NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

Annual Report 2010

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FOREWORD

Foreword

The global economy saw a gradual recovery in 2010, as economies around the world began to emerge from the effects of the global economic crisis. International trade returned to growth, enabling Slovakia to resume its place as one of the fast-growing countries. In order to strengthen overall financial stability in the European Union, a new supervisory framework for European financial institutions and markets was introduced. Following the establishment of the European System of Financial Supervision, organisational changes were made to the supervision of the domestic financial market, which is one of the main activities of Národná banka Slovenska.

Slovakia was one of the countries hardest hit by the crisis, mainly because its economy is highly open and is heavily dependent on sectors that are sensitive to fluctuations in global demand. When international trade began to pick up again, however, these same factors contributed to the strong growth in industrial production and exports of goods from Slovakia. The result was strong growth of the Slovak economy as a whole. Although the year-on-year increases in gross domestic product were dampened by a base effect during the course of the year, the GDP for 2010 was still 4.0% higher than the figure for the previous year. Looking at the structure of economic growth in Slovakia, the main components were changes in inventories and net exports. The contribution of household final consumption continued to be negative, owing to the slow pace of improvement in the labour market. The first effects of the economic recovery in 2010 were seen in an increase in the number of hours worked and subsequently also in the number of employed people. Even so, the average overall employment in 2010 was still lower than in 2009.

Weak domestic demand created conditions for subdued price inflation. At the beginning of the year, consumer prices in Slovakia declined, but, as the year progressed, rising commodity prices put upward pressure on consumer prices. Nevertheless, the annual rate of inflation at the year end was lower than at the end of 2009. Consumer prices in 2010 increased by an average of 0.7%.

During the recession, the customers of financial institutions saw their incomes declining; at the same time, enterprises and households became less able to service their debts, and the ratio of non-performing loans increased. This trend continued in 2010. At the end of the year, the ratio of non-performing loans to total loans stabilised at 8%. The ratio of non-performing loans to total household loans averaged above 5% until December 2010, when it fell to 4.9%. But although the banking sector – which constitutes the major part of the financial system in Slovakia – managed to strengthen its financial position, its share in the assets of financial institutions is gradually falling, largely due to the success of the pension saving segment. The trend of the corporate sector's declining dependence on the domestic financial sector continued in 2010, as firms were to a greater extent using external sources of financing. The improvement in economic development indicators contributed to the stabilisation of the whole domestic financial sector. The profits of financial institutions increased in 2010, except certain segments.

In an environment of low inflation and moderate growth in the euro area economy, the European Central Bank maintained its accommodative monetary policy stance, keeping the key interest rates unchanged throughout the year. Thus the main refinancing rate remained at 1.0%, the marginal lending facility rate at 1.75% and the deposit facility rate at 0.25%. Given the very low inflation and weak domestic consumption in Slovakia, the setting of the common monetary policy can be considered appropriate for the domestic economy.

At the beginning of 2010, the ECB began to exit from non-standard monetary measures in line with their original purpose and temporary character. But after the outbreak of the debt crisis in several euro-area peripheral countries, bond markets came under increasing pressures. In order to stabilise the financial system of the Eurosystem, the ECB set about reintroducing non-standard monetary operations. Since the government bond market is an important part of the mechanism for transmitting monetary policy decisions to the real economy, the Eurosystem national central banks joined in measures to support financial market liquidity and stability. Acting within the Covered Bond Purchase Programme, they purchased government bonds over the course of the year. So as to prevent any inflationary pressure arising from the increased amount of money in circulation, special fine-tuning operations were introduced to absorb the excess liquidity.

In 2010, Národná banka Slovenska, as the national supervisory authority for the financial market in Slovakia, cooperated in the establishment of the European Systemic Risk Board and other bodies of the European System of Financial Supervision. As well as fundamental changes at the European level in 2010, there were also organisational changes at the Financial Market Supervision Unit of Národná banka Slovenska. The new structure of the FMS Unit has been adapted to follow the structural breakdown of the financial market.

The global economy's recovery and the rapid economic growth in developing countries has led to rising commodity prices, while political tensions in Middle East countries have bolstered supply-side inflation pressures. The higher commodity prices are gradually putting upward pressure on consumer prices. It is some time since the common monetary policy has faced the challenge of maintaining inflation at close to the target rate of 2%, but in the coming period it will have to do so again. The euro area countries will continue to struggle with the consequences of the debt crisis. It is my belief that the joint steps taken by EU governments and the newly-formed bodies of the European System of Financial Stability are helping to increase financial stability and to re-establish a standard economic environment in Europe.

March 2011

Jozef Makúch
Governor

Members of the NBS Bank Board in 2010
Front row (left to right): Martin Barto, Jozef Makúch, Viliam Ostrožlík
Back row (left to right): Ľudovít Ódor, Gabriela Sedláková, Ivan Šramko, Slavomír Šťastný, Karol Mrva, Štefan Králik

The Bank Board of Národná banka Slovenska

The main governing body of Národná banka Slovenska is the NBS Bank Board ("the Bank Board"). The scope of its powers is laid down primarily in the NBS Act, in other legal regulations of general application and in the OrganisationalRules of NBS.

The number of members of the Bank Board has been set at five since 1 December 2010, pursuant to Section 7 of the NBS Act. The Bank Board consists of the NBS Governor, the two Deputy Governors, and two other members. The term of office of Bank Board members is five years, commencing as of the effective date of their appointment to the position. The Governor and Deputy Governor may serve no more than two terms, while other members of the Bank Board may be reappointed to the same position an unlimited number of times.

Under transitional provisions of the NBS Act, effective from 1 December until the number of Bank Board members was reduced to five, the Bank Board consisted of the Governor, the two Deputy Governors, and all other members who were appointed to the Bank Board before 1 December and whose tenures had not expired as at that date.

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

The following members of the Bank Board ended their terms of office in 2010:

- Ing. Ivan Šramko, Governor and Bank Board member until 11 January 2010;
- Ing. Martin Barto, CSc., Deputy Governor and Bank Board member until 31 January 2010;
- Mgr. Ľudovít Ódor, Bank Board member until 14 September 2010.

The members of the Bank Board as at 31 December 2010 were:

- Doc. Ing. Jozef Makúch, PhD., Governor
- Ing. Viliam Ostrožlík, MBA, Deputy Governor responsible for the Financial Management Department, the Human Resources Management Department, the Banknotes and Coins Department, and the Currency Circulation Management Department;
- Ing. Štefan Králik, Executive Director for legal services and security;
- RNDr. Karol Mrva, Executive Director for financial market operations and payment services;
- Ing. Gabriela Sedláková, Executive Director for information technology and premises;
- Ing. Slavomír Šťastný, PhD., MBA, General Director of the Securities Market, Insurance, and Pension Savings Supervision Department.

CHAPTER 1

MACROECONOMIC DEVELOPMENTS

1

1 Macroeconomic developments

1.1 THE EXTERNAL ECONOMIC ENVIRONMENT

1.1.1 Global trends in output and prices

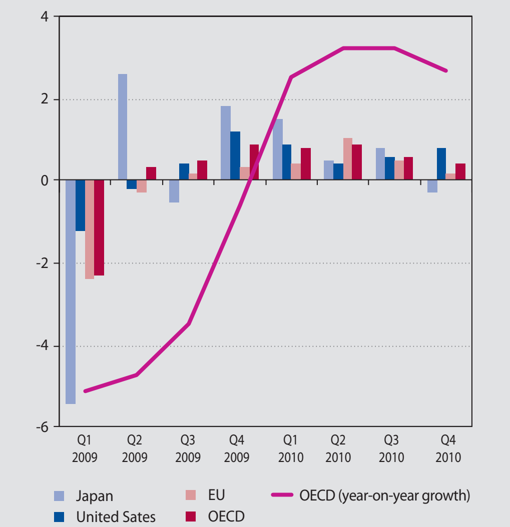
In 2010, world economic growth continued to recover gradually from the slump caused in the previous year by the global economic crisis. According to the IMF,[1] the global economy recorded year-on-year growth of 5.0% in 2010, compared with a contraction of 0.5% in 2009. However, the pace of economic recovery was not uniform. Growth in the first half of the year was stronger than in the second half, as it included the termination of fiscal stimulus measures implemented in 2009. There were also disparities in the pace of recovery between emerging economies and advanced economies. Emerging economies achieved substantially higher growth due to strong domestic demand, the continuation of economic support measures, and capital inflows. Advanced economies, by contrast, continued to suffer from weak domestic demand, high unemployment, sluggish real estate markets, and concerns about the sustainability of public debt levels in some advanced countries. These factors represent the highest risks to the acceleration of the economic recovery in advanced economies. On the positive side, the global economy was boosted by a revival in external trade, which increased by 12.1% in 2010 after declining by 10.9% in the previous year. The recovery of external trade was one of the key drivers of growth in advanced economies.

Global price developments in 2010 were marked by accelerating inflation, caused mainly by a substantial rise in energy prices as well as in prices of non-energy commodities. The average annual inflation rate in advanced economies rose from 0.1% in 2009 to 1.5% in 2010, while in emerging and developing economies it increased from 5.2% to 6.2%.[1] In advanced economies, price developments in 2010 were relatively steady and inflation expectations were firmly anchored; in developing economies, on the other hand, prices rose sharply and inflation pressures increased. The rise in commodity prices was driven mainly by strong demand from developing economies. Oil prices remained relatively stable in 2010; they did not record any substantial volatility and increased gradually towards the end of the year. The average oil price increased by 28.9% in 2010, after falling by 36.3% in 2009. The main factor behind this turnaround was strong demand from Asian emerging economies and production capacity constraints. Global prices of agricultural commodities also increased markedly, and given that these commodities have a high share in the consumption baskets of developing economies, they were the main cause of the high inflation pressures in these countries. As a result of the growth in the global economy, prices of metal and non-metal commodities also increased.

1.1.2 Economic developments in the euro area

After contracting sharply by 4.1% in 2009, the euro area economy grew by 1.7% in 2010. The recovery of economic activity stemmed mainly from an increase in global demand; this was subsequently reflected in net exports, which made a positive contribution to euro area growth as a result of export growth exceeding import growth (in contrast to the export slump recorded in the previous year). The labour market stabilised during the course of the year and the unemployment rate remained steady at 10%. This

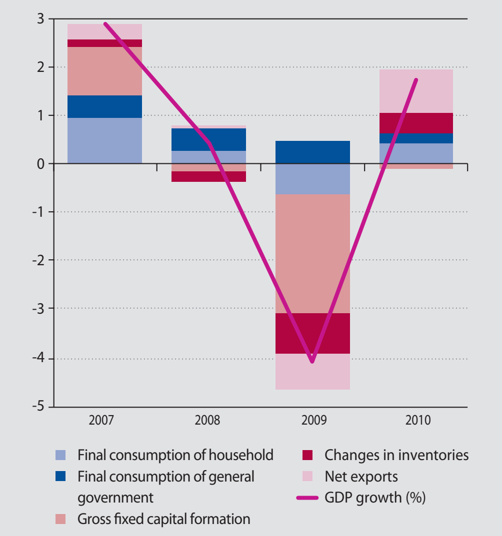
Chart 1 Quarterly GDP growth (%)



Source: OECD.

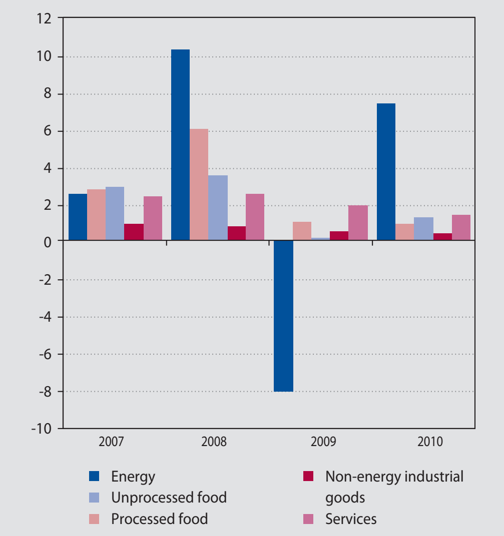
1 IMF World Economic Outlook – April 2011.

Chart 2 Contributions to annual GDP growth (p.p.)



Source: Eurostat.

Chart 3 Components of HICP inflation in the euro area (annual percentage changes)



Source: Eurostat.

development and the accompanying rise in consumer confidence became evident in consumer demand, which rose moderately in comparison with the previous year. Unlike in 2009, household final consumption made a positive contribution to growth. As for general government final consumption, its contribution was less than in 2009, partly due to the introduction of fiscal measures. Growth was also boosted by an upturn in the inventory cycle. The only component that had a dampening effect on growth was investment demand, although its decline was slower than in the previous year.

The overall average inflation rate, as measured by the harmonised index of consumer prices (HICP), accelerated to 1.6% in 2010, compared with 0.3% in 2009. Whereas commodity prices in 2009 had a dampening effect on price growth, their increase in 2010, along with the gradual economic recovery, was reflected in accelerated price rises. At the same time, however, labour market and wage developments were moderate and did not put upward pressure on prices of non-energy industrial goods and prices of services. The annual HICP inflation rate in December 2010 was higher than in December 2009, at 2.2% compared to 0.9%. Core inflation (overall index excluding energy and unprocessed food) was more-or-less stable during 2010 with an average level of 1.0% (in 2009 its average level was 1.3%).

The euro's exchange rate against the US dollar was considerably volatile during 2010, proving sensitivity to economic developments in the euro area and the United States as well as to fiscal and monetary-policy measures. The value of the euro against the US dollar at the end of 2010 was 6.8% lower than at the end of 2009.

The Governing Council of the ECB did not make changes to its key interest rates in 2010 and thus the interest rate on the main refinancing operations remained at 1.0%, the interest rate on the marginal lending facility at 1.75% and the interest rate on the deposit facility at 0.25%. The ECB continued to apply standard instruments and certain non-standard instruments. Although the Governing Council had decided towards the end of 2009 to phase out certain non-standard instruments (longer-term refinancing operations and liquidity swap facilities in US dollars and Swiss francs), these instruments were reactivated in May as a response to financial market tensions stirred by developments in Greece. Also towards the end of 2009, the Governing Council decided to return to variable rate tender procedures in the regular 3-month LTROs. However this type of tender was allotted only on 28 April 2010 and afterwards it reverted to the policy of fixed rate tender procedures with full allotment. In May, the ECB introduced the Securities Markets Programme (SMP), a temporary non-standard instrument used to purchase selected public and private debt securities. To re-absorb the excess liquidity injected through these interventions, special fine-tuning operations are conducted. Also in 2010, the ECB continued to purchase bonds under the Covered Bond Purchase Programme, a non-standard instrument that was introduced in July 2009 and completed in July 2010. Its purpose, like that of other non-standard instruments, was to ease financial market tensions, to ensure access to sufficient liquidity, and to restore the functioning of covered bond markets.[2]

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

The macroeconomic situation in Slovakia in 2010 reflected the fading of the effects of the global financial and economic crisis and the gradual stabilisation and revival of global economic activity. Compared with 2009, when the economic fundamentals were affected by recession, the economic recovery in Slovakia showed up in relatively strong economic growth in 2010, influenced mainly by positive developments in external demand. The favourable economic development supported a revival of business investments. The real economy also saw a gradual stabilisation of the labour market. The acceleration of inflation as a result of rising commodity prices at the global level was partially dampened by the stagnation of domestic demand.

Slovakia's gross domestic product (GDP) in 2010, measured at constant prices, increased by 4.0% in year-on-year terms, according to preliminary data from the Statistical Office of the Slovak Republic. In 2009, by contrast, GDP fell by 4.8% year-on-year. Largely due to a base effect, the pace of annual GDP growth slowed from 4.7% in the first quarter to 3.5% in the fourth quarter. The economic revival was driven mainly by the revival of external demand. Domestic demand recorded only modest year-on-year growth, with all components except for household final consumption making a positive contribution to it. Among the components of domestic demand, investment demand rose by the largest margin and an increase in inventories also contributed positively to GDP growth. Looking at economic growth broken down by output, its main drivers were industry and services. The construction sector remained in recession. With external demand rising amid the upturn in economic activities and with favourable terms of trade, there was a relatively strong rise in corporate profits. The most pronounced increase in profitability was reported by non-financial corporations, and the level of investment activity in this sector rose sharply. Another benefit linked to the rise in external demand was that net exports made a positive contribution to GDP growth.

