



1 MONETARY POLICY IMPLEMENTATION AND INVESTMENT PORTFOLIO MANAGEMENT

1.1 MINIMUM RESERVE REQUIREMENTS

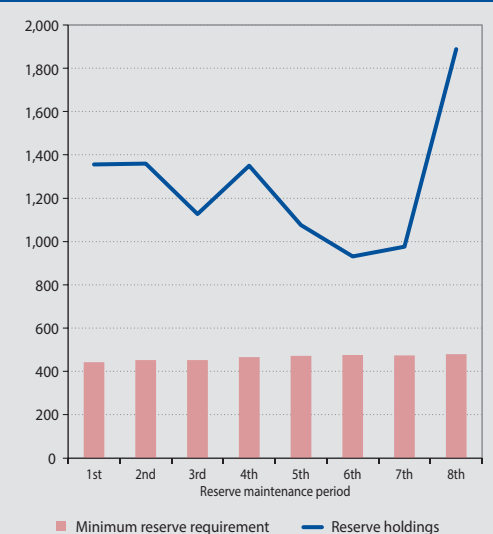
Under Eurosystem rules, all euro area credit institutions are required to hold a certain amount of funds as minimum reserves in their current accounts at their national central bank (NCB). Institutions currently have to hold a minimum of 1% of the sum of eligible balance sheet items that constitute the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

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

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

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

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



Source: NBS.

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

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

1.2 ELIGIBLE ASSETS

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

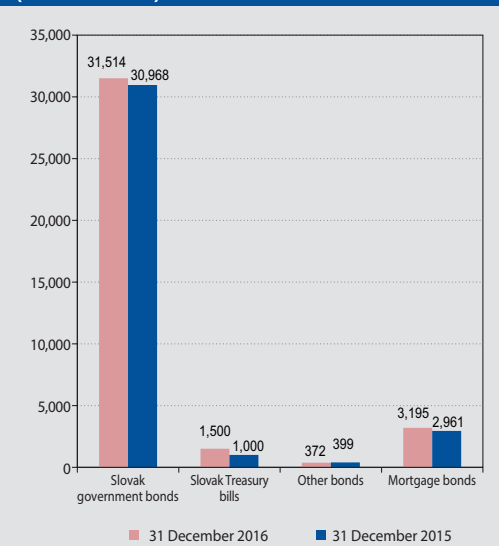


to a single asset. Other modifications were also made to the eligibility criteria, risk control measures and usage rules for certain types of asset, in response to current developments in the implementation of Eurosystem monetary policy.

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

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

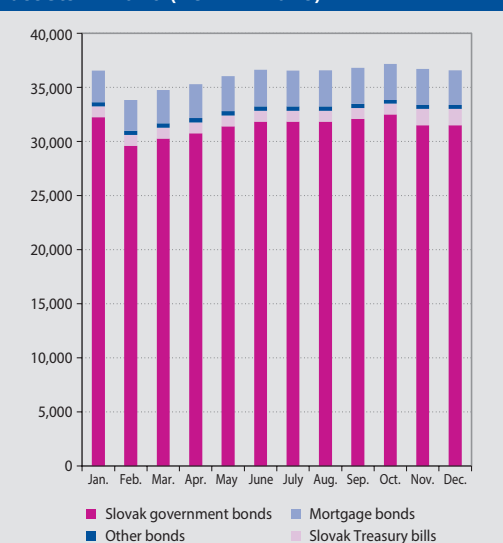
Chart 14 Composition of Slovak eligible assets on 31 December 2015 and 31 December 2016 (EUR millions)



Source: NBS.

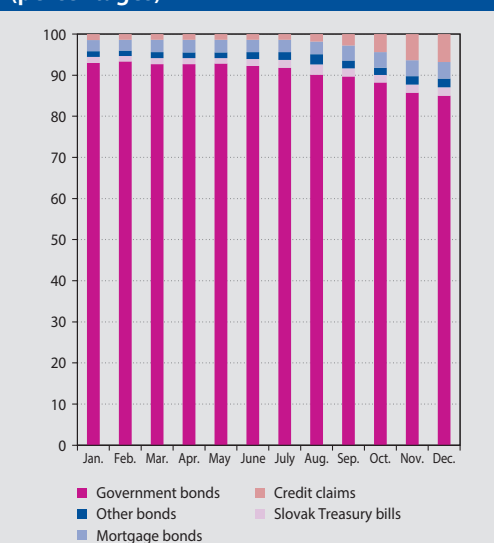
2015 to almost 7% at the end of 2016. Collateral issued in the domestic market accounted for more than 93% of the total collateral, a similar share to that recorded in 2015. Slovak counterparties used a collateral pool to manage their collateral.

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



Source: NBS.

