apply for authorisation for the management of domestic or foreign alternative investment funds by 22 July 2014. By that date, all five asset management companies to which this requirement applied had submitted an application and three of them were authorised to manage domestic or foreign alternative investment funds. Foreign entities authorised to operate as foreign special collective investment undertakings were required to prove to NBS that they had met the conditions stipulated by the law on collective investment, by 22 July 2014. The meeting of these conditions had been documented by that date by one foreign asset management company.



Within the scope of its authorising activity in 2014, the FMS Unit of NBS granted seven authorisations for the establishment or management of mutual funds, including one authorisation for the management of a special mutual fund of qualified investors, and issued 41 decisions concerning the granting of prior approvals, including 27 prior approvals for changes in the statutes of mutual funds, six prior approvals for the transfer of mutual funds, six prior approvals for the appointment of board of directors or supervisory board members, one prior approval for the merger of mutual funds, and one prior approval for the return of an authorisation for the establishment of a mutual fund.

In the area of collective investment, 39 notifications were received in 2014 from European funds intending to offer publicly their securities in Slovakia. In addition, 41 notifications were received from foreign asset management companies intending to provide financial services in Slovakia on the basis of the principle of free provision of services through local or foreign alternative investment funds, while six of these notifications concerned the managers of qualified risk capital funds in accordance with the EuVECA⁹ regulation.

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

In the securities market sector, off-site supervision in 2014 focused on seven domestic asset management companies (managing a total of 61 standard mutual funds and 20 alternative investment funds) and five banking institutions conducting depository activities under the Collective Investment Act. At the same time, six standard mutual funds managed by a foreign asset management company were under supervision. In addition, 14 domestic investment firms and 5 foreign investment firms operating in Slovakia through their branches according to the MiFID¹⁰ guideline were under supervision in 2014. Supervision also covered BCPB, a.s., CDCP SR, a.s., and compliance with the reporting requirement by 78 issuers of securities admitted to trading on a regulated market of BCPB, a.s.

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

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

2.3 FINANCIAL MARKET REGULATION

THE BANKING SECTOR

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

The existing and new rules of bank regulation were divided, in a larger part, into a capital requirements regulation (CRR) with a direct binding force in the legal systems of national regulators, and, in a smaller part, into a capital requirements directive (CRD IV¹¹). The CRR and CRD IV legislative packages were promulgated on 26 June 2013. The CRR regulation became effective on 1 January 2014, and the deadline for the transposition of CRD IV directive was 31 December 2013.

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

⁹ Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds.

¹⁰ Directive 2004/39/EC 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.

¹¹ 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.



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

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

In response to the new package of EU regulations, NBS drafted and issued numerous decrees in 2014. The most important decree concerned national elections to institutions in accordance with the CRR regulation. This decree was designed to specify limits, methods, levels, ratios, percentages, proportions, and rules corresponding to the authorisation of a Member State or supervisory authority to adopt rules different from those laid down in the CRR regulation or CRD IV directive. In harmonising the submission of statements by banks with the EU legislation, a key role in 2014 was played by the drafting and adoption of an NBS decree on the submission of statements for data collection purposes in accordance with the technical standards implementing the CRR / CRD IV legislative package. The purpose of this decree is to specify the manner in which statements and reports are to be submitted under these EC standards. The end of the year saw the coming into force of an amendment to this decree pertaining to the liquidity of banks and branches of foreign banks. The decree was updated on the basis of the results of analyses carried out by the FMS Unit.

THE PAYMENT SERVICES AND ELECTRONIC MONEY ISSUANCE SECTOR

The transformation of the payments system to meet the SEPA standards was completed in 2014. Under the EU legislation, this transformation was originally to be completed by 7 February 2014,

but this deadline was postponed by the European Commission to 1 August 2014. Since that date, the SEPA has been in operation in all euro area countries.

