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European Bank
for Reconstruction and Development

Corporate Governance in Transition Economies

Slovak Republic Country Report

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The report is based on information available at the end of April 2015.

If you believe that the information has changed or is incorrect, please contact Gian Piero Cigna at cignag@ebrd.com

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This Report – along with all other country reports prepared within this initiative – is available at: http://www.ebrd.com/what-we-do/sectors/legal-reform/corporate-governance/sector-assessment.html

Foreword

As part of its Legal Transition Programme, the European Bank for Reconstruction and Development ("EBRD") has been assessing the state of legal transition in its countries of operations. These assessments provide an analysis of the progress of reform and identify gaps and future reform needs, as well as strengths and opportunities.

In 2012, the Legal Transition team within the EBRD Office of the General Counsel (LTT) developed with the Assistance of Nestor Advisors a methodology for assessing corporate governance frameworks and the governance practices in the EBRD countries of operations. This assessment was implemented in 2014-2015 (the "Assessment").

The Assessment aims at measuring the state of play (status, gaps between local laws/regulations and international standards, effectiveness of implementation) in the area of corporate governance

The Assessment is meant to provide for (i) a comparative analysis of both the quality and effectiveness of national corporate governance legislation (including voluntary codes); (ii) a basis to assess key corporate governance practices of companies against the national legislation; (iii) an understanding whether the legal framework is coupled with proper enforcement mechanisms (e.g., sanctions) and/or with authorities able to ensure proper implementation; (iv) a support to highlight which are the major weaknesses that should be tackled by companies and legislators for improving the national corporate governance framework; and (v) a tool which will enable the EBRD to establish "reference points" enabling comparison across countries.

This country report is part of a series of 34 country reports. A general report synthesising all countries will close the Assessment.

Methodology

This Assessment is based on a methodology designed to measure the quality of legislation in relation to best practices requirements and the effectiveness of its implementation as evidenced by companies' disclosure, also taking into consideration the capacity of the institutional framework (e.g., courts, regulators) to sustain quality governance. The analytical grid developed for assessing the governance framework is based on international recognised best-practice benchmarks (e.g., OECD Corporate Governance Principles, Development Financial Institutions, EBRD, IFC and World Bank ROSC governance methodologies). The methodology is applied identically across all the countries reviewed. The process for gathering, analysing and reporting information is applied identically for each of the countries assessed, which allows comparing countries to each other across a long a set of benchmarking points.

For the purpose of the Assessment, the corporate governance framework and the practices were divided in five key areas: (i) Structure and Functioning of the Board; (ii) Transparency and Disclosure of company information; (iii) Internal Control; (iv) Rights of Shareholders; and (v) Stakeholders and Institutions. Each of these key areas is further divided in sections (for instance, the area "Structure and Functioning of the Board" is divided in five sections: Board composition; Gender diversity at the board; Independent directors; Board effectiveness; and Responsibilities of the board). Each section is further divided in subsections (for instance, the section "Independent Directors" is divided in three subsections: "Requirement to have independent directors"; "Definition of Independence"; and "Disclosed practices").

The assessment started by sending a questionnaire to law firms, audit firms, national regulator(s), ten largest (listed) companies, and stock exchange(s) in each country. Questions were different according to the respondents, which were asked to provide information on the legislation and on how they believe the legislation is implemented.

Responses were assigned to the corresponding subsection(s) and validated by the EBRD corporate governance specialists by looking at the applicable framework and at the disclosure offered by the ten largest (listed) companies in each country. In this respect, the working hypothesis was that the ten largest listed companies are those offering the best disclosure in each country. As such, we presumed that when certain practices were not disclosed by them, they were unlikely to be disclosed by smaller or unlisted companies. The ten largest companies were identified according to their market capitalisation. When a country did not have a stock exchange, there were less than ten listed issuers or there were no data on capitalisation of issuers, the ten largest companies were identified according to their revenues and size of the labour force. In case the largest companies were mostly of one sector (e.g., financial institutions), then the sample of ten companies was corrected to reflect other sectors of the economy.

The validation of responses was undertaken by the corporate governance specialists within the Legal Transition Team through desktop research. This research was conducted both on legislation and on the practices disclosed by the largest (listed) companies (e.g., companies' websites, annual reports, stock exchanges database etc.). In addition, the relevant reports by international financial institutions (e.g., IMF, World Bank, IFC, Transparency International, etc.) were analysed and taken into consideration. Answers received by respondents that were not grounded by specific references to legislation or consistent with the disclosed practices were not taken into consideration.

Following the validation process, each subsection was compiled by adding specific references to legislation and practices. Conclusions were then formulated for each subsection, each rated as per their adherence to international governance standards. The score ranges from 1 (very weak) to 5 (strong). The rating for each section was then calculated by averaging the ratings of the subsections.

Because understanding corporate governance requires a "holistic perspective", where each component needs to have a place in the overall picture – pretty much like a puzzle - in case one of the subsection was rated "weak" or "very weak", the resulting average was decreased by 0.2; in case more than one subsection was rated “weak” or “very weak”, the resulting average was decreased by 0.5. This is because if just one component is not fitting well with the others, then all others are weakened. Similarly, the overall strength diminishes if there are more weak components.