Although the current account deficit of the balance of payments increased slightly in 2010 in comparison with the previous year, its ratio to GDP declined. There was also a change in the current account structure as the year-on-year decline in the trade surplus was offset by improvements in the services balance and current transfers balance. The lower trade surplus stemmed from the adverse effects of rising import intensity and the increasing prices of raw materials on world markets.

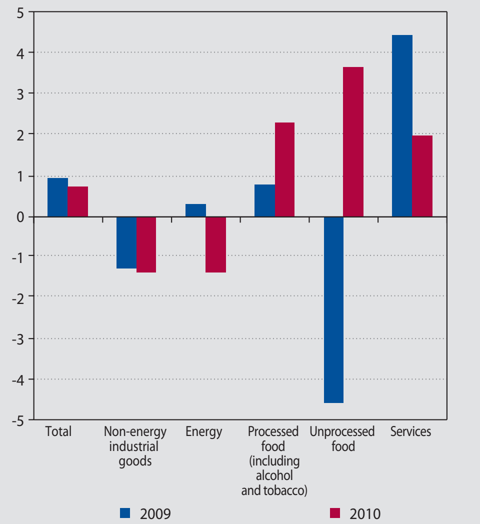
Despite persisting structural imbalances, the labour market began gradually to stabilise in 2010 owing to the recovery in economic activity. This was reflected in the unemployment rate, which fell over the course of the year. Average employment for the whole of 2010 (ESA 95 methodology) declined year-on-year; nevertheless it increased in the last two quarters. The number of hours worked recorded a year-on-year rise in 2010, after falling in the previous year. Given the upturn in the economy, both nominal and real wage growth accelerated slightly in the year-on-year comparison. Labour productivity increased year-on-year in both nominal and real terms, as a result of the rise in GDP. The increase in labour productivity overtook the real wages growth. Unit labour costs declined in year-on-year terms, largely because the rise in nominal compensation per employee was relatively low compared with real labour productivity growth.

Price developments in 2010 were influenced by the global recovery of economic activity and the consequent gradual increase in the price level, which in December 2010 recorded a year-on-year rise of 1.3%. The gradual acceleration of inflation was driven by both external and domestic factors. World prices of oil and agricultural commodities put upward pressure on the price

2 Further details can be found on the ECB website at www.ecb.int level, while stagnating domestic demand had a partially dampening effect. Commodity prices affected inflation mainly through the increase in prices of fuel and food. The slower rise in services prices reflected the level of consumer demand, which remained low amid uncertainty about future developments in the labour market and due to the decline in disposable income.

As regards the implementation of monetary policy in 2010, the ECB continued to focus on addressing the negative effects of the recession. The Governing Council made no changes to the ECB's key interest rates, and thus the main refinancing rate remained at 1.0%, the marginal lending facility rate at 1.75% and the deposit facility rate at 0.25%.

Chart 4 Inflation components (average rise in %)



Source: SO SR and NBS calculations.

1.2.1 Price developments

Consumer prices

Inflation as measured by the Harmonised Index of Consumer Prices (HICP)

The average inflation rate slowed from 0.9% in 2009 to 0.7% in 2010. As for core inflation (the headline rate excluding including prices of energy and unprocessed food), it averaged 0.7% in 2010, which was 0.9 percentage points lower than in the previous year. The annual headline inflation rate for December 2010 reached 1.3%, representing an increase of 1.3 percentage points on the rate reported in December 2009.

That the average inflation rate fell despite a substantial rise in food prices was attributable to a fall in regulated energy prices in January 2010, to slower inflation in services prices, and also to slightly lower growth in prices of non-energy industrial goods. The gradual increase in prices of commodities (both energy and non-energy) led to a gradual acceleration in the annual rate of inflation, and by the end of 2010 the rate was higher than in December 2009.

Price developments in 2010 were determined by a combination of external and domestic factors. The domestic price level was influenced, on one hand, by the acceleration in global prices of oil and agricultural commodities, and, on the other hand, by the stagnation of domestic demand. The effect of commodity price developments on the inflation rate was seen mainly in prices of fuel and food. Consumer demand remained subdued amid uncertainty about the future (rising unemployment / declining employment), and dampened the rise in services prices.

Goods

Food prices represented the strongest inflationary component of goods prices in 2010. They were driven up by prices of agricultural commodities, which had a rising trend throughout the year. On average, food prices were higher during the whole of 2010 and their increase was most pronounced in the first three quarters. Prices of unprocessed food rose more sharply than prices of processed food. Annual food price inflation did not accelerate in the last quarter of the year because the year-on-year rise in processed food prices slowed towards the year-end. As for prices of unprocessed food, they accelerated sharply throughout the year. Processed food prices reflected the increase in prices of agricultural commodities, with rising prices of bread and flour-based products, milk and dairy products, and oils and fats. Concerning unprocessed food, fruit and vegetables became more expensive in 2010. The reduction in regulated energy prices in January 2010 translated into an average decline in energy prices for the year as a whole. However, fuel prices increased and thus mirrored the development of global oil prices. Prices of non-energy industrial goods declined on average over 2010, amid the

Table 1 HICP inflation (average for the period; year-on-year change in %)

	2009		2010					
	Dec.	Q1–Q4	Q1	Q2	Q3	Q4	Dec.	Q1–Q4
Headline rate	0.0	0.9	0.0	0.7	1.0	1.1	1.3	0.7
Goods	-1.3	-0.8	-1.0	0.1	0.6	0.7	1.0	0.1
Industrial	-0.8	-0.7	-1.4	-1.2	-1.4	-1.3	-1.1	-1.3
Non-energy industrial goods	-1.8	-1.3	-1.6	-1.5	-1.3	-1.1	-1.1	-1.4
Energy	0.9	0.3	-1.3	-0.8	-1.7	-1.6	-1.2	-1.3
Food	-2.2	-0.9	-0.2	2.7	4.6	4.6	5.1	2.9
Processed food (including alcohol and tobacco)	-0.8	0.8	0.3	2.7	3.4	2.8	2.6	2.3
Unprocessed food	-5.2	-4.6	-1.7	1.9	6.7	8.1	9.8	3.6
Services	2.8	4.4	2.0	2.0	1.9	1.8	1.8	1.9
Core inflation (headline rate excluding energy and unprocessed food prices	0.4	1.6	0.3	0.8	1.0	0.9	0.9	0.7
Headline rate excluding energy prices	-0.1	1.1	0.2	1.0	1.5	1.5	1.7	1.1

Source: NBS calculations based on data from the Statistical Office of the Slovak Republic.

continuing downward trend in demand (retail sales fell) as well as the slow rise in prices of non-energy industrial goods in the euro area.

Services

Services prices rose at a slower pace in 2010 owing to lower price increases in all the main categories, particular in prices of transport services, holidays and leisure services, and health care services. This was caused by developments in regulated prices (in the case of transport and health care, they increased more slowly than in 2009) and low demand and cost factors (affecting prices of holidays and leisure services).

Producer prices

Producer price developments during 2010 were relatively heterogeneous. While industrial producer prices and construction material prices decreased in year-on-year terms over the most part of 2010, construction work prices and agricultural product prices increased in comparison with the previous year.

Industrial producer prices fell by 2.8% year-on-year, mainly because energy prices recorded an annual drop of 6.7%, which in turn was largely caused by a sudden reduction in electricity prices in the first two months of the year. By contrast, refined oil products had the largest inflationary effect, as they increased by 30.3%.

Agricultural product prices recorded an average annual increase of 14.2% in 2010, rising from an annual drop of 8.5% in the first quarter to a relatively substantial increase of 30.0% in the fourth quarter. This change was largely due to a sharp rise in plant product prices in the second half of the year.

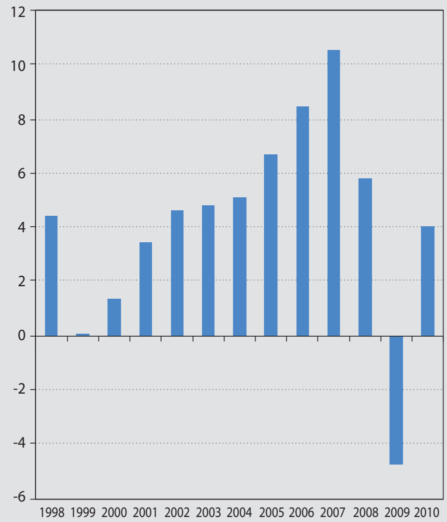
Construction work prices in 2010 rose by a modest 1.0% in year-on-year terms, without any volatility throughout the year. Construction material prices recorded an average annual decline of 3.3%, from a substantial drop of 8.4% in the first quarter of the year to a slight growth of 0.3% in the last quarter.

1.2.2 Gross domestic product

Slovakia's gross domestic product (GDP) in 2010, measured at constant prices, increased by 4.0% in year-on-year terms, according to preliminary data from the Statistical Office of the Slovak Republic. In 2009, by contrast, GDP fell by 4.8% year-on-year.

In expenditure terms, the growth in 2010 was driven mainly by the recovery of external demand, while domestic demand recorded only a modest rise. Looking at annual GDP broken down by output, the main components contributing to its growth were industry and services. The nominal volume of GDP for 2010 amounted

Chart 5 Real GDP (annual percentage growth)



Source: SO SR.

to €65,906 million, which was 4.5% higher than the figure for the previous year.

Owing to a base effect, the pace of annual GDP growth slowed from 4.7% in the first quarter to 3.5% in the fourth quarter.

After seasonal adjustments, growth continued to pick up. In quarter-on-quarter terms, GDP accelerated moderately over the year and recorded an average increase of 0.8%.

Supply side of GDP

GDP formation in 2010 was boosted by the value added component, which at constant prices recorded a year-on-year rise of 4.5% (compared to a drop of 4.6% in 2009). There was, however, a slightly dampening effect from net taxes on products (value added tax, excise tax and import tax, less subsidies), which fell by 0.7% mainly due to developments towards the year-end (in 2009 these taxes declined by 6.9%).

The sectors in which the rise in value added was most pronounced were industry and services. By contrast, the agriculture and construction sectors reported decreases in value added.

Demand side of GDP

In terms of expenditure, economic growth in 2010 was driven mainly by the continuing revival of external demand (up by 16.4%) and to a lesser extent by the slight rise in domestic demand (2.4%).

Looking at the components of domestic demand in 2010, investment demand rose by the largest margin and an increase in inventories also contributed to GDP growth. The consumption component continued to decline moderately, largely due to a decrease in household consumption. General government consumption remained flat.

Domestic investment demand

As economic activities gradually picked up in 2010, so too did the financial situation of firms. The combination of increasing profitability and an easing of bank credit standards led to a gradual recovery in corporate investment activities, especially in the second half of the year. As a result, gross fixed capital formation (constant prices) increased in 2010 by 3.6%. The main contributions to this growth were from investments of non-financial corporations in machinery and equipment and in other buildings. Almost all sectors contributed to the increase in gross fixed capital formation, with the manufacturing sector providing the largest boost.

Table 2 GDP formation and its components (index, same period a year earlier = 100, constant prices)

	2009	2010				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross output	90.2	106.6	108.2	108.5	105.7	107.2
Intermediate consumption	86.9	107.5	111.3	112.1	106.1	109.1
Value added	95.4	105.2	104.0	103.9	104.9	104.5
Net taxes on products[1)]	93.1	99.5	106.2	102.9	89.4	99.3

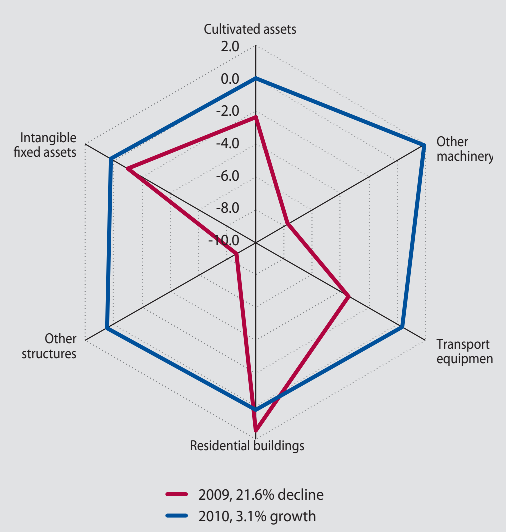
Source: SO SR.
1) Value added tax, excise tax and import tax, less subsidies.

Table 3 GDP broken down by expenditure (index, same period a year earlier = 100, constant prices)

	2009	2010				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross domestic product	95.2	104.7	104.2	103.8	103.5	104.0
Domestic demand	92.7	99.7	104.0	104.0	101.5	102.4
Final consumption	101.5	101.2	98.7	100.0	99.5	99.8
Household	100.2	99.9	98.6	99.7	100.5	99.7
General government	105.6	105.9	98.9	100.9	96.7	100.1
Non-profit institutions serving households	100.7	103.1	102.2	102.1	101.7	102.3
Gross fixed capital formation	80.1	96.6	101.8	104.8	110.6	103.6
Exports of products and services	84.1	118.3	116.1	117.3	114.3	116.4
Imports of products and services	81.4	110.9	116.0	119.2	113.5	114.9

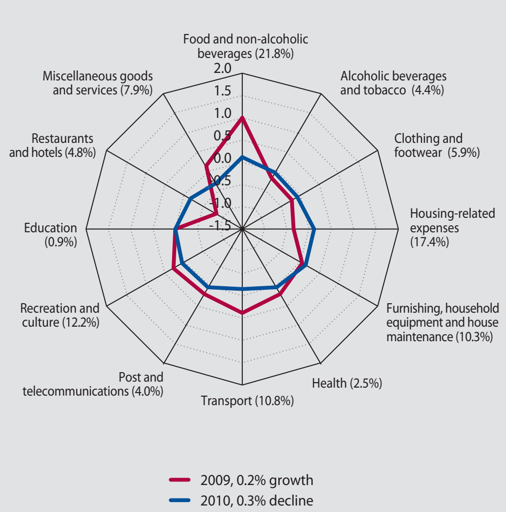
Source: SO SR.

Chart 6 Contributions to the growth in fixed investment (p.p.; current prices)



Source: SO SR. and NBS calculations.

Chart 7 Items of consumption expenditure by contribution to household final consumption growth (shares in %)



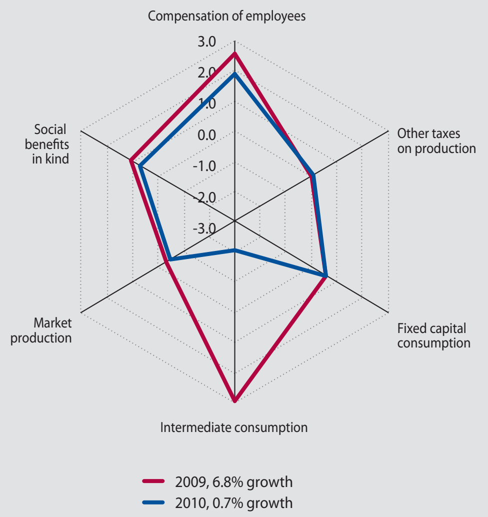
Source: SO SR. and NBS calculations.

Domestic consumption demand

Final consumption expenditure for 2010 fell slightly in year-on-year terms, mainly due to a decline in household consumption. General government consumption remained flat.

The pickup in economic activity during 2010 was reflected in an improving labour market situation; nevertheless, household final consumption continued to decline owing to a combination of still-high unemployment, a slight decrease in household disposable income (due to lower social benefits and property income), and low consumer confidence. Looking at consumption expenditure broken down by item, its decline was largely caused by decreases in spending on various goods and services and on transport, and by slower growth in spending on food. The main upward pressure came from housing-related expenditure.

Chart 8 Contribution to the growth in general government final consumption (p.p.; current prices)



Source: SO SR and NBS calculations.

Exports and imports of goods and services

As external demand picked up in 2010, the economy's export performance increased and exports of goods and services rose by 19.7% at current prices. Given the existing level of import intensity, the volume of imports surged by 20.5%. Owing to the accelerated growth in imports, as well as to the rebuilding of inventories, the deficit of nominal net exports increased from €279 million in 2009 to €672 million in 2010. Price developments in external trade were related to rising prices of oil, metals, and other non-energy commodities, especially in the second half of the year. This increase was reflected mainly in the import deflator, which rose by 4.9%. The increase in the export deflator (2.9%), which was influenced by the rise in industrial producer prices, reflected the rise in commodity prices to a lesser extent owing to their lower weight. Thus, the terms of trade improved in 2010 and net exports made a positive contribution (of 2.1 percentage points) to GDP growth.