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

THE FOREIGN EXCHANGE SECTOR

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

THE INSURANCE SECTOR

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

Another NBS decree issued in regard to the insurance sector in 2014 was an amendment to the decree on the submission of statements, overviews, and reports by insurance companies and branches of foreign insurance companies in connection with Act No 183/2014 Coll. amending the Old-Age Pension Scheme Act and other related laws. Section V of this Act contains provisions amending the Insurance Act by imposing new obligations on insurance undertakings intending to provide insurance products in connection with the payment of old-age pensions. Moreover, the Insurance Act has been extended (see Part A of Annex 1) to include a new insurance line (A7), i.e. 'assurance related to the length of human life, this being governed by legal regulations in the area of social insurance'. Information on the activities of the A7 insurance line has been incorporated into the decree mentioned above.



At the end of 2014, the FMS Unit issued a recommendation on the use of the LEI (legal entity identifier) code for insurers, reinsurers, branches of foreign insurers, and branches of foreign reinsurers. This recommendation is a transposition of the EIOPA guideline on the use of the LEI code. The LEI code will be used in communication with authorities that require the use of LEI codes, including reports submitted to NBS or EIOPA.

THE PENSION SECTOR

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

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

the amended Supplementary Pension Scheme Act stipulates the basic principles of investment based on 'good practices', which had to be specified in secondary legislation.

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

THE FINANCIAL INTERMEDIATION AND FINANCIAL COUNSELLING SECTOR

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

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

THE SECURITIES MARKET SECTOR

In 2014, NBS continued cooperating with the Ministry of Finance of the SR in the preparation of the *Concept of Capital Market Development*, which was approved by the Government in Decision No 191/2014. The basic strategic objective of the Concept is to recover the functionality of the Slovak capital market, in particular to increase the financing of the real economy from the long-term savings of the population. The Concept includes measures for addressing the following range of problems: market liquidity, market infrastructure, the system's cost-effectiveness, financial education and training, and customer protection. In the context of these measures, NBS cooperated during 2014 with the competent ministries in the preparation of an amendment to the Securities Act, with the aim of improving the legal framework for the issuance of investment certificates and simplifying transi-



tion to the provision of central depository services on the principle of full membership; in the preparation of an amendment to the Collective Investment Act with the aim of enabling the use of new forms of collective investment and related activities, mainly by introducing open-ended collective investment funds (SICAV); and in the preparation of draft legislation for the uniform management of pension funds, supplementary pension funds, and collective investment funds.

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

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

In the preparation of the MiFID II¹² and MAD II¹³ directives and MiFIR¹⁴ and MAR¹⁵ regulations, which were promulgated in the Official Journal of the EU on 12 June 2014, NBS cooperated closely with the Ministry of Finance of the SR. In 2015, the Ministry of Finance will again expect assistance from NBS in the transposition of the MiFID II directive into the Slovak legal system.

2.4 FINANCIAL CONSUMER PROTECTION

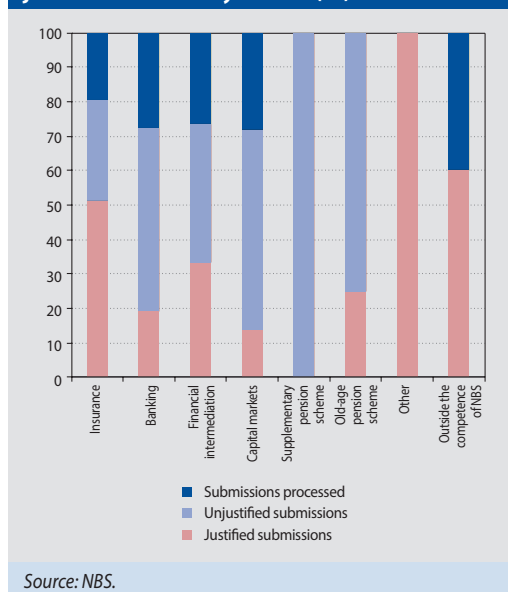
The *Concept of Financial Consumer Protection* approved by the Government of the SR was implemented in 2014, through the preparation of an amendment to the Financial Market Supervision Act, authorising NBS to act as a competent authority in charge of financial consumer protection (as from 1 January 2015). In this connection, NBS established a new department with effect from 1 September 2014, the Financial Consumer Protection Department, comprising three sections: the Financial Consumer Complaints Section (the former Financial Consumer Protection Section), the Financial Consumer Protection Supervision Section, and the First-Instance Proceedings and

Methodology Section. This indicates that, starting from 2015, NBS will be authorised to verify whether entities subject to supervision meet their obligations arising from the legal regulations pertaining to consumer protection.