Conversely, in order for the framework to be strong, all components need to be well fitting with each other. Hence, in case all subsections were scored “moderately strong” or “strong”, then the resulting average was increased by 0.5. However, this “positive” adjustment was used with some care as the assessment looked at the top ten largest companies in the country, hence findings tended to be often overly optimistic.

Key areas were then rated according to the same criteria.

The ratings are presented through the colours detailed in the box below and they demonstrate the adequacy or need of reform in respect to each governance area and section.

Rating:

“Strong to very strong” (DARK GREEN) - The corporate governance framework / related practices of companies are fit-for-purpose and consistent with best practice.

“Moderately strong” (LIGHT GREEN) - Most of the corporate governance framework / related practices of companies are fit-for-purpose but further reform is needed on some aspects.

“Fair” (YELLOW) - The corporate governance framework / related practices of companies present some elements of good practice, but there are a few critical issues suggesting that overall the system should be assessed with a view of reform.

“Weak” (ORANGE) - The corporate governance framework / related practices of companies may present few elements of good practice, but overall the system is in need of reform.

“Very weak” (RED) - The corporate governance framework / related practices of companies present significant risks and the system is in need of significant reform.

We believe corporate governance cannot be captured and measured simply by numerical values. Hence, alongside the “quantitative” assessment obtained according to the methodology described above, a “qualitative” assessment was also undertaken, by classifying our findings for each section as “strengths” and “weaknesses”. Because understanding corporate governance requires a “holistic perspective”, when the “quantitative” assessment was finalised, the assessment team compared it with the “qualitative” assessment, and when any inconsistency (i.e. material weaknesses or strengths) was noticed, the average scores of the sections were adjusted by up to ±0.5.

A preliminary version of the Assessment was made public for consultation. The comments and corrections received during the process were analysed by the corporate governance specialists. When confirmed, the corrections were reflected in the final ratings and in this Assessment.

Overview

Legislative framework

The primary sources of corporate governance legislation in the Slovak Republic are the Commercial Code; the Accounting Act; and the Securities Act.

A Corporate Governance Code was first adopted in 2002 by Stock Exchange Commission and the Financial Market Authority. It was later revised in 2008 by the Central European Corporate Governance Association. The Code is to be implemented under a "comply or explain" basis.

Structure and Functioning of the Board

Companies are required to be organised under a two-tier board system with a supervisory board (also referred below simply as "board") and a management board. Unless the Articles provide otherwise, the general shareholders' meeting retains the authority to appoint and remove both the members of the supervisory board and of the management board. This is a major shortcoming, as it deprives supervisory boards from an important responsibility. Further, the law does not clearly assign the supervisory board all the key functions that it should have.

Supervisory boards are relatively small, with very limited gender diversity. Legal entities cannot be board members.

Only the Act on Banks and the Corporate Governance Code provides for qualification requirements for board members.

Public interest entities are required to have an audit committee where at least one member is independent. The audit committee is appointed by the general shareholders' meeting and might include "outsiders" (i.e., non-board members). It appears that there are two definitions of independence: one in the law (referring to the audit committee) and one in the Corporate Governance Code. The presence of two different definitions may create confusion. Companies should clearly disclose which definition applies. Only three among the ten largest listed companies disclose having independent board members.

Banks are required to establish a remuneration committee and a committee for risk management, but they can opt out. The Corporate Governance Code recommends companies to establish a nomination and remuneration committee.

Board evaluation practices are not well developed. The corporate secretary function is not regulated, but the large majority of companies seem to have a corporate secretary in place.

The law and the Code are silent on the minimum number of meetings of the board and the committees (the Code only recommends that the audit committee should report to the supervisory board at least every six months), and companies do not disclose this information.

Fiduciary duties, liability of board members, and conflicts of interest rules are regulated by law.

Transparency and Disclosure

Companies are required to disclose a number of non-financial information within their annual reports, and the ten largest listed companies appear to comply with the requirements set by law.

The law requires listed companies to include a statement on their compliance with the Corporate Governance Code in their annual report. In case of non-compliance, companies must explain the reasons for not doing so (so-called "comply or explain" approach). All ten largest listed companies provide a "*comply or explain*" statement, but explanations are often limited and not very informative.

Disclosure on the boards' and committees' activities and qualifications of members, beneficial ownership of major shareholders and transactions in company shares appears to be limited.

Large companies are required to prepare annual reports including financial information in line with IFRS. It appears that only seven out of the ten largest companies have filed their accounts in line with IFRS.

The law requires listed companies to disclose the articles of association, but only half of the surveyed companies posted them on their website. Minutes of the general shareholders' meeting are largely available online. Large companies are required to have their financial statements audited by an independent external auditor. The provision of non-auditing services by the external auditor is allowed, which can negatively affect auditors' independence. The disclosure of the amount and types of non-audit services is very limited.