Both the export performance and the import intensity of the Slovak economy in 2010 recorded a year-on-year increase of around 10 percentage points. The openness of the Slovak economy, as measured by the ratio of exports and imports of goods and services to nominal GDP, reached 162.7% in 2010.

1.2.3 Labour market

Employment

The situation in the labour market gradually began to stabilise in 2010. Average employment (ESA 95) for 2010 as a whole fell by 1.4% year-on-year (compared to an annual drop of 2.5% in 2009), but it increased in the second half of the year in quarter-on-quarter terms. In contrast to the employment trend, the number of hours worked in 2010 rose by 1.8% year-on-year, after falling by 6.6% in 2009.

Looking at the decline in employment by sector, the largest fall in 2010 occurred in industry. The only sectors in which employment did not drop below the previous year's level were real estate and rental activities, general government and defence, and education.

The number of persons working abroad declined by 1.8% (or 2,300 persons) in 2010. Across the domestic economy, the number of employees fell by 2.4% and the number of entrepreneurs increased by (0.1%).

Unemployment

The number of unemployed (measured by a labour force sample survey) rose in 2010 by 20% in comparison with the previous year, despite the pickup in economic activity. This was reflected in the unemployment rate, which climbed by 2.3 percentage points to 14.4%. A factor in this development was the lagged effect of the GDP contraction on employment. Because of the impact of the economic crisis, firms in Slovakia began to cut production and, in an effort to protect jobs, many of them put employees on short time. Thus, in the first half of 2009, the number of hours worked fell sharply year-on-year. From the second half of 2009, the contraction of GDP was already putting downward pressure on employment, as firms were no longer able to survive simply by reducing the number of hours worked. As a consequence, and despite the recovery of economic activity, employment continued to fall in 2010 and the number of unemployed rose. According to the registers of Offices for Labour, Social Affairs and Family, the average unemployment rate in 2010 was 12.5%, which was 1.1 percentage points higher than in 2009.

Wages and labour productivity

Evidence of the gradual improvement in the labour market in 2010 was provided by the average monthly nominal wage, which increased slightly by 3.2% in comparison with 2009, to €769. The highest nominal wage growth in this period took place in the sectors of real estate (6.0%), industry (5.4%), accommodation and food service activities (4.7%), health care and social work (4.0%), and construction (3.6%). By contrast, the average nominal wage remained below the level of the previous year in the administrative services sector and other activities sector.

Average real wage growth in 2010 represented 2.2% year-on-year, which was 0.8% higher than in 2009 owing to lower annual inflation.

The volume of GDP in 2010 came very close to the pre-crisis level, but it was produced by a far fewer number of workers. Thus labour productivity (GDP per employee in the economy) increased in both nominal and real terms in 2010, after declining in 2009.

The increase in labour productivity exceeded real wage growth by 3 percentage points, and this development had a favourable effect on unit labour costs, which fell by 2.7% in year-on-year terms. That figure was 10.2 percentage points lower than the increase recorded in 2009, and it may help to strengthen the country's competitive advantage in the area of labour costs.

1.2.4 Financial results

Profits of financial and non-financial corporations in 2010 amounted to €9,144.3 million, according to preliminary data from the Statistical Office of the Slovak Republic. This represented a rise of 24.4% compared with 2009 (profits in that year fell by 17.8%). The upturn in the financial result was mainly attributable to profits of non-financial corporations, which rose by 30.4% year-on-year (after falling by 30.8% in 2009). This favourable trend stemmed from the revival in economic activity during the year. However, the increase in profitability of non-financial corporations was partially offset by the profits of financial corporations, which slumped by 27.8% compared with the previous year.

The profitability growth of non-financial corporations reflected the higher profits generated in all sectors of the economy amid the overall economic recovery. The most substantial contribution to the profit growth of non-financial corporations was made by the industry sector (a contribution of 17.4 percentage points from a year-on-year profit increase of 40.7%). All other sectors also recorded a substantial rise in their financial result in comparison with the previous year, with all sectors achieving a severalfold increase in profits. Profitability in the industry sector was boosted mainly by profits in manufacturing, which climbed by 109.8% year-on-year; the sectors that made the largest contributions

Table 4 Labour market indicators

	2009	2010				
	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4
Nominal wage (index)	103.0	102.1	103.5	103.7	103.8	103.2
Real wage (index)	101.4	101.6	102.3	102.6	102.7	102.2
Nominal compensation per employee – under ESA 95 (index)	105.0	103.0	103.3	101.5	102.5	102.7
Labour productivity in terms of GDP (index, current prices)	98.6	106.4	106.2	106.3	103.8	105.7
Labour productivity in terms of GDP (index, constant prices)	99.7	108.1	105.8	104.3	102.8	105.2
Employment – under ESA 95 (index)	97.5	97.0	97.7	99.3	100.5	98.6
Unemployment rate according to a LFSS[1] (%)	12.1	15.1	14.4	14.1	13.9	14.4
Nominal unit labour costs[2]	107.5	95.4	96.9	97.1	99.6	97.3

Source: SO SR, and NBS calculations based on SO SR data.
1) Labour force sample survey.
2) Ratio of compensation per employee growth at current prices to labour productivity growth (ESA 95) at constant prices.

to manufacturing profits were manufacture of transport equipment, manufacture of metals and metal products, and manufacture of chemicals and pharmaceutical products.

The profits of financial corporations in 2010 amounted to €554.3 million, representing a year-on-year drop of 27.8%. The sector largely responsible for the deterioration in the financial result was monetary financial institutions, owing to the loss reported by Národná banka Slovenska. Financial corporations not including NBS reported profits that were 53.5% higher than in the previous year. Other financial intermediaries also recorded profit growth, while the profits of insurance corporations and pension funds were almost the same as in 2009.

1.2.5 Balance of payments

Current account

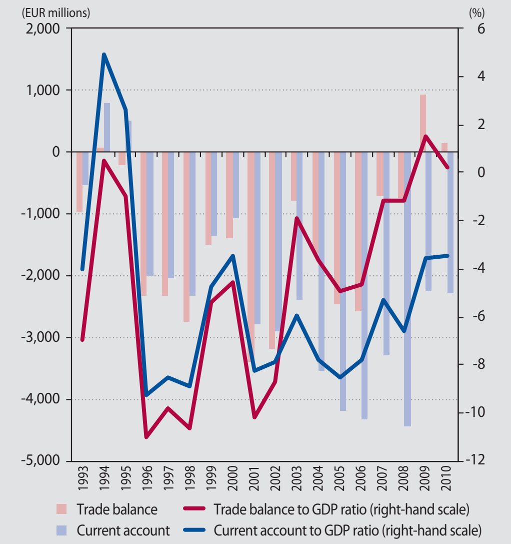
In 2010, the current account of the balance of payments amounted to €2.3 billion. Although this represented only a slight increase on the previous year, the structure of the current account underwent a substantial change. The year-on-year decline in the trade balance surplus was offset by improvements in the services balance and current transfers balance, while the income balance deficit recorded only a minimal change compared to the previous year. The ratio of the current account deficit to GDP (at current prices) represented 3.5%, which was similar to the ratio in 2009. The current account in 2010 reflected

Table 5 Balance of payments current account (EUR billions)

	2010	2009
Trade balance	0.1	0.9
Exports	48.8	39.7
Imports	48.7	38.8
Services balance	-0.7	-1.2
Income balance	-1.2	-1.3
of which: investment income	-2.4	-2.4
of which: reinvested earnings	-0.6	-0.5
Current transfers balance	-0.4	-0.7
Current account in total	-2.3	-2.3
Current account to GDP ratio (%)	-3.5	-3.6

Source: NBS and the SO SR.

Chart 9 Current account and trade balance developments



Source: NBS and the SO SR.

the fading of the effects of the financial and economic crisis, mainly through an increased volume of exports and imports, improvements in the balance of services, and a moderate rise in dividend payments as a result of positive expectations for the future.

The year-on-year deterioration in the trade balance surplus stemmed from the negative effect of rising import intensity, the increasing prices of raw materials on world markets, and the higher investments and inventories. These factors substantially outweighed the positive effect of export growth (stimulated by the pickup in external demand that followed the fading of the economic crisis). Thus exports and imports recorded strong year-on-year growth in 2010, after falling in 2009. Exports increased by 22.8% and imports by 25.5%.

The deficit in the services balance contracted in comparison with the previous year, mainly due to an improvement in the balance of *other services in total*, caused by a drop in expenditures on financial services and by an increase in revenue for provided computer services. Owing to weak domestic demand, the balance of *tourism services* improved through a decline in expenditure. By contrast, expenditure on transport services climbed as a result of the higher volume of transported goods, and this development put upward pressure on the deficit in the balance of transport services.

The year-on-year improvement in the income balance was attributable to the *compensation of employees* balance, which recorded a higher surplus owing to a decline in remittances of non-resident workers in Slovakia. The *investment income* balance remained largely unchanged owing to the effect of opposing factors. On one hand, expected increase in foreign direct investment enterprises profits was reflected in the rise in dividends paid to external investors; on the other hand, this effect was offset by positive developments in interest income in the NBS sector.

The current transfers balance recorded a year-on-year improvement in 2010 due to an increased surplus in the balance of *general government transfers*, where the rise in income from EU funds was accompanied by a decline in payments to the EU budget.

Capital and financial account of the balance of payments

The capital and financial account of the balance of payments recorded a surplus of €0.5 billion in 2010 (compared to a surplus of €3.4 billion in 2009). The inflow of funds to the capital and financial account declined in year-on-year terms, largely due to a drop in received deposits in the balance of *other investments* (which was caused by the robust inflow of funds to the Government and NBS sector in 2009 when NBS borrowed funds through TARGET2).

Table 6 Capital and financial account of the balance of payments (EUR billions)

	2010	2009
Capital account	1.0	0.5
Direct investment	0.0	-0.3
Abroad by Slovak residents	-0.2	-0.3
of which: equity capital	-0.4	-0.3
reinvested earnings	0.2	0.0
in SR	0.3	0.0
of which: equity capital	-0.2	0.8
of which: non-privatised FDI[1)]	-0.2	0.8
reinvested earnings	0.4	0.5
Portfolio investment and financial derivatives	-1.3	-0.7
Other long-term investment	-0.1	-0.8
Other short-term investment	0.9	4.8
Capital and financial account in total	0.5	3.4

Source: NBS.
1) FDI – foreign direct investment.

Foreign direct investment rose in 2010 mainly due to inflows of other capital, as domestic direct investment enterprises recorded a decline in claims of affiliated enterprises on direct investors and an increase in liabilities to them.

In the *portfolio investment* balance, the year-on-year rise in the outflow of funds was caused by an increase in demand among residents for foreign securities, which was only partly offset by higher demand among non-residents for government debt securities.

In the *other investment* balance, the year-on-year decline in the inflow of funds was caused mainly by developments in the Government and NBS sector in 2009, when funds flowed into the sector as a result of the policy adopted by NBS after Slovakia joined the euro area (in order to meet its liabilities vis-à-vis the banking sector, the central bank borrowed funds from the Eurosystem through TARGET2, instead of using its foreign reserves).

External debt of Slovakia

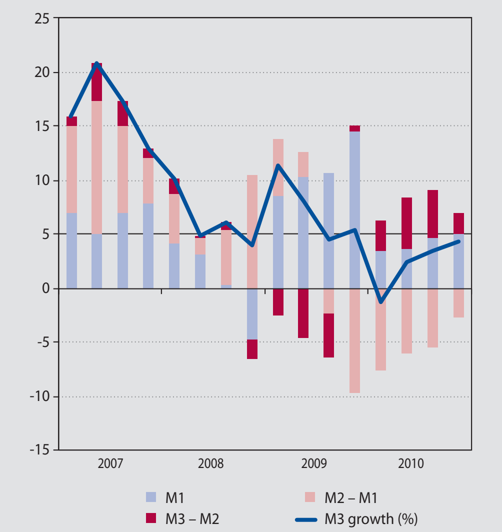
As a result of developments in the balance of payments, the external debt of Slovakia in 2010 increased by €3.9 billion (USD 0.5 billion), to €49.3 billion (USD 65.8 billion). This mainly reflected a rise in demand for government bonds and an increase in the share of the commercial sector's short-term external liabilities. According to preliminary data, Slovakia's total gross external debt as a share of GDP at current prices reached 74.7% as at 31 December, representing an increase of 3.1 percentage points compared with 2009.

Nominal and real effective exchange rates

The nominal effective exchange rate (NEER) index weakened by an average of 2.7% year-on-year in 2010, after appreciating by 8.0% in the previous year. The depreciation of the NEER index largely accounted for weakening against the Czech koruna, to the extent of 0.9 percentage point.

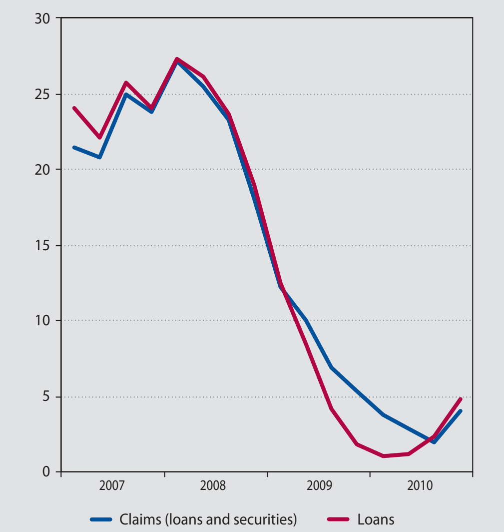
The weakening of the NEER index was reflected in the real effective exchange rate (REER) index

Chart 10 Contributions of components to M3 growth (p.p.; annual percentage growth)



Source: NBS.

Chart 11 MFI claims on the private sector (quarterly average in %)



Source: NBS.

based on industrial producer prices – manufacturing, which depreciated by 7.1% in 2010 after appreciating by 6.4% in the previous year.

1.2.6 Monetary developments

Monetary aggregates

Monetary indicators showed positive tendencies in 2010 as a result of favourable economic developments. The contribution of monetary financial institutions (MFIs) to the euro area's M3 monetary aggregate began rebounding in the third quarter of 2009 and it increased at a gradually accelerating pace in 2010. As at the year-end, the annual growth of M3 represented 4.3%. The main contributor to this growth was the increase in incomes in the household and non-financial corporation sectors. Another determinant of monetary aggregate developments was the shape of the yield curve. On the counterpart side, M3 growth was accompanied by an increase in lending.

Turning to the sectoral breakdown, the increase in private sector deposits was driven mainly by an increase in deposits of non-financial corporations. This reflected positive macroeconomic developments that were largely the result of rising external demand. The growth in output and sales that led to an increase in deposits occurred mainly in export-dependent sectors (industry, and transport and storage). The types of deposits of non-financial corporations which recorded the largest growth were the most liquid deposits. As for household deposits, they also increased during 2010, reflecting the weak consumption in this sector and the consequently higher savings ratio. The growth in deposits in 2010 was also supported by a moderate acceleration in wage growth. In seeking higher remuneration on their deposits, households gravitated towards long-term fixed deposits not included in M3. Thus the amount of M3 deposits recorded a slight year-on-year decline throughout 2010.

Turning to claims, their amount as at the end of 2010 was 4.5% higher than a year earlier. The growth in claims was accounted for mainly by loans to the private sector, with securities remaining flat. The preferred sources of financing for non-financial corporations were own funds and loans rather than the issuance of securities, particularly in the last quarter of 2010.

Towards the end of 2010, lending growth to non-financial corporations ceased its year-on-year downward trend and entered positive territory. Most of the growth was accounted for by short-term loans. This development reflected the rise in economic activity, with firms having to finance inventories and increased production. There was also growth in long-term loans with a maturity of more than five years, which may have been affected by the slightly higher investment demand. As for long-term loans with a maturity of between one and five years, their declining tendency became more pronounced.