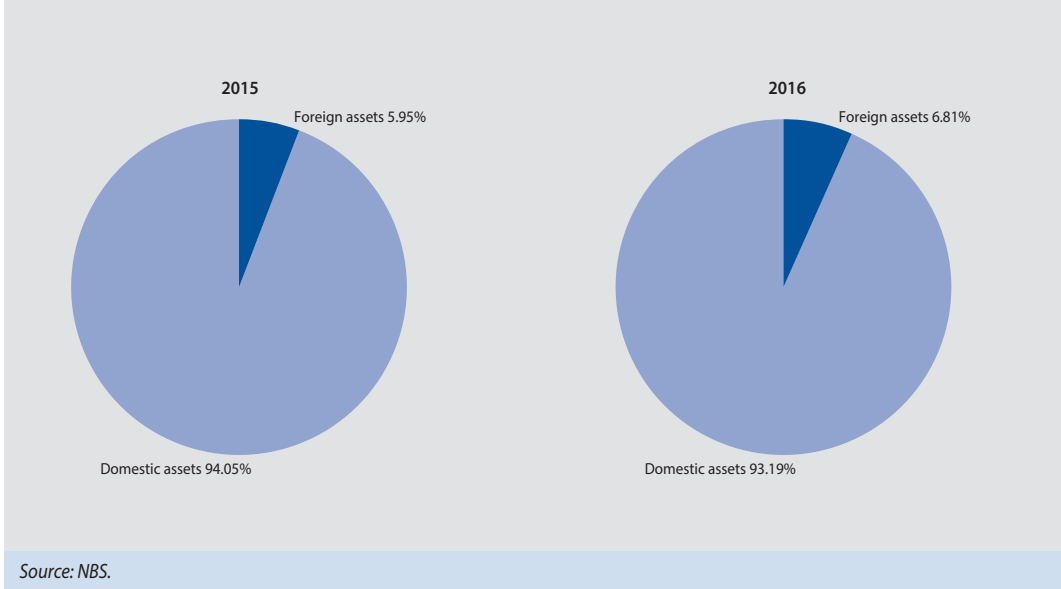
Chart 15 Use of eligible assets in 2016 (percentages)



Source: NBS.



Chart 16 Use of domestic and foreign eligible assets



1.3 INVESTMENT PORTFOLIO MANAGEMENT

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

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

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

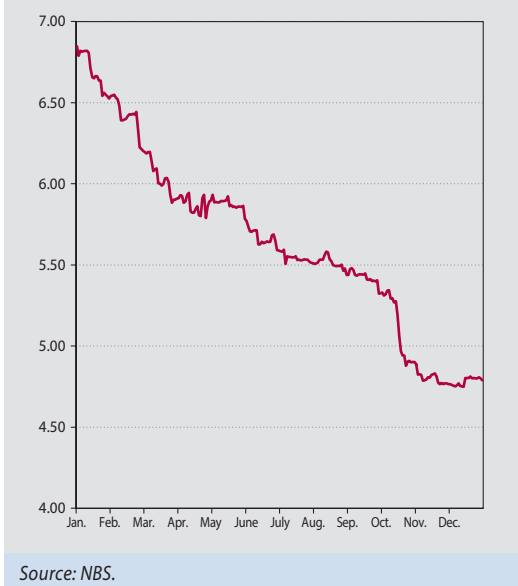
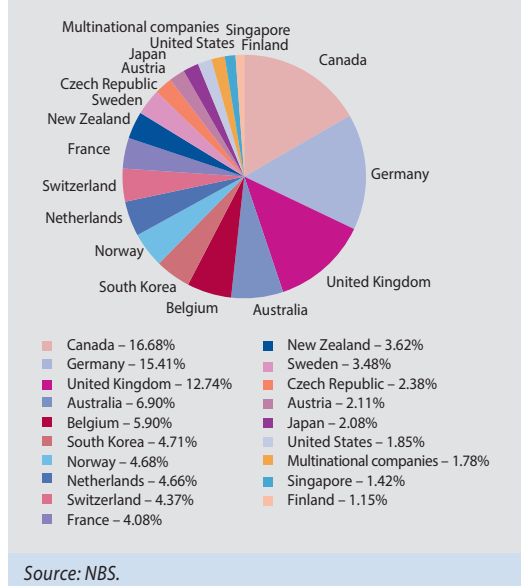


Chart 18 Total value of NBS investment portfolios as at 30 December 2016 broken down by country of issuer





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

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

2 FINANCIAL STABILITY AND FINANCIAL MARKET SUPERVISION⁶

2.1 FINANCIAL STABILITY

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

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

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

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

2.2 FINANCIAL MARKET SUPERVISION

THE BANKING SECTOR

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

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

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

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

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