Internal Control

Internal audit function is required only for banks. It seems that there is no requirement for banks to create a separate compliance function.

Public interest companies are required to set up an audit committee. The audit committee is appointed by the general shareholders' meeting and can include non-board members. Hence it is not necessarily a "board" committee. However, the Corporate Governance Code recommends that the audit committee reports to the supervisory board at least once every six months, but the disclosure offered by the ten largest listed companies is minimal and there is lack of information whether the audit committee is playing a key control role in the company. We have seen that in at least one case the audit committee includes executives, which is a very bad practice.

Large and listed companies are also required to have an independent external auditor, and the audit committee is in charge of testing its independence. The provision of non-auditing services by the external auditor is allowed. This should be carefully monitored as it may undermine the auditors' independence. The requirement to rotate external auditors had been recently crossed out.

Large companies are required to disclose their financial information in line with the IFRS, hence IAS 24 applies and related party transactions must be disclosed (however – as mentioned above – not all companies appear to disclose their financial statements in line with IFRS).

Conflicts of interest are regulated by law, but we could not find any evidence of enforcement.

The Corporate Governance Code recommends companies to adopt a code of ethics, and half of the ten largest listed companies disclose having one in place.

Regulation of related party transactions appears to be minimal. A new whistle-blowing protection Act entered into force in January 2015.

Rights of Shareholders

The law details all basic shareholders rights. Equal treatment of shareholders is required by law, but voting caps are allowed.

The law grants minority shareholders pre-emptive rights in case of capital increase and supermajority in case of major decisions. Cumulative voting is provided by law. Shareholders representing 5% of the capital can start a derivative suit.

Insider trading is prohibited, but there is no evidence of enforcement. Self-dealing is regulated by law, and companies are required to disclose transaction of shares by board members and controlling shareholders. However only a few companies place this information on their websites.

Shareholders agreements need to be disclosed in the annual report, if known. It is not clear if shareholders agreements are enforceable, as there is not much case law on this issue. Free transferability of shares cannot be restricted. Registration of shareholding must be kept by an independent registrar.

Stakeholders and Institutions

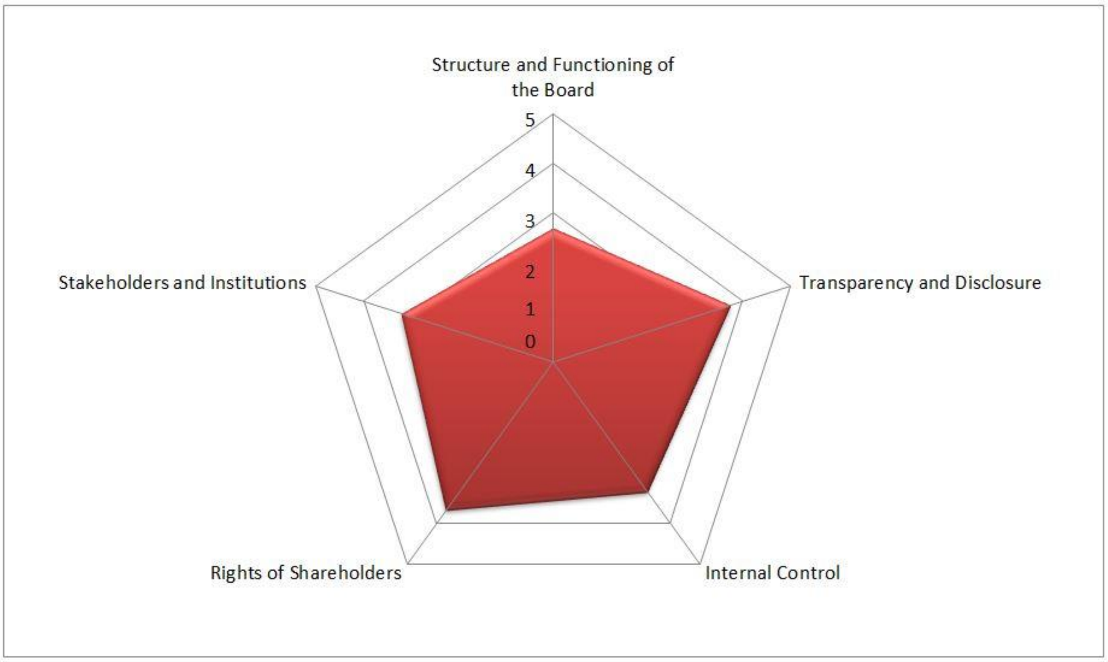
The institutional framework supporting corporate governance practices in the Slovak Republic seems to be moderately well developed. Nevertheless, space for improvement exists.

The Bratislava Stock Exchange (BSE) is the main local stock exchange. The BSE's market capitalisation seems to be low at around 4.9% of the country's GDP. The BSE listed market is divided into two tiers: the Main Market Segment, and the Parallel Market Segment. Although companies in the Main Market Segment are required to comply with more stringent financial requirements than those in the Parallel Market Segment, they are not required to uphold higher corporate governance standards. The BSE website contains little non-financial information, and corporate governance disclosures are practically non-existent.