Lending to households increased in the favourable macroeconomic circumstances. In this case, real estate loans continued to account for most of the growth, and the rise in these loans accelerated slightly in 2010. This mainly reflected the continuing moderate decline in property prices, the loosening of credit standards (through the slight lowering of interest rates and easing of collateral requirements – to allow loans for up to 100% of the value of the property), and positive expectations for economic developments in the future. The household sector's demand for loans as a means of refinancing older loans remained relatively strong.

Investment in open-end investment funds (OIFs)

For all categories of OIFs in Slovakia (both euro-denominated and foreign currency-denominated funds), total net sales in 2010 amounted to €377.3 million.[3] This was more than three times higher than the figure for 2009, and the breakdown of the sales by fund category showed considerable differences. Money market funds reported negative net sales in 2010, after being the clear market leader among investment funds in 2009. Other fund categories had positive net sales for the year, with bond funds and mixed funds recording the highest sales.

Interest rates

The European Central Bank (ECB) made no change to its key interest rates in 2010. Through longer-term and short-term operations, the ECB provided liquidity and ensured that the interbank market functioned smoothly. This was reflected in market interest rates, which remained relatively stable throughout the year and in retail rates, particularly in deposit and lending rates for non-financial corporations. Lending rates for households recorded a slightly downward trend in 2010, owing to the strong competition among banks for customers and to the fact that funds for the financing of the credit expansion were relatively cheap and accessible.

Lending rates for non-financial corporations remained stable in 2010. In the household sector, prices of real estate loans maintained a slightly falling trend. This favourable development was largely due to the fact that banks had the scope to set lower interest rates. This is evidenced by the difference between average interest rates in Slovakia and in the euro area as a whole, which reached 2 percentage points. As a result of competition, however, this difference fell in the last quarter to around 1.4 percentage points. In the case of consumer loans, interest rates remained stable, although relatively high (at around 13%).

3 The merger of investment funds and their conversion into euro funds at the end of 2008 caused a significant increase in the number of funds denominated in the domestic currency (euro) and decrease in the number of funds denominated in foreign currency (from around 550 to 460), according to data from the Slovak Association of Asset Management Companies. In 2009, the number of funds again fell sharply (from 574 in July to 495 by the year-end), and in 2010 the number stabilised at between 494 and 511 (the year-end number of 498 was only slightly higher than the figure at the end of 2009).

CHAPTER 2

IMPLEMENTATION OF EUROSYSTEM MONETARY POLICY, FOREIGN EXCHANGE OPERATIONS, AND INVESTMENT ACTIVITIES IN FOREIGN RESERVE MANAGEMENT

2

2 Implementation of Eurosystem monetary policy, foreign exchange operations, and investment activities in foreign reserve management

2.1 Monetary policy operations

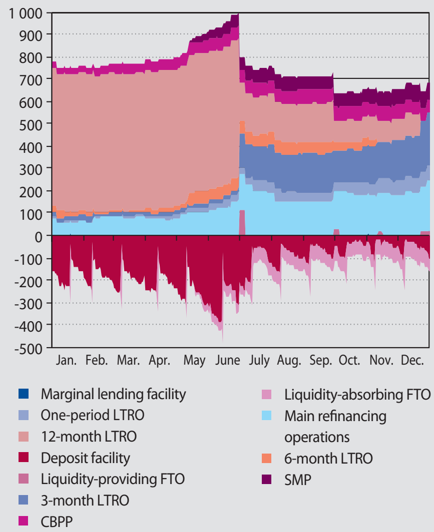
The European Central Bank (ECB) implements monetary policy through the respective national central banks (NCBs) of the Eurosystem. In doing so, it employs a range of instruments of which the most frequently used are the main refinancing operations (MRO), longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and standing facilities comprising the marginal deposit facility and marginal lending facility. During the financial crisis, the standard conduct of these operations was partly modified, in particular by the ECB broadening the maturity spectrum at which it offers refinancing operations and by introducing a fixed-rate tender procedure with full allotment. In 2010, the ECB gradually began to implement an exit strategy from these non-standard measures, firstly by discontinuing or not renewing six- and twelve-month LTROs and reducing the number of three-month operations to one per month.

The ECB's response to the financial crisis was not confined to euro liquidity-providing operations, but also included the introduction of liquidity-providing operations in US dollars and Swiss francs conducted through swap lines with, respectively, the Federal Reserve System and the Swiss National Bank. The swap line in Swiss francs was discontinued at the beginning of 2010 owing to the lack of demand from market participants, while the US dollar liquidity-providing swap line was conducted by the Eurosystem throughout 2010, even though the banking sector used it for only minimal amounts of refinancing.

In 2009, the Eurosystem sought to revive the securities market by using another non-standard instrument: the Covered Bond Purchase Programme (CBPP). Under the programme, the ECB together with the national central banks purchased bonds in the nominal value of €60 billion within a period of one year, i.e. by June 2010.

The beginning of 2010 saw the emergence of a new kind of problem in the European financial market, namely the excessive debt of certain euro area countries and the fact that these countries had difficulty to borrow in the capital market. Trading in government bonds issued by certain peripheral countries came to almost a complete standstill, as the supply of sovereign debt far exceeded the demand due to the higher borrowers' credit risk. This situation represented a threat to the financial stability of the euro area. In order to ease pressure on the capital market, the ECB in June 2010 introduced the Securities Markets Programme (SMP), under which it acts in cooperation with national central banks to purchase government bonds of selected countries. By the end of 2010, the value of securities purchases made under the programme amounted to €74 billion. To sterilise the liquidity provided through the SMP, a number of liquidity-absorbing operations were carried out. These ensured that the SMP had a neutral effect on the Eurosystem's monetary policy stance.

Chart 12 Eurosystem operations in 2010 (EUR billions)



Source: ECB.

The ECB did not make any changes to the monetary policy rate in 2010, maintaining it at the historically lowest level of 1.00%. Before the financial crisis, the EONIA moved very close to the key interest rate, but last year it remained below that rate and at the same time very close to lower bound of the corridor. This was due to the surplus liquidity that the banks had accumulated following the ECB's switch to a full-allotment procedure. During this period, however, the ECB did not discontinue the standard overnight fine-tuning operation conducted at the end of the reserve maintenance period to absorb excess liquidity. As a consequence there were short-term rises in the EONIA overnight interest rate at the end of each reserve maintenance period. As non-standard LTROs gradually matured, thereby reducing the excess liquidity in the banking sector, the overnight market rate became more volatile and more frequently approached the main monetary policy interest rate.

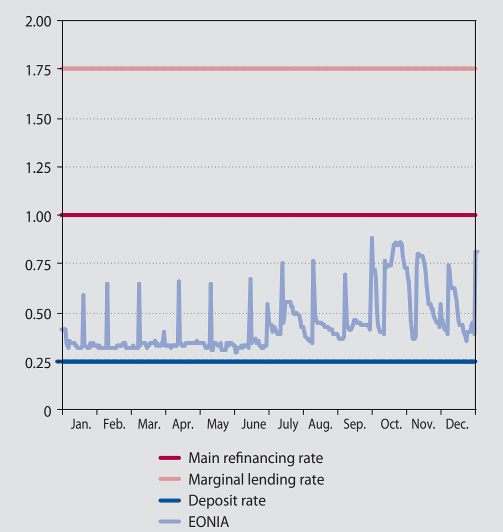
Minimum reserves

Under Eurosystem rules, all credit institutions operating in the euro area are required to hold a minimum amount of reserves with the respective national central bank (NCB). In 2010, a total of 29 credit institutions operating in Slovakia were subject to minimum reserve requirements; they comprised 14 banks that had their registered office in Slovakia (including three home savings banks) and 15 branches of foreign credit institutions. In 2010, the reserve ratio remained unchanged at 2% of the reserve base (a selected group of deposits and issued debt securities) and the average value of the reserve requirement was €686.34 million, which was around 7% lower than the average for 2009.

Eligible assets

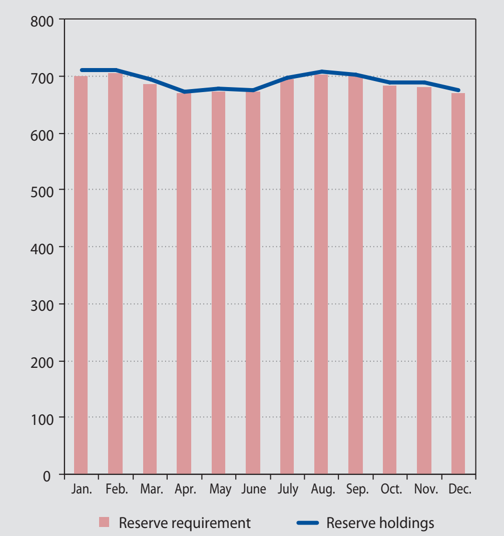
The conduct of Eurosystem monetary policy operations in 2010 continued to be marked by the consequences of the financial crisis, with the ECB and NCBs applying several non-standard measures concerning the eligibility assessment of assets which are accepted as collateral in Eurosystem credit operations or the subject of outright transactions. Certain temporary measures that had been introduced in the previous year and remained in force in 2010 had significant influence on the eligibility of assets used in Eurosystem monetary policy operations. Temporary measures pertaining to the eligible assets were: the acceptance of a lower credit rating in the credit risk assessment of assets, issuers or borrowers; the decision to accept non-euro denominated assets registered in EEA countries; to accept specific government bonds issued by G10 countries and registered outside the EEA, and the recognition of counterparties' deposit operations as collateral, although under the conditions of the Single List the assets in question comprise main-

Chart 13 Key ECB interest rates and the EONIA rate in 2010 (% p.a.)



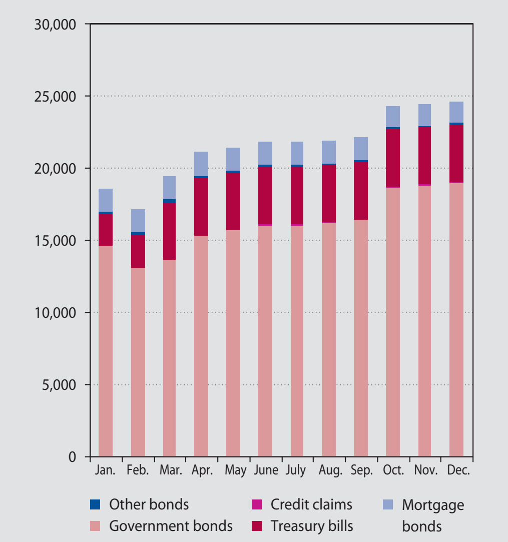
Source: ECB and Bloomberg.

Chart 14 Minimum reserves of Slovak banks in 2010 (EUR millions)



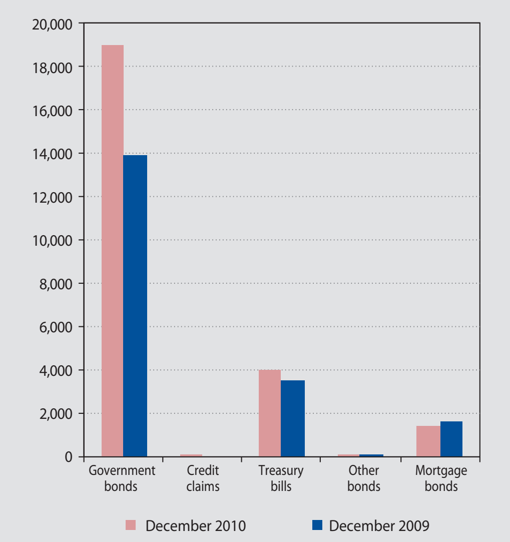
Source: NBS.

Chart 15 Structure of Slovak eligible assets in 2010 (EUR millions)



Source: NBS.

Chart 16 Slovak eligible assets – development of structure (EUR millions)



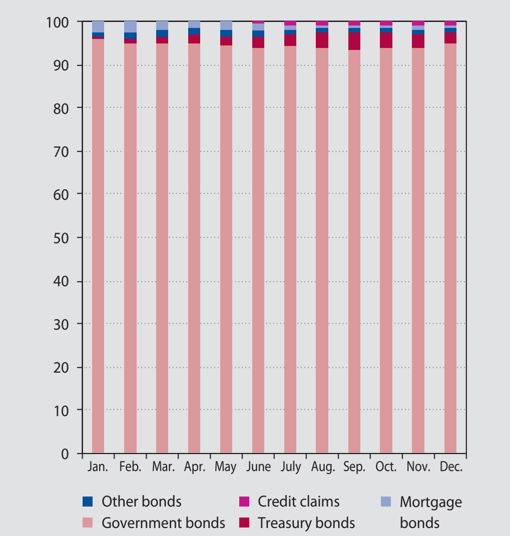
Source: NBS.

ly debt securities and credit claims. In response to financial markets being less liquid and to the unavailability of market prices of assets, it was decided to change the Eurosystem rules concerning the theoretical valuation of assets. The new system of valuation haircuts has been in force since January 2011.

Eligible debt securities issued and held in Slovakia and included in the Eurosystem's Single List had an overall value of €24,594 million at the end of last year. The structure of eligible assets was dominated by government securities, which represented approximately 94% of all debt instruments issued in Slovakia, followed by mortgage bonds issued by credit institutions. The rest of these securities comprised other types of bonds and credit claims of credit institutions on the non-financial sector of the economy.

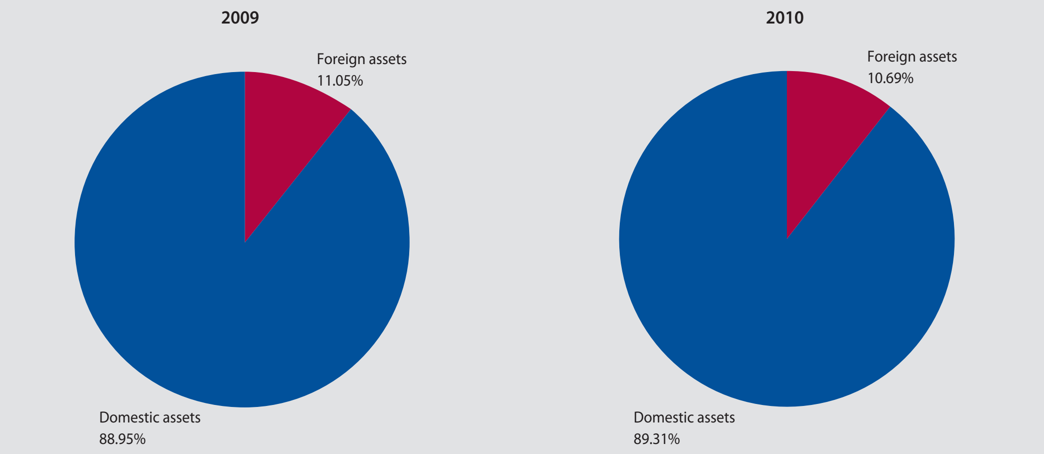
The value of collateral pledged by counterparties to pool accounts held by Národná banka Slovenska increased in 2010 due to the more active participation of Slovak counterparties in monetary operations, but also to the use of intraday credit in the TARGET-2SK payment system. In the previous year, as in 2009, the first year of Slovakia's membership of the Eurosystem, the pledged collateral consisted mainly of domestic debt securities; the assets issued in other euro area countries accounted only for 10.7 % of the pledged collateral. The assets most frequently used as collateral were government bonds, Treasury bills, covered bank bonds issued in accordance with the UCITS Directive, and other bonds issued by non-financial institutions. In contrast to 2009, credit claims were also used as collateral. In the monetary policy operations, Slovak counterparties used their collateral in a coordinated way, within the collateral pooling system.

Chart 17 Use of eligible assets in 2010 (%)



Source: NBS.

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



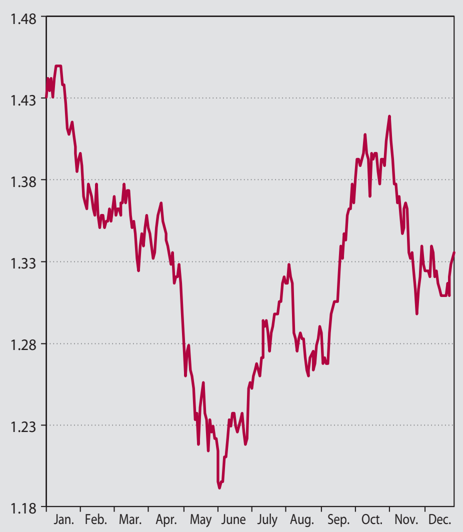
Source: NBS.