The number of submissions delivered by financial consumers to NBS continued to increase in 2014. During the year, NBS received a total of 1,474 submissions from financial consumers. Among the financial market sectors, most submissions concerned the insurance sector (829 submissions, or 56% of all submissions). The insurance sector was followed by the banking sector with 450 submissions delivered (31%). In other sectors, the number of submissions as a percentage of all submissions ranged from 0.3% to 5%. In terms of the justification of submissions, most submissions concerned the insurance sector (41%). A more detailed overview of submissions by justification is shown in Chart 23.

In the insurance sector, the submissions received in 2014, as in the previous years, concerned mostly motor third-party liability insurance (almost 21%), while almost one third of this figure was represented by claims for compensation for damaged windscreens on motor vehicles. Another large group was, as in the previous year, formed by submissions concerning life-insurance products (16%). The complaints submitted in this area have confirmed that financial consum-

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



12 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.

13 Directive 2014/57/EU of the European Parliament and of the Council of 16 April 2014 on criminal sanctions for market abuse (market abuse directive).

14 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.

15 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.



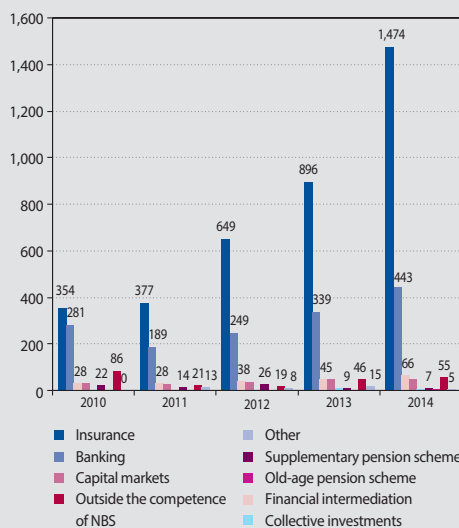
ers perceive life insurance as a form of saving but they do not consider it a long-term product.

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

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

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

Chart 24 Overview of the number of submissions by financial market sector



Source: NBS.

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

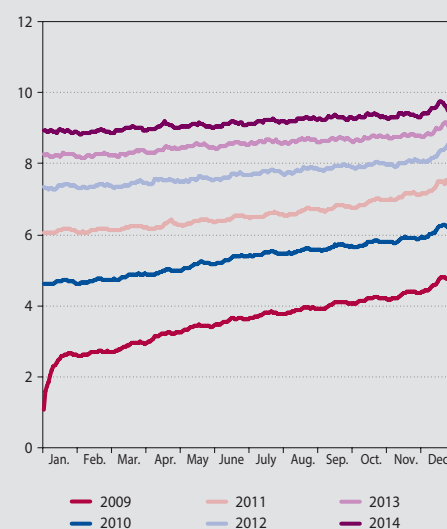
3 ISSUING ACTIVITY AND CURRENCY CIRCULATION

3.1 CUMULATIVE NET ISSUANCE

The cumulative net issuance (CNI)¹⁶ of euro banknotes and coins in Slovakia had a total value of €9.5 billion as at 31 December 2014, with euro banknotes accounting for €9.4 billion of that amount. The annual growth rate of the CNI was lower in 2014 than in 2013, at 6.6% (or €589 million)¹⁷. The value of the item *currency in circulation*, corresponding to Národná banka Slovenska's allocated share in the Eurosystem's production of euro banknotes (Banknote Allocation Key), amounted to around €10.3 billion¹⁸.

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

Chart 25 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

16 Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins that NBS itself has put into and withdrawn from circulation. The cumulative net issuance as at 31 December 2014 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 2014.

17 The CNI increased by 7.5% in 2013, 12.7% in 2012, 21.6% in 2011 and 30.8% in 2010.

18 The value of currency in circulation throughout the euro area as at 31 December 2014 was €1,016.5 billion, and the share of that currency issued in Slovakia according to the banknote allocation key was 1.0155%, or around €10.3 billion.