The Corporate Governance Code was first issued in 2002, and was later revised in 2008 by the Central European Corporate Governance Association (CECGA). The Code is to be implemented under a "*comply or explain*" basis. All ten largest listed companies disclosed their corporate governance reports on their websites and annual reports. Nevertheless, only a small minority of disclosures are meaningful or substantive. Often, companies fail to explain their lack of compliance with the Code.

There seem to be no significant inconsistencies in laws, regulations or Corporate Governance Code. When looking at the international organisations' indicators, the Slovak Republic ranks moderately poorly – compared to other EU countries - in terms of competitiveness, ease of doing business and corruption perception.

Corporate Governance Legislation and Practices in the Slovak Republic



Source: EBRD, Corporate Governance Assessment 2016

Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in best practices and international standards (e.g., OECD Corporate Governance Principles). The fuller the 'web', the closer the corporate governance legislation and practices of the country approximates best practices.

Key: Very weak: 1 / Weak: 2 / Fair: 3 / Moderately Strong: 4 / Strong to very strong: 5

Key Areas and Rating	Strengths and Weaknesses
1. Structure and Functioning of the Board *Fair/Weak*	*Companies are required to be organised under a two-tier board system with a supervisory board (also referred below simply as "board") and a management board. Unless the Articles provide otherwise, the general shareholders' meeting retains the authority to appoint and remove both the members of the supervisory board and of the management board. This is a major shortcoming, as it deprives supervisory boards from an important responsibly. Further, the law does not clearly assign the supervisory board all the key functions that it should have. Supervisory boards are relatively small, with very limited gender diversity. Legal entities cannot be board members.* *Only the Act on Banks and the Corporate Governance Code provides for qualification requirements for board members.* *Public interest entities are required to have an audit committee where at least one member is independent. The audit committee is appointed by the general shareholders' meeting and might include "outsiders" (i.e., non-board members). It appears that there are two definitions of independence: one in the law (referring to the audit committee) and one in the Corporate Governance Code. The presence of two different definitions may create confusion. Companies should clearly disclose which definition applies. Only three among the ten largest listed companies disclose having independent board members. Banks are required to establish a remuneration committee and a committee for risk management, but they can opt out. The Corporate Governance Code recommends companies to establish a nomination and remuneration committee.* *Board evaluation practices are not well developed. The corporate secretary function is not regulated, but the large majority of companies seem to have a corporate secretary in place. The law and the Code are silent on the minimum number of meetings of the board and the committees (the Code only recommends that the audit committee should report to the supervisory board at least every six months), and companies do not disclose this information. Fiduciary duties, liability of board members, and conflicts of interest rules are regulated by law.*
1.1. Board Composition *Fair*	***Strengths**:* • *All ten largest listed companies disclose the composition of their supervisory boards.* • *Boards are generally well-sized (with 5.5 board members on average for the ten largest listed companies) and evidence has shown that smaller boards tend to perform better, provided that they have the necessary mix of skills and support (e.g., corporate secretary).* • *In banks, the law provides for qualification requirements for board members. The Corporate Governance Code recommends board and committee members to have the necessary qualification and experience. Public interest entities (e.g., listed companies and banks) are required to create an audit committee where at least one member has five years of experience in the sphere of accounting or auditing and be independent.* • *The Corporate Governance Code recommends that at least the majority of the supervisory board is independent. The chair of the board should always be independent.* • *Banks are required to have an audit committee, a remuneration committee and committee for risk management (which can be merged with the audit committee). Listed companies are required to have an audit committee. In addition, the Code recommends listed companies to establish at least a nomination committee and a remuneration committee (which should be made by a majority of independent directors). Six among the ten largest listed companies declared having an audit committee in place. The other committees are not common (see below).* ***Weaknesses:*** • *Joint stock companies are organised under a two-tier system, where the general shareholders meeting (GSM) appoints both the supervisory board and the management board (unless differently provided by the Articles). This can weaken the leverage of the board over management and creates an unclear line of accountability within the company.* • *It was not possibly to fully appreciate the qualifications of the board members of the ten largest listed companies, since only three companies disclose their directors' qualifications. Among those, board members mostly have industry expertise and very rarely education or experience in the field of accountancy, audit, risk management or other financial expertise related to the work of the audit committee.* • *Only three among the ten largest listed companies disclose having independent board members (on average 1 member per company). In most cases, the chair of the board is not independent.* • *Two of the ten largest companies disclosed having a remuneration committee in place. Only one company disclosed having a nomination committee.*