2.2 FOREIGN EXCHANGE OPERATIONS

Foreign exchange market operations

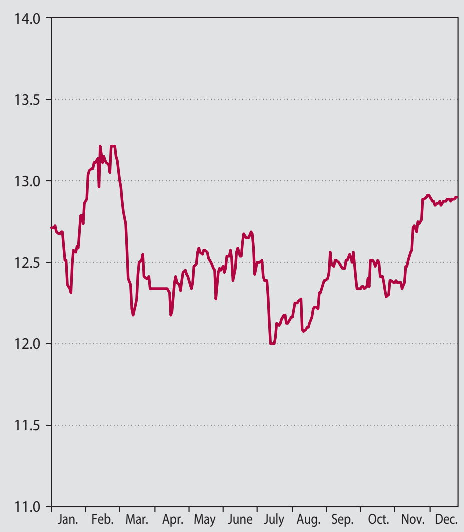
The euro showed greater volatility in 2010, as it reacted to the public finance problems facing certain European countries. The currency depreciated significantly in the first half of 2010, from its strongest level of the year in January (1.45 USD/EUR) to its weakest level of the year in June (1.19 USD/EUR). In the second half of the year, the euro fluctuated within this corridor with an appreciating tendency. The euro ended 2010 at 1.3362 USD/EUR, which in year-on-year terms represented a depreciation of 7% against the US dollar. The European Central Bank did not intervene on the foreign exchange market in 2010.

Chart 19 Euro-US dollar exchange rate in 2010



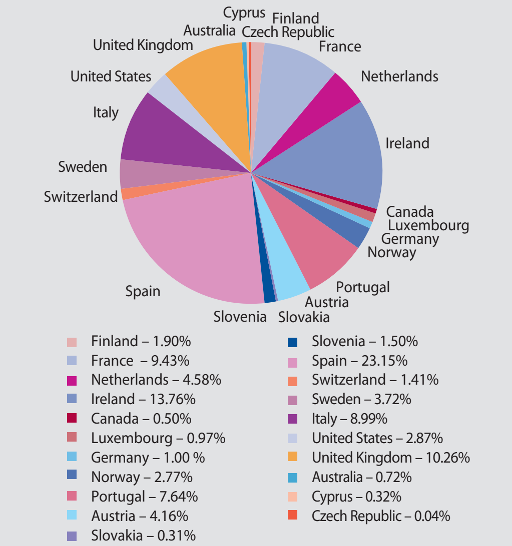
Source: Bloomberg.

Chart 20 Investment reserves under NBS management in 2010 (EUR billions)



Source: NBS.

Chart 21 Euro investment portfolio – breakdown by country



Source: NBS.

INVESTMENT ACTIVITIES UNDER INVESTMENT RESERVES MANAGEMENT

In managing investment assets in 2010 (the second year of Slovakia's euro area membership), NBS continued, as in 2009, to apply the principles laid down in the NBS Investment Strategy approved in 2008. Following the euro adoption, the management of investment reserves at NBS consists of managing assets and liabilities so as to ensure that the balance makes a positive contribution to the central bank's performance over the long-term. The total value of investment assets, at the corresponding exchange rates and market prices, increased from €12.7 billion at the end of 2009 to €12.9 billion at the end of 2010. For the euro investment portfolio, the effective net return on investment reserves, less interest expenses, represented minus 4.0%, while for the US dollar investment portfolio it was 0.5%. Interest rate risk in the investment portfolios is managed in a standard way through interest rate swaps and futures contracts. In 2010, the overall return on investment reserves as calculated from the performance of individual portfolios was around minus €483 million.

CHAPTER 3

SUPERVISION OF THE FINANCIAL MARKET

3

3 Supervision of the financial market[4]

The structure of the Financial Market Supervision Unit (hereinafter "the FMS Unit") was modified in 2010 under an amendment to the Organisational Rules of Národná banka Slovenska that entered into force as of 1 July of the same year. The aim of the change was to remove conflicts of interest in the hearing of appeals against first-instance decisions of the FMS Unit, as well as to ensure that the FMS Unit's new structure mirrors the supervisory structure at the European level, i.e. the newly-established European System of Financial Supervision (ESFS). Under the influence of the European supervisory architecture, the FMS Unit now has a structure that reflects its change of approach, from supervision at the level of consolidated groups to supervision of the financial market on a sector by sector basis. As from 1 July 2010, the FMS Unit is headed by an Executive Director who is not a member of the NBS Bank Board. The FMS Unit has three departments covering the following areas: regulation and analysis; licensing and supervision; and proceedings against financial market entities subject to supervision, namely: the Regulation and Financial Analysis Department, the Banking and Payment Services Supervision Department, and the Securities Market, Insurance and Pension Savings Supervision Department.

3.1 Financial market regulation in the Slovak Republic

The Regulation and Financial Analysis Department of the FMS Unit is responsible for the preparation of draft laws, of implementing NBS generally binding regulations, and of the FMS Unit's methodological guidelines and recommendations in regulated areas of the financial market. It is also responsible for producing objective analyses of the financial market in order to support the timely identification and quantification of trends that pose a threat to the stability of the domestic financial sector as a whole.

Banking sector

In 2010, the NBS Bank Board approved nine implementing regulations and one methodological guideline concerning the banking sector.

As regards regulation of the Slovak financial market, one of the issues addressed by the FMS Unit in 2010 was the use of expected loss models to calculate credit risk in banks. In summer 2010, **Decree No. 11/2010 of Národná banka Slovenska,** stipulating methods of valuing positions recorded in the banking book and details of the valuation of positions recorded in the banking book, including the frequency of such valuations, was adopted by the NBS Bank Board and subsequently published. This Decree, together with **Decree No. 12/2010 of Národná banka Slovenska,**[5] regulated the methodology of this calculation and took expected loss models as a basis. The assets covered by this regulation include primarily those recorded in the banking book since the underestimation of credit risk relates mainly to banks' credit portfolios.

The full transposition into Slovak law of Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 (on credit agreements for consumers and repealing Council Directive 87/102/EEC) was carried out in 2010 with the enactment of **Act No. 129/2010 Coll.** on consumer credits and other credits and loans for customers and on amendments to certain laws. The purpose of this Act was to create a legal framework to streamlining the functioning and increase the efficiency of the consumer lending market as part of the harmonised internal market of the EU. Following the adoption of the Act, the *Register of Creditors and Sub-Register of Other Creditors* was established as a new online register in which the public may access information on registered creditors and other creditors.

In 2010, Národná banka Slovenska initiated and drafted an amendment to Act No. 483/2001 Coll. on banks and on amendments to certain laws, as amended, which would allow a bank's customer to obtain from the Register of Bank Loans and Guarantees (maintained by NBS) any information that relates to him. Where a customer obtains information about himself from the Register, the information will cease to be subject to banking secrecy. In connection with these amendments, and in regard to the scope of the required amendments, NBS has also prepared a new draft decree on the Register of Bank Loans and Guarantees.

4 A detailed report on the activities of the Financial Market Supervision Unit for 2010 is published on the website of Národná banka Slovenska at http://www.nbs.sk/en/financial-market-supervision/analysis-reports-and-publications-in-the-field-of-financial-market/reports-on-the-activities-of-the-financial-market-supervision

5 Decree No. 12/2010 of Národná banka Slovenska of 8 June 2010 amending Decree No. 4/2007 of Národná banka Slovenska on banks' own funds of financing and banks' capital requirements and on investment firms' own funds of financing and investment firms' capital requirements, as amended.

Insurance sector

In 2010, the NBS Bank Board approved six implementing regulations and two methodological guidelines concerning the insurance sector.

The regulations included: **Decree No. 18/2010 of Národná banka Slovenska** on the average level of expenses related to financial intermediation in life insurance, which lays down the measurement, calculation methodology, and dates for disclosure of expenses related to financial intermediation in life insurance, and **Decree No. 4/2010 of Národná banka Slovenska** stipulating the template of insurance policy terms. The purpose of the latter was to lay down a template that should assist prospective policyholders in deciding whether to sign the insurance contract or whether the offered insurance product is suitable for them at all.

At the European level, work on the Solvency II project continued in 2010. The FMS Unit has been identifying differences between the current legislative environment and the new regulatory regime, whose main purpose is to map the areas that will remain within the competence of individual Member States, to identify particularities of the Slovak insurance market and to remove incorrectly transposed provisions of EU law. At the same time, the implications of Solvency II for NBS started to be analysed, since it is expected that the exercise of supervision will be significantly different from how it is now. In order to identify effects of the new quantitative requirements (Pillar 1 of Solvency II) on insurance and reinsurance undertakings, the Fifth Quantitative Impact Study (QIS 5) was carried out across the European Union. Národná banka Slovenska coordinated the participation of Slovak insurance undertakings in QIS 5.

Financial intermediation sector

In 2010, the NBS Bank Board approved three implementing regulations governing the sector of financial intermediation and financial advisory services, of which the most significant are **Decree No. 1/2010 of Národná banka Slovenska** on the manner of proving fulfilment of the conditions for the granting of a licence to pursue the activities of an independent financial agent and for the granting of a licence to pursue the activities of a financial adviser, and **Decree No. 9/2010 of Národná banka Slovenska** on the professional examination and certification examination for the purposes of the Act on Financial Intermediation and Financial Advisory Services.

In addition to generally binding regulation, the FMS Unit produced several methodological documents providing more detailed regulation of various aspects of operational performance as defined in Act No. 186/2009 Coll. on Financial Intermediation and Financial Advisory Services and on amendments to certain laws. One of the main issues related to the implementation of Financial Intermediation and Financial Advisory Services Act was solving problems connected with proving the professional competence of persons providing financial intermediation or financial advisory services. In this regard, NBS launched a scheme under which the professional examinations and the certification examinations would be held. The interactive practice tests for these professional and certification examinations are provided to the general public on the NBS website at http://regfap.nbs.sk/skusky. The online practice tests were taken almost 100,000 times during the course of 2010. New methodological information concerning the interpretation of Financial Intermediation and Financial Advisory Services Act was periodically added to the NBS website.

Pension savings sector

On 1 April 2010, **Regulation No. 69/2010 Coll. of Národná banka Slovenska**[6] entered into force; it reflects the new statutory rules that were introduced with effect from 1 July 2009 by Act No. 137/2009 Coll. amending Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended. The information contained in the annexes to the Regulation corresponds to the introduction of a guarantee account in each managed pension fund. This information is the starting point for determining each fund's net asset value and number of pension units, the current value of a pension unit, and the amount of the fee for the pension fund guarantee account, as well as for the calculation of the fee charged by a pension fund management company for increasing the value of a pension fund's assets.

Securities market sector

As regards regulation of the collective investment sector, the FMS Unit's most important activity in 2010 was its cooperation with the Slovak Ministry of Finance in preparing a **draft new law on collective investment,** which is expected to replace the law currently in force – Act No. 594/2003 Coll.

6 Regulation No. 69/2010 Coll. of Národná banka Slovenska which amends Regulation No. 91/2008 Coll. governing the provision of information on transactions in pension fund assets and on the balance of pension fund assets by pension fund management companies and their depositories, and amending Decree No. 567/2006 Coll. specifying the contents of reports on the management of pension fund assets, the management of own funds by a pension fund management company, the manner and scope of their publication, and the contents of daily information on each transaction in pension fund assets, as amended by Decree No. 523/2008 Coll.

on collective investment and on amendments to certain laws as amended. The statutory regulation of collective investment needs to be overhauled in order to transpose the new UCITS IV Directive (2009/65/EC) and to reform and update Slovak legislation accordingly. In addition to new elements in the cross-border activities of management companies and collective investment undertakings, the new law will strengthen also the regulation of organisational requirements and rules for the activities of management companies, including extensive requirements for the risk management system. This approach, together with the introduction of new and easier to understand pre-contractual information for unit holders is expected to increase the protection of investors.

All areas of the financial sector

In the last quarter of 2010, **Decree No. 19/2010 of Národná banka Slovenska** on fees for acts performed by Národná banka Slovenska was approved by the NBS Bank Board, on the basis of the enabling clause of Section 41(3) of Act No. 747/2004 Coll. on supervision of the financial market and on amendments to certain laws as amended. The Decree was produced because of the need to set the amount in euro of fees charged by NBS for different types of acts and proceedings, to ensure uniformity of fees for similar types of acts and proceedings undertaken by NBS in the sectors of banking and payment services, capital market, insurance, pension saving and financial intermediation and financial advisory services, and to bring the NBS Decree into line with the current state of the law in the given sectors.

3.2 THE BANKING AND PAYMENT SERVICES SECTOR AND THE FOREIGN EXCHANGE SECTOR

Licensing activity and enforcement

Within the scope of its activities as a department of the FMS Unit, the Banking and Payment Services Supervision Department performs off-site and on-site supervision, decides on granting of licences, conducts first-instance proceedings and issues first-instance decisions regarding the rights and obligations of supervised entities or other entities operating in the banking and payments services sector or in the foreign exchange sector. It also grants authorisations, licences, approvals and prior approvals, imposes fines, remedial measures and other sanctions, issues other decisions and opinions pursuant to the Financial Market Supervision Act and separate laws, and oversees the implementation of its decisions, including compliance with the conditions laid down therein. Since June 2010, it has maintained the *Register of Creditors Providing Consumer Credits* in accordance with the Act on Consumer Credits.

In addition, this Department sends to or receives from entities in the banking and payment services sector notifications of terms and conditions regarding their intention to provide services in the territory of the Slovak Republic or in Member States of the European Economic Area via the freedom to provide services, whether through establishing a branch or not.

In 2010, the Department issued 150 administrative decisions concerning the banking sector, including 117 that were grants of prior approval to replace a member or members of the board of directors or supervisory board, managerial employees or general proxies. In 2010, Národná banka Slovenska recorded 24 credit institutions (including electronic money institutions and foreign financial institutions) that notified their intention to provide cross-border banking services in the territory of the Slovak Republic.

Three authorisations in the area of payment services provision were issued in 2010, including two for the issuance of electronic money (to Telefónica O2 Slovakia, s.r.o. and Slovak Telekom, a.s.) and one for the provision of payment services (to

Table 7 Number of first-instance proceedings in the banking and payment services sector and foreign exchange sector in 2010

Proceedings carried over from 2009 to 2010	Proceedings brought in 2010	Decisions issued in 2010	Decisions that entered into force in 2010
9	166	173	173

Source: NBS.

RM – S Market, o.c.p., a.s.). As for the foreign exchange sector, a total of 16 foreign exchange licences for currency exchange activities were granted last year, on the basis of legal and factual assessment of the application and enclosed documents.

As at 31 December 2010, the number of creditors (including banks and branches of foreign banks) that were included in the *Register of Creditors Providing Consumer Credits* was 112.

Regarding the banking sector, one first-instance proceeding to impose a sanction was initiated in 2010 and two decisions were isuued. An appeal was filed against one of the decisions, and the procedure in this case came to an end with the issuance of a second-instance decision in 2010.

As for the foreign exchange sector, two first-instance proceedings to impose a fine for a violation of foreign exchange regulations were brought in 2010. In one case, the final first-instance decision was taken in the same year. In the case of one first-instance proceeding brought in 2009 to impose a penalty for a violation of foreign exchange regulations, the respective decision entered into force in 2010.

Supervisory activities

The bank supervision programme for 2010 was based on evaluations of the risk profiles of the supervised banks as well as on the impact of the financial and economic crisis on the banking sector and resulting main risks to the sector. The key priorities for 2010 was the monitoring of banks' credit risk, credit portfolios, liquidity, and intragroup transactions.

In 2010, the FMS Unit produced a regular quarterly analysis of individual banks and the banking sector as a whole and an annual report on each bank (including a detailed assessment of its capital adequacy). For the purpose of the aggregate assessment of risks and capital in banking groups, the FMS Unit also produced *risk profile and capital evaluation reports* for the home supervisors of those banks that are subsidiaries of banks established in another EU country.