Key Areas and Rating	***Strengths and Weaknesses***
1.2. Gender Diversity at the Board (7.4%) *Very Weak*	• *All ten largest listed companies disclose the composition of their supervisory boards.* • *Two companies have women sitting on their boards. Among these companies, the average of female representation amounts to 33%.* • *In total, there are 3 women among 55 board members.* • *Overall, the average of female representation on boards of the largest listed companies is 7.4%.*
1.3. Independent Directors *Weak*	***Strengths:*** • *The Corporate Governance Code recommends that at least the majority of the supervisory board is independent. The board chairman should always be independent.* • *The law requires public interest companies to have an audit committee where at least one member is independent. However, it seems that this provision is interpreted in the sense that the independent member should not be a board member. We have reservation about this (see below).* • *The definition of "independence" included in the Corporate Governance Code also includes some positive criteria (i.e., what it is expected in practice from independent directors).* ***Weaknesses:*** • *The audit committee is appointed by the general shareholders' meeting and can include "outsiders" (i.e., non-board members). This solution raises some concerns (see subsection "Functioning and Independence of the Audit Committee" below).* • *The three companies that disclose the composition of the audit committee clearly show that the independent members are not board members. It is not clear if the independent directors of the three companies that are board members also sit in committees, as this information is not clearly disclosed.* • *There are two definitions of independence: one in the law referring to the audit committee member; and one in the Code. The presence of two different definitions might be confusing. Companies should clearly disclose which definition applies.* • *Only three among the ten largest listed companies have independent board members. The chair of the board is not necessarily independent. Other companies do not clearly disclose this information.*
1.4. Board Effectiveness *Weak*	***Strengths:*** • *Banks are required to have a corporate secretary. In listed companies this is recommended by the Code. Eight among the ten largest listed companies disclosed having the corporate secretary in place.* ***Weaknesses:*** • *There is no established practice of board evaluation.* • *The law does not assign to the board a clear authority to approve the company's budget and risk profile/appetite and to appoint/dismiss executives. Some of these key functions are retained by the general shareholders meeting. This is a major shortcoming.* • *Only one company disclosed the number of supervisory board and audit committee meetings per year. Based on the limited information disclosed, it is not possible to assess if the board and committee are performing a strategic role in the company.*
1.5. Responsibilities of the Board *Fair*	***Strengths:*** • *Conflicts of interests are regulated by law.* • *Directors who are in breach of their duties are liable jointly and severally to indemnify the company for damage caused.* ***Weaknesses:*** • *The power to appoint and oversee management rests with the general shareholders' meeting, unless otherwise foreseen by the articles of association. The law does not clearly state which corporate body should approve the company's budget. There is also no express authority granted to the supervisory board to approve the strategy. Hence, the law does not clearly allocate the key functions to the supervisory board, which is a major shortcoming.* • *There is no comprehensive list of directors' duties in the Slovak legal system. The duties are regulated in various acts. For a detailed analysis see: http://ec.europa.eu/internal_market/company/docs/board/2013-study-reports_en.pdf*

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Key Areas and Rating	Strengths and Weaknesses
2. Transparency and Disclosure *Fair/Moderately Strong*	*Companies are required to disclose a number of non-financial information within their annual reports, and the ten largest listed companies appear to comply with the requirements set by law.* *The law requires listed companies to include a statement on their compliance with the Corporate Governance Code in their annual report. In case of non-compliance, companies must explain the reasons for not doing so (so-called "comply or explain" approach). All ten largest listed companies provide a "comply or explain" statement, but explanations are often limited and not very informative.* *Disclosure on the boards' and committees' activities and qualifications of members, beneficial ownership of major shareholders and transactions in company shares appears to be limited. Large companies are required to prepare annual reports including financial information in line with IFRS. It appears that only seven out of the ten largest companies have filed their accounts in line with IFRS.* *The law requires listed companies to disclose the articles of association, but only half of the surveyed companies placed them on their website. Minutes of the general shareholders' meeting are largely available online. Large companies are required to have their financial statements audited by an independent external auditor. The provision of non-auditing services by the external auditor is allowed; this can negatively affect auditors' independence. The disclosure of the amount and types of non-audit services is very limited.*
2.1. Non-Financial Information Disclosure *Fair*	***Strengths:*** • *All companies and banks are required by law to prepare and publish an annual report, which should include financial and non-financial information. The annual reports of all ten largest listed companies are all available online and they are also available on the Central Register of Regulated Information (https://ceri.nbs.sk/search).* • *The majority of companies keep their websites up-to date. All companies provide info on their shares, capital, and major shareholders.* • *The Corporate Governance Code is implemented on a "comply or explain" basis. The law requires listed companies to report their compliance with the Code – or any other corporate governance code that they decided to take as a reference - and complete a special template available at http://www.bsse.sk/Portals/2/Issuers%20Guide/Statement_to_codex.pdf. All ten largest listed companies comply with this requirement.* • *Companies are required to disclose their articles of associations.* • *All of the ten largest companies disclose the composition of their boards and the minutes of their general shareholders' meetings on their websites.* • *The Corporate Governance Code recommends companies to adopt a code of ethics and to disclose it on their website. Half of the companies under review disclose having one in place.* ***Weakness:*** • *In general, explanations regarding non-compliance with the Code are not sufficiently informative.* • *Only five out of the ten largest companies on our list posted their Articles on their websites.* • *The disclosure on qualifications of the board members and composition of board committees is limited.* • *The law requires that the activities of the board and committees are disclosed in the annual report. However, only three companies disclose the board activities in their annual reports and only one company (a bank) disclosed the number of supervisory board meetings per year and the number of audit committee's meetings. No company disclosed the activity of the audit committee.*
2.2. Financial Information Disclosure *Fair*	***Strengths:*** • *Listed companies and banks are required to prepare and disclose their financial statements in line with IFRS.* ***Weakness:*** • *Only seven out of the ten largest companies appeared to have filed their accounts in line with IFRS.*
2.3. Reporting to the Market and to Shareholders *Moderately Strong*	***Strengths:*** • *All companies, which are required to have their financial statements externally audited, are required to file their annual report to the Central Register of Regulated Information, where it is available online. All the ten largest companies publish their annual reports on their websites, Central Register, and/or stock exchange website.* • *Listed companies are required to inform the exchange about the decisions of the general shareholders' meeting and publish certain types of decisions on their websites. All of the ten largest listed companies disclose the minutes of the general shareholders' meeting on their websites.* • *Breach of disclosure obligations is subject to sanctions.* • *The law requires companies to make timely disclosures when significant price sensitive events occur and upon the start of insolvency or restructuring proceedings.*

Key Areas and Rating	Strengths and Weaknesses
2.4. Disclosure on the External Audit *Fair*	***Strength:*** • *All ten largest companies disclose the auditors' names and opinions on their financial statements, and declare that their auditor is independent.* ***Weakness:*** • *The provision of non-auditing services by the external auditor is allowed, which can negatively affect auditors' independence. The disclosure of the amount and types of non-audit services is very limited.*

<table>
<tr><th>Key Areas and Rating</th><th>Strengths and Weaknesses</th></tr>
<tr><td>3. Internal Control
Fair</td><td>Internal audit function is required only for banks. It seems that there is no requirement for banks to create separate compliance function.
Public interest companies are required to set up an audit committee. The audit committee is appointed by the general shareholders' meeting and can include non-board members. Hence it is not necessarily "board" committee. The Corporate Governance Code recommends that the audit committee reports to the supervisory board at least once every six months, but the disclosure offered by the ten largest listed companies is minimal and there is lack of information whether the audit committee is playing a key control role in the company. We have seen that in at least one case the audit committee includes executives, which is a bad practice.
Large and listed companies are also required to have an independent external auditor, and the audit committee is in charge of testing its independence. The provision of non-auditing services by the external auditor is allowed. This should be carefully monitored as it may undermine its independence. The requirement to rotate external auditors had been recently crossed out.
Large companies are required to disclose their financial information in line with the IFRS, hence IAS 24 applies and related party transactions must be disclosed (however – as mentioned above – not all companies appear to disclose their financial statements in line with IFRS).
Conflicts of interest are regulated by law, but we could not find any evidence of enforcement. The Corporate Governance Code recommends companies to adopt a code of ethics, and half of the ten largest listed companies disclose having one in place.
Regulation of related party transactions appears to be minimal. A new whistle-blowing protection Act entered into force in January 2015.</td></tr>
<tr><td>3.1. Quality of the Internal Control Framework
Fair</td><td>Strengths:
• Banks are required to establish internal control procedures and internal audit unit, which reports directly to the supervisory board. The majority of the largest ten companies disclose having an internal audit unit in place.
• Listed companies and banks are required to establish an audit committee.
• The Corporate Governance Code recommends companies to adopt a code of ethics and disclose it on their website.
• There is a whistle-blowing legislation in place.
Weaknesses:
• It seems that there is no requirement for banks to have a separate compliance function.
• The audit committee can be composed of non-supervisory board members appointed by the general shareholders' meeting. Six out of the ten companies in our sample declared having an audit committee in place. However, three of these companies have the audit committee made mainly of outsiders, where only one member is a member of the supervisory board. In at least one case, it appears that the audit committee is also composed of executives, which is very bad practice.</td></tr>
<tr><td>3.2. Quality of Internal and External Audit
Fair</td><td>Strengths:
• Banks are required to establish internal control procedures and internal audit unit, which reports directly to the supervisory board. Six companies among the ten largest listed companies disclosed having an internal audit unit in place.
• Large and listed companies are required to have their financial statements audited by an independent external auditor.
• The Corporate Governance Code recommends that external auditors should be recommended by an independent audit committee. All ten largest companies declared their auditors to be independent.
• The right to appoint the external auditor is reserved to the general shareholders' meeting. If the company has an audit committee, the appointment should be done, pursuant to the recommendation of the audit committee.
Weaknesses:
• The provision of certain non-auditing services is allowed. Audit and non-audit fees paid to external auditors do not seem to be clearly disclosed within the annual reports or financial statements.
• The legal requirement for the rotation of the audit firm and audit partner was recently removed. However, being the Slovak Republic a member of the EU, it will have to abide by the Audit Directive once it is transposed into the Slovak legal system.</td></tr>
</table>