A total of eight thematic inspections and two follow-up inspections were conducted in 2010, and seven of them were formally completed by the end of the year. The focus of the thematic inspections was: the credit risk management system; loan-loss provisioning; the market risk management system; liquidity risk; the provision of investment services; and information systems security and the prevention of money laundering. The follow-up inspections centred on compliance with conditions for using an internal ratings-based approach for the calculation of capital requirements and on the implementation of measures to improve recommendation in regard to market risk and liquidity management.

The supervision process also included assessments of banks' internal models for credit, market and operational risk (and of modifications to these models). These assessments were made on the basis of applications made by the banks for prior approval to use an internal model for the calculation of capital requirements on particular risk types. Where such application is made jointly by a parent bank and its subsidiary banks, the assessment of the models is, in accordance with EU law, carried out in cooperation with the supervisors of the parent and subsidiaries. The home supervisor and host supervisors come to a joint decision on whether the use of an internal model is eligible and, if so, on the conditions under which it may be used.

In 2010, a total of three applications for prior approval to use an internal model for the calculation of capital requirements were filed. In two cases, the supervisors' joint decision was negative and the applicant banks were not granted prior approval. Also in 2010, nine applications were made for the assessment of modifications to models for the calculation of capital requirements on particular risk types. Two of the applications were for the modification of an internal model that used the advanced measurement approach for operational risk, and seven applications were for the modification of an internal ratings-based approach for credit risk.

3.3 INSURANCE, PENSION SAVING AND FINANCIAL INTERMEDIATION SECTOR

Licensing activity and enforcement

The Securities Market, Insurance and Pension Savings Department is responsible for off-site supervision, on-site supervision, and licensing of supervised entities in the insurance, pension saving, financial intermediation and securities market sectors, and for the conduct of proceedings involving such entities.

Proceedings involving insurance sector entities concerned mainly the granting of prior approval for the election of a board of directors member, prior approval for modifying (extending) an authorisation for insurance activities, two authorisations for reinsurance activities, and an authorisation for inclusion in the list of actuaries.

Proceedings involving entities in the financial intermediation sector concerned mainly the granting of authorisations to perform the activities of either an independent financial agent or a financial advisor or for the modification of such authorisations.

Proceedings involving entities in the pension saving sector concerned mainly the granting of prior approval for amending the rules of a pension fund, prior approval for the election of supervisory board member, and prior approval for the modification of a benefit plan.

In 2010 there were 13 proceedings concerning the imposition of a sanction or other obligation on entities in the insurance, pension saving and financial intermediation sectors, and four of the proceedings commenced in 2010. The FMS Unit issued 13 first-instance decisions in these sanction proceedings, ten of which entered into force in the same year. In the other three cases, the Bank Board of NBS issued in 2010 a second-instance decision and imposed sanctions, procedural fees, or other obligations that brought the proceedings to a close.

In 2010 there were 13 proceedings concerning the imposition of a sanction or other obligation on entities in the insurance, pension saving and financial intermediation sectors, and four of the proceedings commenced in 2010. The FMS Unit issued 13 first-instance decisions in these sanction proceedings, ten of which entered into force in the same year. In the other three cases, the Bank Board of NBS issued a second-instance decision in 2010 that brought the proceedings to a close.

Supervisory activities

On-site inspections in 2010 were conducted mainly on the basis of the annual supervision programme. In preparing this programme, particular account was taken of the on-site inspections conducted in previous years (i.e. the supervision programme focused on those companies that had not previously been subject to an on-site inspection) as well as on the significance of companies in the sector.

Insurance sector

As regards off-site supervision, the FMS Unit examined the periodic statements and reports of insurance undertakings and of the Slovak Bureau of Insurers (SKP) issued for the whole of 2009 (audited) and for the first three quarters of 2010 (interim), and it also examined reports sent on an ad hoc basis. In 2010, information on the activities performed in the Slovak Republic by branches of insurance undertakings from other Member States was for the first time submitted to Národná banka Slovenska.

On-site inspections in 2010 focused on the insurer's compliance with the provisions of Act No. 8/2008 Coll. on insurance and on amendments to certain laws as amended, with separate laws in the respective scope, and with the relevant implementing generally binding regulations, as well as on its compliance with conditions stipulated in the authorisation issued under the Insurance Act. A total of five comprehensive inspections, one thematic inspection, and one follow-up inspection were conducted at insurance undertakings in 2010.

Pension saving sector

In 2010, off-site supervision of the retirement pension sector covered six pension fund management companies (managing a total of 18 pension funds) and banking entities perform-

Table 8 Number of first-instance proceedings in the insurance, pension saving, and financial intermediation sectors 2010

Proceedings carried over from 2009 to 2010	Proceedings brought in 2010	Decisions issued in 2010	Decisions that entered into force in 2010
22	403	369	341

Source: NBS.

ing depository activities under the Retirement Pension Saving Act. Off-site supervision of the supplementary pension sector in 2010 covered five supplementary pension asset management companies (managing a total of 15 supplementary pension funds) and four banking entities providing depository activities under Act No. 650/2004 Coll. on supplementary pension saving as amended. The process of off-site supervision includes the production of half-yearly reports, mainly in order to monitor market risks in pension funds (using the VaR historical simulation method) and especially the sensitivity of pension funds to changes in interest rates, share prices and exchange rates.

In 2010, a follow-up on-site inspection was completed at one pension fund management company and comprehensive on-site inspections were completed at two supplementary pension asset management companies.

Financial intermediation and financial advisory sector

The off-site supervision of this sector in 2010 consisted mainly of ongoing checking of supervised entities for compliance with the obligation to inform NBS when they filed an application for the registration of authorised activities in the Commercial Register and when these activities were actually registered in the Commercial Register, pursuant to Section 19 of the Act on Financial Intermediation and Financial Advisory Services. This process revealed that supervised entities were not fully complying with this obligation and that they were not proceeding consistently.

In 2010, nine comprehensive inspections and one follow-up inspection were conducted among supervised entities, and one on-site inspection was not formally completed by 31 December. In one case, an on-site inspection could not be carried out because the supervised entity was not located at its official address.

3.4 SECURITIES MARKET SECTOR

Licensing and enforcement

Proceedings involving collective investment undertakings concerned mainly the granting of prior approval for amending the rules of an open-end fund or the rules of a special fund, prior approval for the election of a member of the supervisory board of a management company, and an authorisation to establish an investment fund.

Proceedings involving investment firms concerned mainly the granting of prior approval for the election of a board of directors member and prior approval for the acquisition of a qualifying holding in an investment firm. In one case, the amendment (extension) of an investment firm's authorisation to provide investment services was approved, and in another case an investment firm was granted an authorisation to provide investment services.

Decisions concerning the public offering of securities involved mainly the granting of approvals of mortgage bond prospectuses.

Most of the decisions concerning takeover bids involved the approval of mandatory offers for an issuer's shares.

Decisions concerning the Central Securities Depository involved mainly the granting of prior approval for the election of a board of directors member or a supervisory board member.

Decisions concerning the Bratislava Stock Exchange (BSSE) involved mainly the granting of prior approval for the election of a member of the BSSE Board of Directors.

A total of 11 proceedings concerning the imposition of sanctions on entities in the collective investment sector were conducted in 2010, including 7 that commenced in the same year. The FMS Unit issued six first-instance decisions in these

Table 9 Number of first-instance proceedings in the securities market sector in 2010

Proceedings carried over from 2009 to 2010	Proceedings brought in 2010	Decisions issued in 2010	Decisions that entered into force in 2010
7	234	229	228

Source: NBS.

Table 10 Number of financial market entities in the sectors of banking, payment services, foreign exchange, insurance, pension saving, financial intermediation and financial advisory services, the securities market, and collective investment

	Number as at 31 December 2009	Number as at 31 December 2010
Banks	15	15
of which: home savings banks	3	3
Branches of foreign banks	13[1)]	16[2)]
Payment institutions	1	2
Electronic money institutions	2	3
Places of foreign exchange	1,200	1,191
Insurance undertakings	20	20
Branches in Slovakia of insurance or reinsurance undertakings that have their registered office in another EU Member State	13	15
Supplementary pension asset management companies (SPMCs)	5	5
Pension fund management companies (PFMCs)	6	6
Financial institutions[3)]	-	80
Independent financial agents[3)]	-	910
Financial advisers[3)]	-	15
Tied financial agents[3)]	-	19,934
Subordinate financial agents[3)]	-	26,245
Tied investment agents[3)]	-	343
Investment firms as defined in the Securities Act, which are not banks	18	18
Foreign investment firms operating in Slovakia through branches established in accordance with the MiFID	6	6
Domestic management companies	8	8
Foreign management companies operating in Slovakia through a branch (under Section 75 of the Collective Investment Act)	2	2
Foreign management companies that operate in Slovakia without establishing a branch (pursuant to Section 75 of the Collective Investment Act)	2	2
Foreign investment companies operating in Slovakia without establishing a branch (pursuant to Section 75 of the Collective Investment Act)	1	1

1) As at 31 December 2009, the following branches of foreign credit institutions had not commenced banking activities – AXA Bank Europe, a branch of a foreign bank, and UNIBON, a savings and credit cooperative that is an organisational unit of a foreign entity.
2) As at 31 December 2010, the following branches of foreign credit institutions had not commenced banking activities – BKS Bank AG, a branch of a foreign bank in Slovakia, and AKCENTA, a savings and credit cooperative (Košice-based branch).
3) As of 1 January 2010, Act No. 186/2009 Coll. On financial intermediation and financial advisory services and on amendments to certain laws entered into force and introduced a new regulatory system for financial intermediation and financial advisory services throughout the financial sector. Consequently, individual entities cannot be stated as at 31 December 2009 in the structure applicable as at 31 December 2010.

sanction proceedings, five of which entered into force in 2010. In one case, the Bank Board of NBS issued a second-instance decision in 2010 that brought the proceeding to a close.

Supervisory activities

The purpose of off-site supervision is to monitor and evaluate the financial position and risk profile of supervised entities on the basis of periodically submitted information, information acquired from on-site inspections, and publicly available information. The main information sources in this regard are statements sent to Národná banka Slovenska, half-yearly management reports and mandatory disclosures that companies make on their websites. It is on the basis of follow-up analyses of such information that quarterly off-site analysis outputs are produced.

The on-site inspections conducted in the securities market sector in 2010 comprised four comprehensive inspections of investment firms, one thematic inspection of an investment firm and three comprehensive inspections of management companies.

Investment firms – non-banking entities
On-site supervision of these entities in 2010 included the completion of one comprehensive inspection, the commencement and completion of three other inspections (one of which was concluded in the first half of January 2011), and, in accordance with the supervision programme, one on-site inspection that was commenced but not completed.

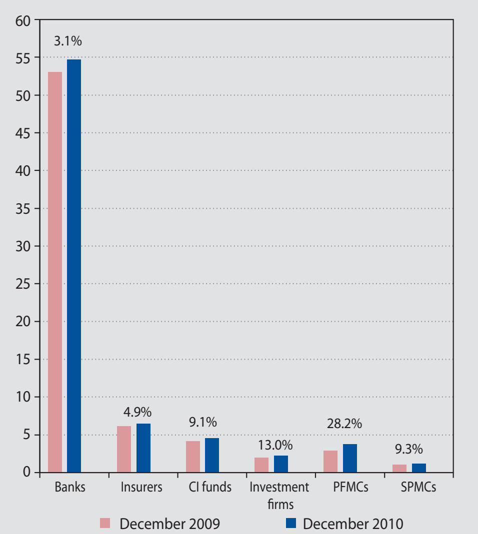
Collective investment
In this sector in 2010, one comprehensive on-site inspection was brought to a close, one comprehensive on-site inspection was commenced and completed, and, in accordance with the annual supervision programme, another on-site inspection was commenced but not completed in 2010.

Securities issuers and companies making a public offering
In 2010, Národná banka Slovenska exercised off-site supervision over issuers whose securities are admitted to trading on a regulated stock exchange and over companies making public offerings, in each case focusing on their compliance with the disclosure requirements laid down in the Stock Exchange Act and the Securities Act. A total of 102 issuers were listed on the Bratislava Stock Exchange (BSSE) as at the end of 2010, and four companies made public offerings during the course of the year. All of these entities were obliged to submit to NBS an annual financial report and half-yearly financial report. In addition to regulated information, issuers are required to publish a preliminary management statement in the first six months of the accounting period and another preliminary statement in the second six months. Issuers are required to publish regulated information, and companies making regulated offers are under the same requirement as issuers in regard to the publication of reports. Also in 2010, NBS exercised off-site supervision over bond issuers, mainly by checking their compliance with bond issue conditions under Section 3(5) of Act No. 530/1990 Coll. on bonds and their compliance with the obligation, under Section 8(1) of the Bond Act, to submit the issue conditions to NBS. NBS then published the submitted issue conditions in the Commercial Bulletin in accordance with Section 3(5) of the Bonds Act. A total of 75 bond issues were made by 28 issuers during the course of 2010, and all the issuers met the above-mentioned disclosure requirement. NBS supervision of bond issuers also included monitoring of their websites.

3.5 CONSUMER PROTECTION

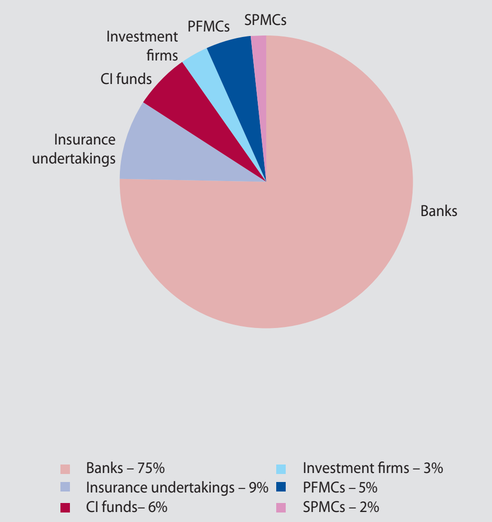
The Financial Clients Protection Section of the FMS Unit deals with submissions from customers of financial institutions that are subject to supervision by Národná banka Slovenska, and in doing so it acts in accordance with competences laid down by law and in the Organisational Rules of NBS. In many cases, the FCP Section ensures "redress" for dissatisfied customers of supervised financial market participants (for example, by reversing an insurer's decision not to pay an insurance claim), who would otherwise have to pursue their claim through the judicial system. Standard financial market participants cooperate with Národná banka Slovenska, supply NBS with information on customer submissions, abide by opinions issued by NBS, and are willing to seek solutions and, in certain cases, to review their decisions.

Chart 22 Amount of assets or managed assets by segment of the Slovak financial market (EUR billions)



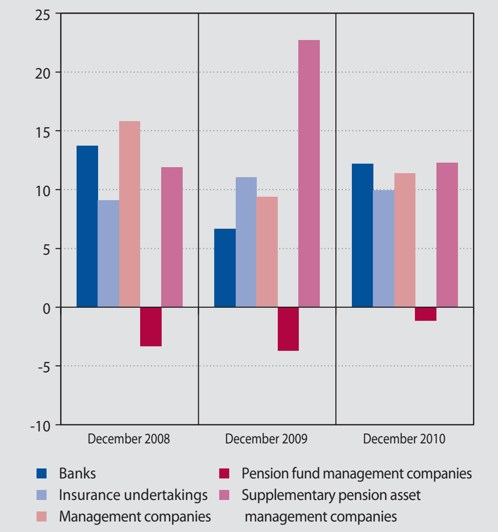
Source: NBS.
Note: The percentage above each column represents the relative change over the past 12 months.

Chart 23 Financial market segments by share of the total assets or managed assets in the Slovak financial market (as at 31 December 2010)



Source: NBS.

Chart 24 Average return on equity by financial market segment (%)



Source: NBS.
Note: Return on equity (ROE) is net income expressed as a percentage of equity capital.

In 2010, the FMS Unit received a total of 799 complaints from legal and natural persons about financial service providers, and managed to settle 738 of them in that year. The sectors that had the highest number of complaints were insurance (354 – mostly concerning claims under compulsory third-party motor insurance and matters relating to investment life insurance) and banking (281 – most frequently about changes in the amount of bank charges and about a bank's interest rate policy). Regarding the capital market, the most frequent subject matter of complaints was service fees; regarding the supplementary pension saving sector, it was the amount of the withdrawal fee; and regarding the financial intermediation sector, it was the method, scope and quality of information provision.

3.6 FINANCIAL MARKET DEVELOPMENTS[7]

Asset growth slowed slightly in the second half of 2010

Most sectors of the financial market recorded a stronger performance in 2010 than in 2009. The overall assets of institutions regulated by NBS rose by 5.2% in comparison with the previous year, to stand at €72.7 billion, although the pace of asset growth slowed slightly over the second half of 2010.

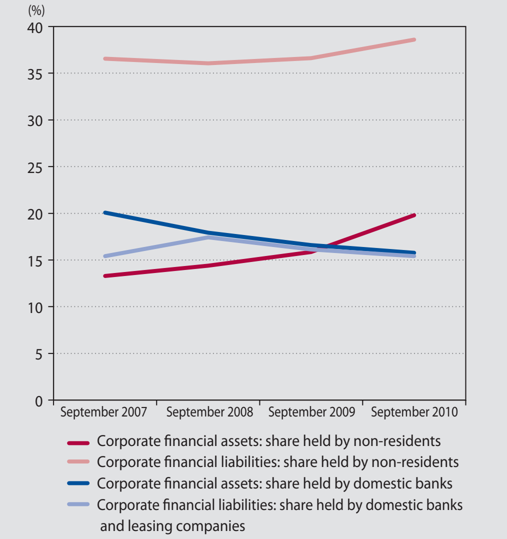
A number of trends seen in the first half of 2010 continued during the rest of the year. Asset growth was most pronounced in segments focused on the management of customers' financial assets, as households continued to accumulate financial assets in pension funds and in collective investment funds; these segments recorded the highest year-on-year percentage increase.

The increase in assets of insurance undertakings slowed in the second half of 2010 as a result of decelerating growth in life insurance. In the banking sector, however, asset growth rebounded amid a slowdown of investment in securities and increasing growth in lending to customers. Even so, the pace of asset growth in the banking sector was far short of that recorded in the period from 2005 to 2008.

The result of changes in financial sector assets was that the banking sectors' share of overall assets fell, while the share of the pension saving sector recorded a further significant rise and the share of other sectors increased moderately.

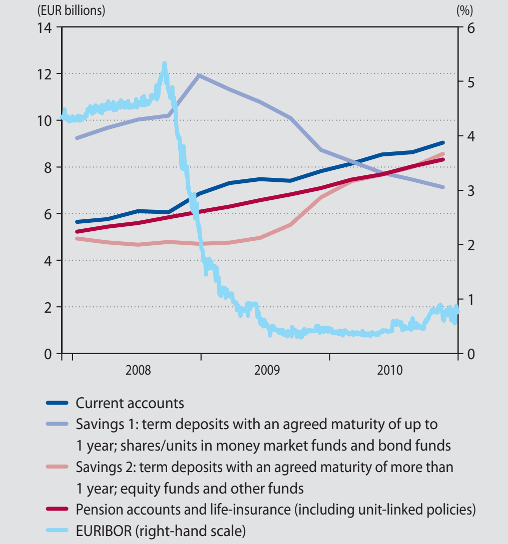
7 *Preliminary data as at 31 December 2010.*

Chart 25 Links between corporates and the domestic financial sector



Source: NBS.

Chart 26 Household financial assets from the view of liquidity



Source: NBS.

Unclear trends in financial sector profitability

In general, profits in the Slovak financial sector increased in 2010, but this was not the trend in all segments of the sector.

The positive trend was most pronounced in the banking sector, which recovered from a sharp slump in profits in 2009. Nevertheless, the sector's level of profitability in 2010 remained well below that recorded in 2008. Another green shoot is the continuing trend decline in the overall loss of pension fund management companies, which is related to the level of initial investments. There was also a certain improvement in the results of collective investment undertakings, with their profits boosted by growth in the net asset value of the funds under their management. By contrast, the aggregate profit of the insurance sector fell slightly.

Table 11 Household financial liabilities broken down by exposure to the domestic financial sector (%)

	Dec. 2008	Dec. 2009	Dec. 2010
Leasing	3.0	2.3	1.9
Consumer credit	7.2	6.3	6.0
Bank loans	89.8	91.4	92.1

Source: NBS.

The links between corporates and the domestic financial sector continued to weaken in 2010

The extent of links between the financial sector and corporate sector in Slovakia continued its declining trend in 2010 in regard to both the claims and liabilities of the corporate sector. The underlying trend is a gradual increase in the share of non-residents in the overall financial liabilities of corporates. The corollary of this is a decline in the extent to which domestic banks and leasing companies are involved in corporate financing.

Another trend is the falling amount of leasing business. This dates back to the end of 2008 and may be explained by the fact that leasing companies are more heavily exposed to those economic sectors (for example, transport) that were harder hit by the economic downturn. Banks, by contrast, managed to offset the decline in lending to more sensitive sectors by increasing lending to other sectors (in particular: electricity and gas supply; and administrative, telecommunication and information services).

In general, two trends may be distinguished. Over the past two years, the share of domestic financial institutions in overall corporate financing has been diminishing, while at the same time the share of the leasing sector in financing has been falling, to the benefit of the banking sector.

Changes in lending growth, whether caused by demand-side or supply-side factors, correlated with investment in securities. When the credit portfolio was stagnating (mainly due to the drop in loans to corporates), the purchasing of securities accelerated. When, however, lending increased in the second half of 2010, the purchasing of securities slowed.

Increasing importance of households to the financial sector

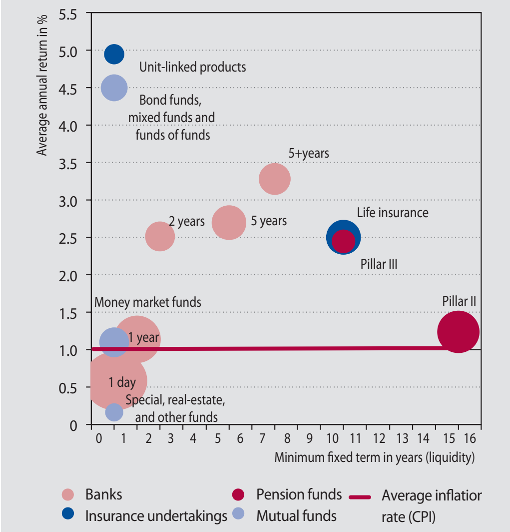
The situation in the household sector differs considerably. The basic difference is that households make negligible use of non-resident sources for the financing of their investments or the management of their financial assets. In the last two years in the domestic market, households have to a greater extent been oriented on bank loans and have to a lesser degree obtained financing from leasing companies and consumer credit companies. This is related to the fact that housing loans have grown relatively sharply while consumer loans have recorded only a moderate increase.

The trends observed in household financial assets in previous periods continued in 2010. The most substantial change in their structure was caused by growth in pension funds, which are constituting a gradually increasing share of household financial assets. In this respect, the situation in Slovakia is gradually approaching that in Western Europe, where pension funds and life insurance account for a relatively higher proportion of such assets.

The rise in the significance of the pension saving sector was reflected in a relative decline in bank deposits. As regards the amount of household financial assets, it is clear that term deposits in banks with an agreed maturity of up to one year underwent the largest changes. They negatively affected financial asset growth in this sector, which in several months of 2009 and 2010 was slower than in 2007 and 2008.

From the view of banking sector stability, it is positive that the amount of household financial assets held with banks continues to surpass the amount of loans that banks have provided to households.

Chart 27 Household financial assets by maturity and gross performance



Source: NBS.
Note: The size of the bubble represents the amount of assets. The composition of groups is determined by similarity of performance. For life insurance, the maximum technical interest rate is shown. The Chart does not include equity funds, which recorded a yield of 26%.

Mixed developments in returns on household financial assets

After declining in 2009 amid the downturn in global financial markets, the returns on individual types of household financial assets recorded a recovery during the first half of 2010. This applies mainly to growth and balanced funds under Pillar II of the pension saving system, to contributory funds under Pillar III of the pension saving system, and to all collective investment funds.

The rise in interest rates on new bank deposits with an agreed maturity of more than five years represented a significant change, and it was accompanied by rapid growth in the amount of these deposits.

Despite the turnaround in returns on household financial assets, there was no notable shifting of funds between individual products of financial institutions. The most substantial change has been the growth in deposits with a maturity of more than one year.

CHAPTER 4

ISSUING ACTIVITY AND CURRENCY CIRCULATION

4

4 Issuing activity and currency circulation

4.1 CUMULATIVE NET ISSUANCE OF CASH IN CIRCULATION

4.1.1 Euro banknotes and euro coins

The cumulative net issuance (hereinafter "the CNI")[8] had a total value of €6.05 billion as at 31 December 2010 (Table 12), which represented a year-on-year increase of 30.8%.The increase in the CNI was far higher than the highest year-on-year rise recorded when the Slovak koruna was the currency of Slovakia. In fact, the CNI was almost €0.7 billion higher than the peak value of the koruna currency (SKK 162 billion, as at 21 December 2007).

The *currency in circulation* item, corresponding to the allocated share of NBS in the Eurosystem's production of euro banknotes, represented €7.7 billion as at 31 December 2010.[9]

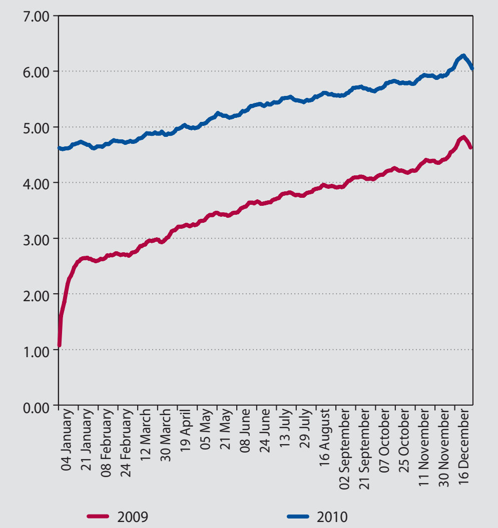
Chart 28 shows the daily cumulative net issuance of euro cash in 2009 and 2010. The CNI peaked on 23 December, in the pre-Christmas period, at €6.3 billion. The daily CNI in 2010 followed the same pattern as in 2009, except that it was higher by between €1.5 billion and €2 billion.

Euro banknotes accounted for almost the entire value of the CNI (98.29%). On the other hand, looking at the number of units, banknotes accounted for only 19.64% of the total number of banknotes and coins, with euro coins making up 80.34% and euro collector coins the rest.

Up to 31 December 2010, NBS issued €89 million banknotes and 364 million coins, including commemorative and collector coins (Table 12). The banknote issued in the largest number was the 50 euro note, which made up 31% of the total number of banknotes issued. The coins minted in the largest number were the lowest-value coins (the 1 cent, and 2 cent coins), which together represented 49% of the total number of coins issued.

According to how the CNI of euro banknotes and euro coins has developed so far, Slovakia (through NBS) does not yet show the longer-term trend of being a "recipient country"[10] for any denomination of euro banknotes or euro coins.

Chart 28 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

The average value of the currency mark[11] calculated on the basis of the issued euro cash (including collector coins), represented €13.4. For euro banknotes, the average value of the currency mark was €67, and for euro coins it was €0.28.

As at 31 December 2010, the number and value of euro banknotes per head of population[12] in Slovakia stood at, respectively, 16 and around €1,102, and the corresponding figures for euro coins were 67 and €18. The overall value of the cumulative net issuance per capita represented €1,120.

The most numerous denomination of euro banknotes was the 50 euro note, of which there were 5 per capita. As for euro coins, the most numerous denominations were the two lowest-value coins: the 1 cent coin (16 per capita) and the 2 cent coin (17 per capita).

4.1.2 SLOVAK KORUNA CASH

By 1 January 2010, the volume of Slovak koruna cash that had not been returned from circulation represented less than 3% of the total issuance. Thus the amount of Slovak koruna cash returned to NBS fell sharply in 2010, to only around SKK 527 million (of which almost SKK 251 million was

8 Since Slovakia is a member of the euro area, the cash in circulation in the country includes also euro banknotes and euro coins issued in other euro area Member States; consequently, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins which NBS itself puts into and takes out of circulation. The cumulative net issuance as at a given date represents the difference between the value (volume) of euro banknotes and coins put into circulation and taken out of circulation since (and including) 1 January 2009.

9 As at 31 December 2010, the value of currency in circulation throughout the euro area stood at €839.7 billion, and Slovakia's share of that value represented 0.9140%, or around €7.7 billion.

10 This means that NBS has so far put into circulation more euro banknotes and euro coins of each denomination than it has taken out of circulation.

11 Average value of the currency mark = cumulative net issuance by nominal value / cumulative net issuance by number of banknotes and coins.

12 The population of Slovakia as at 31.12.09 was 5.4 million, according to the Statistical Office of the Slovak Republic.

Table 12 Cumulative net issuance of euro banknotes and euro coins broken down by value (EUR)

	Cumulative net issuance as at 31 December 2010		Difference versus 31 December 2009		Share in % as at 31 December 2010	
	EUR	pieces	EUR	pieces	EUR	pieces
€500	2,115,092,000.00	4,230,184	689,950,000.00	1,379,900	34.96	0.93
€200	192,087,200.00	960,436	-10,315,400.00	-51,577	3.17	0.21
€100	1,741,640,000.00	17,416,400	438,853,400.00	4,388,534	28.78	3.85
€50	1,361,891,700.00	27,237,834	186,394,000.00	3,727,880	22.51	6.02
€20	369,301,360.00	18,465,068	82,520,340.00	4,126,017	6.10	4.08
€10	128,642,290.00	12,864,229	23,194,250.00	2,319,425	2.13	2.84
€5	38,483,145.00	7,696,629	1,826,835.00	365,367	0.64	1.70
Total banknotes	**5,947,137,695.00**	**88,870,780**	**1,412,423,425.00**	**16,255,546**	**98.29**	**19.64**
€2	53,474,870.00	26,737,435	7,671,804.00	3,835,902	0.88	5.91
€1	21,275,547.00	21,275,547	531,472.00	531,472	0.35	4.70
50 cents	11,783,397.00	23,566,794	585,200.50	1,170,401	0.19	5.21
20 cents	6,411,722.00	32,058,610	480,813.20	2,404,066	0.11	7.08
10 cents	3,762,801.40	37,628,014	405,265.30	4,052,653	0.06	8.31
5 cents	2,211,786.35	44,235,727	313,403.20	6,268,064	0.04	9.77
2 cents	1,804,388.84	90,219,442	422,962.48	21,148,124	0.03	19.93
1 cent	878,777.22	87,877,722	236,745.42	23,674,542	0.01	19.42
Total coins	**101,603,289.81**	**363,599,291**	**10,647,666.10**	**63,085,224**	**1.68**	**80.34**
Collector coins	**2,105,680.00**	**113,280**	**1,423,750.00**	**67,517**	**0.03**	**0.03**
Total cash	**6,050,846,664.81**	**452,583,351**	**1,424,494,841.10**	**79,408,287**	**100.00**	**100.00**

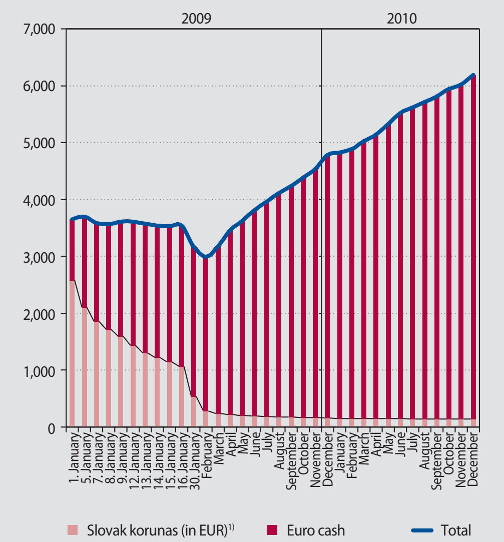
Source: NBS.

returned in January). As at 31 December 2010, the koruna cash still in circulation comprised 19.9 million banknotes (including 10.3 million 20 koruna notes) and 394.5 million coins (including 170 million 50 halier coins and more than 102.9 million 1 koruna coins). The value of unreturned koruna cash was approximately SKK 4.25 billion (€140.9 million).

As measured by the number and value of banknotes and coins per capita in Slovakia, the koruna cash still in circulation represented approximately 3 banknotes worth SKK 522 and 73 circulation coins worth SKK 135. The overall value of the koruna cash (including Slovak commemorative coins) remaining in circulation represented SKK 786 per capita. The most numerous koruna banknotes and coins still in circulation as at 31 December 2010 were the 20 koruna note, at 2 per capita, and the 50 halier coin, at 31 per capita.