Key Areas and Rating	Strengths and Weaknesses
3.3. Functioning and Independence of the Audit Committee *Weak*	***Strengths:*** • *Listed companies and financial institutions are required to establish an audit committee.* • *By law, at least one member of the committee must have five years' special experience in the sphere of accounting or auditing and be independent.* ***Weaknesses:*** • *By law, audit committee can be composed both of supervisory board members and non-supervisory board members appointed by the general shareholders' meeting. The same provision also outlines a definition of independence. The Corporate Governance Code recommends that a majority of audit committee's members should be independent members of the supervisory board. However, in practice, only six companies declared having the audit committee in place. Three of these companies have the audit committee partially formed of non-board members, where only one of the members is also a member of the supervisory board. In at least one case, it appears that the audit committee is also composed by executives, which is a very bad practice.* • *We have reservations about the possibility of "outsiders" being audit committee members. We believe it is important that the audit committee include only board members if the functions delegated to the committee are typical board functions. Secondly, it is essential that those members sitting in the committee and recommending specific actions to the board follow up on such recommendations and vote on the committee's recommendations at the board meeting, therefore reinforcing their positions and the board's "objective judgement". Further, we believe that audit committee members should have a full vision of the business of the company in order to express their determinations – while outsiders might only have a partial understanding. Finally, committees that include outsiders might create problems with confidentiality and accountability issues, since such "outsiders" might not be bound by duties of loyalty and care required to board members. While it is legitimate that the audit committee might need external advice or expertise on specific issues, it should be able to request such advice, but it should not allow the advisor(s) to replace the committee in its determinations and recommendations.* • *Only one company disclosed the number of audit committee meetings. Due to limited disclosure, it is not possible to assess if the audit committee is performing a key control role in the company.* • *The Corporate Governance Code recommends that the audit committee should report to the supervisory board on its activities and findings at least once per six months. While on one side, it is positive that the Code makes clear that the committee should report to the board, on the other hand, we think that the audit committee should report at least quarterly, so to provide the board with its recommendations on the progresses of the implementation of the internal audit plan and on the quarterly reports.*
3.4. Control over Related Party Transactions and Conflict of Interest *Fair*	***Strengths:*** • *By law, if a company acquires a property on the basis of a contract with a founder or a shareholder/member of the company for amount of at least 10 per cent of the registered capital, the value of the subject has to be determined by expert opinion. The draft of such contract should be approved by the general shareholders meeting.* • *Conflicts of interests are regulated by law.* ***Weaknesses:*** • *There is no evidence of enforcement in relation to the rules on conflicts of interests, misuse of corporate assets or unauthorised related party transactions.*

Key Areas and Rating	Strengths and Weaknesses
4. Rights of Shareholders Moderately Strong	*The law details all basic shareholders rights. Equal treatment of shareholders is required by law, but voting caps are allowed. The law grants minority shareholders pre-emptive rights in case of capital increase and supermajority in case of major decisions. Cumulative voting is provided by law. Shareholders representing 5% of the capital can start a derivative suit. Insider trading is prohibited, but there is no evidence of enforcement. Self-dealing is regulated by law, and companies are required to disclose transaction of shares by board members and controlling shareholders. However only a few companies appear to place this information on their websites. Shareholders agreements need to be disclosed in the annual report, if known. It is not clear if shareholders agreements are enforceable, as there is not much case law on this issue. Free transferability of shares cannot be restricted. Registration of shareholding must be kept by an independent registrar.*
4.1. General Shareholders' Meeting (GSM) Moderately Strong	***Strengths:*** • *Shareholders representing at least 5% of the registered capital may make a written request asking to convene an extraordinary general shareholders' meeting (GSM) and add items to the agenda.* • *Notification with the agenda of the GSM should be published on the company's website at least 30 calendar days before the meeting.* • *Shareholders can participate at the GSM not only in person, but also on the basis of a power of attorney. Electronic voting and voting by post are possible, if foreseen by company's Articles.* • *Shareholders have explicit right of asking questions at the GSM.* • *Cumulative voting is provided by law.* ***Weaknesses:*** • *The law does not allow for multiple voting rights, but voting caps limiting the number of votes that a shareholder can exercise can be foreseen in the articles of association of the company.*
4.2. Protection against Insider Trading and Self-dealing Fair	***Strengths:*** • *Insider trading is prohibited by law.* • *Self-dealing is regulated by law. The price paid for the assets or services has to be fair, otherwise the transaction could be invalidated.* ***Weaknesses:*** • *There is no evidence of enforcement in the sphere of insider trading.* • *Even though board members, senior managers or controlling shareholders are required by law to disclose transactions in their company's shares, only very few among the ten largest companies disclose such transactions on their websites.*
4.3. Minority Shareholders Protection and Shareholders' Access to Information Strong	***Strengths:*** • *All ten largest listed companies disclose their annual reports on their websites, Central Register, and/or stock exchange website.* • *Shareholders enjoy pre-emptive rights in all cases of capital increase. This right could be waived by two thirds majority vote at the GSM.* • *Two thirds qualified majority vote is required to make changes to the articles of association, the capital of the company; and to decide issues regarding merger, take-over, reorganisation, and winding up or voluntary liquidation of the company (the blocking minority is 33%+1). The articles of association may provide for a higher threshold.* • *Shareholders owning at least 5% of company shares can bring a claim in the name of the company only if the company's supervisory board fails to start an action directly when request was received from the shareholders. The evidence shows that derivative suits are well-enforced in practice.* • *Shareholders have general inspection rights.* • *All ten largest listed companies posted the GSM minutes online.* • *All ten largest listed companies provide information about voting rights and their exercise by shareholders on their websites or annual reports.*
4.4. Registration of Shareholdings Moderately strong	***Strengths:*** • *Shareholder agreements must be disclosed in the annual reports of the companies, if known.* • *Free transferability of shares cannot be restricted.* • *The share register is maintained by an independent registry institution – the Central Securities Depository.* • *If a person's shareholding exceeds or falls below certain thresholds of the share capital or voting rights, he must promptly inform the company. This must also be disclosed to the National Bank of Slovakia.* ***Weaknesses:*** • *There is not much case law regarding shareholders agreements, thus, it is not possible to assess their enforceability.*

Key Areas and Rating	Strengths and Weaknesses
5. Stakeholders and Institutions *Fair*	*The institutional framework supporting corporate governance practices in the Slovak Republic seems to be moderately well developed. Nevertheless, space for improvement exists.* *The Bratislava Stock Exchange (BSE) is the main local stock exchange. The BSE's market capitalisation seems to be low at around 4.9% of the country's GDP. The BSE listed market is divided into two tiers: the Main Market Segment, and the Parallel Market Segment. Although companies in the Main Market Segment are required to comply with more stringent financial requirements than those in the Parallel Market Segment, they are not required to uphold higher corporate governance standards. The BSE website contains little non-financial information, and corporate governance disclosures are practically non-existent.* *The Corporate Governance Code was first issued in 2002, and was later revised in 2008 by the Central European Corporate Governance Association (CECGA). The Code is to be implemented under a "comply or explain" basis. All ten largest listed companies disclosed their corporate governance reports on their websites and annual reports. Nevertheless, only a small minority of disclosures are meaningful or substantive. Often, companies fail to explain their lack of compliance with the Code.* *There seem to be no significant inconsistencies in laws, regulations or corporate governance codes. When looking at the international organisations' indicators, the Slovak Republic ranks moderately poorly – compared to other EU countries - in terms of competitiveness, ease of doing business and corruption perception.*
5.1. Corporate Governance Structure and Institutions *Moderately Strong*	***Strengths:*** • *The Bratislava Stock Exchange (BSE) is the main local stock exchange. The BSE's market capitalisation seems to be low at around 4.9% of the country's GDP, but its liquidity seems to be relatively high. Only 0.65% of all market transactions are carried out in the equities market; 99% of them are executed in the bonds market.* • *International audit and law firms have significant presence in the country.* • *There appear to be a few training courses available for board directors.* ***Weaknesses:*** • *The BSE listed market is divided into two tiers: the Main Market Segment, and the Parallel Market Segment. Additionally, the Regulated Free Market Segment lists shares that do not meet the capital requirements of the first two listed markets. Although companies in the Main Market Segment are required to comply with more stringent financial requirements than those in the Parallel Market Segment, they are not required to uphold higher corporate governance standards.* • *The BSE website contains a comprehensive summary of the company's financial information, including number of trades, financial statements, and announcements. Nevertheless, non-financial information is relatively inaccessible, and corporate governance disclosures are practically non-existent.* • *International ratings agencies are not very active within the country; only two out of the ten largest listed companies have been assessed by international ratings agencies.*
5.2. Corporate Governance Code *Fair*	***Strengths:*** • *The Corporate Governance Code was first issued in 2002 by Stock Exchange Commission and the Financial Market Authority. It was later revised in 2008 by the Central European Corporate Governance Association (CECGA).* • *The Code is based upon OECD Principles of Corporate Governance.* • *The Central European Corporate Governance Association (CECGA) published a survey on the quality of corporate governance disclosures by Slovak listed companies in 2012. Nevertheless, this is the only report which has been published on corporate governance issues.* • *All ten largest listed companies disclosed their corporate governance reports on their websites and annual reports.* ***Weaknesses:*** • *When looking at how companies disclose their compliance with the Code, it appears that only a small minority of disclosures are meaningful or substantive. Often, companies fail to explain their lack of compliance with the Code (or other corporate governance codes taken as reference).* • *There is no case law referring to the Corporate Governance Code.*
5.3. Institutional Environment *Fair*	***Strengths:*** • *There seem to be no significant inconsistencies in laws, regulations or Code on corporate governance issues.* • *Case law is easily accessible and regularly updated.* • *Rulings of regulatory agencies seem to be publicly available.* ***Weaknesses:*** • *When looking at the indicators provided by international organisations, Slovakia ranks moderately poorly – when compared to other EU countries - in terms of competitiveness, ease of doing business and corruption perception.*