The withdrawal of Slovak korunas and their replacement with euro cash is plotted in Chart 29.

Chart 29 Monthly issuance of euro cash and Slovak koruna cash in circulation (EUR billions)



Source: NBS.
1) The conversion rate is EUR 1 = SKK 30.1260.

4.2 DELIVERIES OF EURO BANKNOTES AND THE PRODUCTION OF EURO COINS

On the basis of an ECB Guideline of 9 April 2009 on the production of euro banknotes, NBS in 2010 procured 218.5 million 20 euro banknotes and delivered them to the Eurosystem. In doing so, NBS also discharged the liabilities it had incurred in borrowing euro banknotes during the preparations of Slovakia's entry into the euro area. The banknotes were procured in cooperation with six other euro area central banks; the production was ensured by the Dutch printer Joh. Enschedé Banknotes B.V.

NBS procured the production of 30 million 1 cent euro coins and 50 million 2 cent euro coins by Mincovňa Kremnica, š. p. Mincovňa Kremnica minted a further 70,000 euro coins of each denomination that were used in five different annual collector sets of 2010. Towards the end of 2010, NBS also procured the delivery of one million 2 € commemorative coins marking the 20th anniversary of the formation of the Visegrad Group, which was due to be issued in January 2011.

NBS also issued four collector coins made of precious metals (Table 13). NBS arranges the sale of numismatic materials (other than sets of euro circulation coins, which are sold by Mincovňa Kremnica) through contractual partners.

4.3 PROCESSING OF EURO CASH AND SLOVAK KORUNA CASH

In 2010, NBS put more than 287 million euro banknotes into circulation and received 271 million euro banknotes from circulation, mainly from banks and partly from the public. A total of 12 million euro banknotes remained unprocessed from the previous year.

During 2010, NBS processed more than 270 million euro banknotes. Euro banknotes are processed in fully automated machines;[13] the authenticity and fitness checking is carried out in accordance with common procedures[14] laid down by the ECB for all euro area national central banks.

The volume of euro banknotes received was almost thirty times higher than the average volume of banknotes issued. In practice, this means that all euro banknotes issued by NBS are checked every 3 to 4 months; this ensures the integrity and security of euro banknotes in circulation and thus public confidence in them. To this end, it is necessary to maintain the high quality of euro banknotes in circulation and to ensure the efficient seizure of counterfeit banknotes. Public satisfaction with the quality of euro banknotes circulating in Slovakia is confirmed by opinion polls carried out each year in euro area countries. The most frequently processed euro note in 2010 was the 50 euro note (see Chart 30), which is also the most used banknote in circulation.

During the processing of euro banknotes in 2010, a total of 31.8 million banknotes were found to be unfit for circulation. The average unfit rate of euro banknotes was 11.8%, meaning that Slovakia is among the euro area countries with the lowest such rate. This statistics is clearly influenced by the fact that more than half of the euro banknotes procured had still not been put into circulation. In Slovakia, as in other euro area countries, the unfit rate for higher-value euro banknotes was rela-

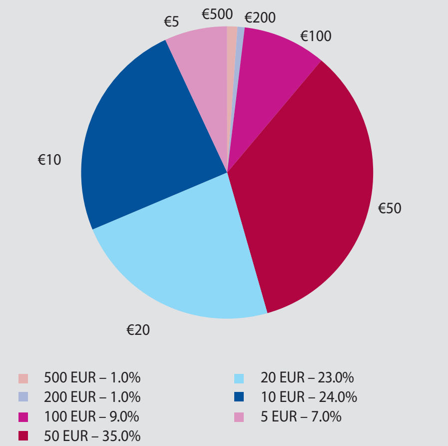
Table 13 Collector coins issued by Národná banka Slovenska in 2010

Denomination	Subject of commemoration	Number of coins issued – Total	Number of coins issued – of which proof	NBS Notification ofcoin issuance	Date of Issue
€10[1)]	UNESCO World Heritage List – Wooden Churches of the Slovak part of the Carpathian Mountain Area	27,225	17,325	481/2009 Coll.	15. 3. 2010
€10[1)]	150th Anniversary of the Birth of Martin Kukučín	16,800	9,300	95/2010 Coll.	3. 5. 2010
€20[1)]	Protection of Nature and Landscape – Poloniny National Park	18,500	10,350	243/2010 Coll.	29. 9. 2010
€100[2)]	UNESCO World Heritage List – Wooden Churches of the Slovak part of the Carpathian Mountain Area	6,640	6,640	401/2010 Coll.	1. 12. 2010

Source: NBS.
1) Silver collector coin.
2) Gold collector coin.

13 The BPS 500 and the BPS 1000 from the firm Giesecke and Devrient.
14 The so-called Common Checking Procedures, which stipulate minimum standards for the sorting of euro banknotes and procedures for the checks of their processing.

Chart 30 Breakdown of euro banknotes processed in 2010



Source: NBS.

tively low, while the lowest-value euro banknote (5 euro) had the highest unfit rate (36.7%).

Euro banknotes are processed and recirculated not only by NBS, but also by banks and other handlers of euro cash which have received approval from NBS to process euro banknotes. Their activities in this regard are overseen by NBS. All handlers of euro banknotes are required, when processing these notes, to comply with the so-called *Framework for the detection of counterfeits and fitness sorting of euro banknotes*, which sets minimum standards for the fitness sorting of euro banknotes.

In 2010, a total of 303 million euro coins were put into circulation and more than 240 million euro coins were received from circulation. The received coins were processed on automatic coin lines, where they were subjected to authenticity and fitness checking. Euro coins have a relatively long lifespan, and fewer than 66,000 of the coins processed were found to be unfit for circulation. In this regard, there were no substantial differences between the different euro coins.

NBS not only processed euro cash in 2010, it also processed and destroyed 49.4 million Slovak koruna banknotes and processed 1.8 million Slovak koruna coins. The processed euro coins have been put into storage; they will be destroyed after the end of the redemption period for Slovak koruna coins (31 December 2013), provided a larger volume of such coins is gathered. Later on, the value of the stored coins will be equal to the value of the material they are made of.

4.4 COUNTERFEIT BANKNOTES AND COINS SEIZED IN SLOVAK TERRITORY

A total of 2,934 counterfeit banknotes and coins were seized in the territory of Slovakia in 2010 (see Table 14) which in comparison with 2009 represents a drop of 533 (or 15.4%). The seized counterfeits included 1,525 banknotes and 1,409 coins. Euro counterfeits constituted the vast majority (96.7%) of the total number of counterfeits seized in 2010. Almost 88% of them were seized by banks, branches of foreign banks, non-bank entities and security services. Nearly one-third of the counterfeits were seized in Bratislava region.

Neither the number of counterfeit seizures in 2010, nor the technical level of their fabrication posed a serious risk to the security and smooth operation of cash circulation in Slovakia.

Euro counterfeits

A total of 1,428 counterfeit euro banknotes were seized in the SR in 2010. Although the number of counterfeits fell by one-third in comparison with 2009 (Table 15), their quality showed an improvement on the previous year. In 2010, the number of counterfeit euro coins increased significantly (1,409 pieces were seized, representing an increase of 170%). Most of these coins were barely distinguishable from genuine coins in terms of

Table 14 Developments in counterfeits seized in the SR

	EUR	USD	SKK	Others	Total
2006	348	101	726	58	1,233
2007	278	97	639	52	1,066
2008	275	87	502	100	964
2009	2,903	141	297	126	3,467
2010	2,837	50	14	33	2,934

Source: NBS.

Table 15 Number of euro counterfeits seized in the SR

	€0.50	€1	€2	€5	€10	€20	€50	€100	€200	€500	P[1)]	Total
2006	0	0	3	1	4	6	69	217	38	10	0	348
2007	0	4	8	0	2	10	59	99	90	6	0	278
2008	0	2	15	0	4	9	65	70	106	4	0	275
2009	37	109	664	29	37	274	827	775	144	7	0	2,903
2010	208	224	977	35	38	312	503	392	91	56	1	2,837

Source: NBS.
1) Imitations, altered and modified banknotes and coins.

their magnetic properties, conductivity and design, and they therefore represented a high risk. A half of them were seized directly by NBS.

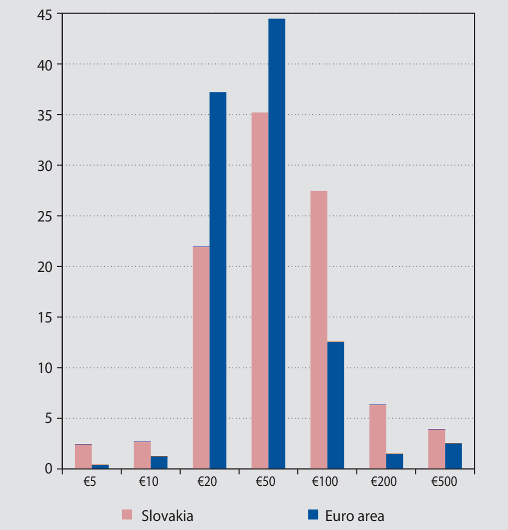
The number of euro counterfeits seized across the euro area in 2010 fell by 12% compared with the previous year, to 1,047,387, with banknotes accounting for 84% of that figure. More than 3.5% of the total number of euro counterfeits were seized outside the euro area. The counterfeits seized in Slovakia represented 0.27% of all the seized euro counterfeits, which means that Slovakia was among the countries in which the fewest number of counterfeits were recovered.

Of every million euro banknotes in circulation in Slovakia, 16 were counterfeits, while in the euro area as a whole, 60 were counterfeits. As for the number of counterfeit euro coins per million circulation coins, the ratio in Slovakia was slightly higher than in the euro area, i.e. 4 compared with 2. The likelihood of natural or legal persons coming into contact with a counterfeit banknote or coin in circulation currency is therefore very low.

In the euro area as a whole, counterfeits of 20 euro, 50 euro and 100 euro banknotes constituted 94.3% of all the counterfeit euro banknotes seized and counterfeit 50 euro banknotes accounted for almost one in every two of the total. In Slovakia, the breakdown of counterfeits was similar, with counterfeit 50 euro and 100 euro banknotes making up, respectively, 35.2 % and 27.4 % of the total number of counterfeit euro banknotes seized in the country (Chart 31).

The number of euro counterfeits seized in the euro area represented 2.6 per 1,000 inhabitants, while in Slovakia, the ratio was 0.3, the second lowest of any euro area country.

Chart 31 Counterfeit euro banknotes seized in the euro area and in Slovakia in 2010 (%)



Source: NBS.

SLOVAK KORUNA COUNTERFEITS

Following the introduction of the, the number of Slovak koruna counterfeits fell sharply. The number of Slovak koruna counterfeits seized in 2010 was 283 fewer than in 2009, at only 14. Although there is an unlimited redemption period for Slovak koruna banknotes, the further incidence of koruna counterfeits is expected to be sporadic.

COUNTERFEITS OF US DOLLAR AND OTHER FOREIGN CURRENCY

Compared to the previous year, a significant decline in the number of counterfeits of US dollar and other foreign currencies was registered. As for the US dollar, the number of banknotes seized in the SR dropped by 65%. As in 2009, counterfeits of the 100 dollar banknote were the most common, constituting 66% of all the seized dollar counterfeits. The number of counterfeits of other foreign currencies dropped by 74%. Most of them were British pounds (21) and Czech koruns (6).

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 5

PAYMENT SERVICES AND PAYMENT SYSTEMS

5

5 Payment services and payment systems

5.1 PAYMENT SERVICES

Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market has been transposed into Slovak law by Act No. 492/2009 on payment services and on amendments to certain laws (hereinafter "the Payment Services Act"), which entered into force on 1 December 2009 and repealed Act No. 510/2002 Coll. on the payment system as amended.

The Payment Services Act governs mainly the following matters: the provision of payment services; conditions for establishing and operating payment systems; conditions for establishing and carrying on the business of payment institutions and electronic money institutions; complaints, other submissions and conditions for the out-of-court settlement of disputes in regard to the provision of payment services and to the issuance and use of electronic money; and the supervision of payment system operators, the supervision of payment institutions and the supervision of electronic money institutions.

The transposition of Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 (amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims) began in 2010 with the drafting of a law amending the Securities Act and the Payment Services Act. The purpose of the transposition was to define a linked system (interoperability).

Slovak law in the area of payment services also includes Decree No. 8/2009 of Národná banka Slovenska (laying down the structure of a bank connection, the structure of an international bank account number, and details concerning the issuance of a converter of bank identifier codes) and the following Regulations of the European Parliament and of the Council:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No. 2560/2001; and
- Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds.

In 2010, Národná banka Slovenska approved the proposal of the Slovak Banking Association (SBA) not to pay any contribution for that year to the operation of the SBA's Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), having regard to the Court's financial results and to the sufficiency of funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to the Provision of Payment Services.

Národná banka Slovenska last year granted the company First Data Slovakia s.r.o. an authorisation to operate a payment system, in accordance with Section 45(3)(c) of the Payment Services Act.

5.2 PAYMENT SYSTEMS OF THE SLOVAK REPUBLIC

5.2.1 TARGET2 and TARGET2-SK

Upon joining the euro area on 1 January 2009, Slovakia became connected to the TARGET2 payment system and Národná banka Slovenska began to operate its component of this system – TARGET2-SK. The second year of the TARGET2-SK system's operation can be judged to have been successful and free of problems. No incidents were recorded, either by the system's operator or participants, such that would threaten the smooth processing of payments or disrupt the system's operation.

Apart from being responsible for the system's daily operation, for providing its participants with consultation and business support, and for carrying out regular testing of recovery procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing and implementation of software updates for the Single Shared Platform (SSP) that forms the technical basis of the TARGET2 system. It is through new releases of this software that new functionalities and modifications (approved by the Eurosystem at the request of the system's participants) are implemented in the SSP and that bugs identified in the previous version are removed. A significant change introduced during the regular annual release of the SSP in 2010 was to make the TARGET2 system accessible through the Internet, and not only through the SWIFT network as had been the case up to then.

During 2010, Národná banka Slovenska organised periodic working meetings with representatives of the TARGET2-SK participants. These meetings are opportunities to consult over proposals for, and prepared modifications to, the TARGET2 system, to coordinate testing of new SSP releases with participants, to evaluate the day-to-day operation, and to communicate other relevant information to the TARGET2-SK participants.

In March 2010, Národná banka Slovenska issued Decision No. 3/2010 on conditions for participation in TARGET2-SK and Decision No. 4/2010 on ancillary system settlement procedures in TARGET2-SK, which replaced decisions that had been in force since 2008. In connection with the new release of the SSP software, these two decisions were again amended in November 2010.

5.2.2 Payments executed in TARGET2-SK

A total of 33 participants were connected to the TARGET2-SK payment system in 2010. Of that number, 30 were direct participants (including Národná banka Slovenska) and three were ancillary systems – EURO SIPS, the Centrálny depozitár cenných papierov SR, a.s. (CDCP), and First Data Slovakia, a.s. The number of direct participants increased by two.

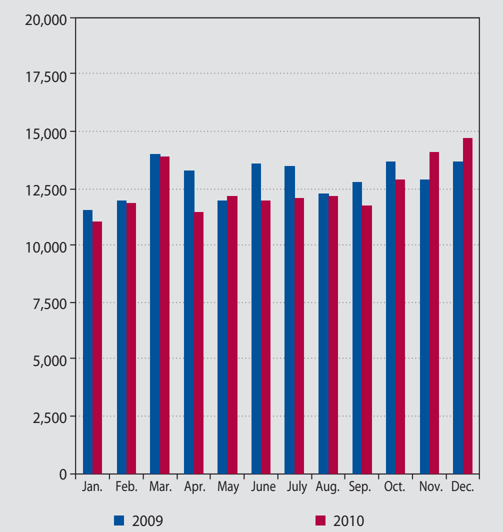
Almost 150,000 transactions with an overall value of more than €682.2 billion were settled in the TARGET2-SK payment system in 2010. Compared to the previous year, the volume of transactions slightly decreased by 3.4% (or 5,000 transactions) and the value of transactions fell by almost 22.6% (or €199 billion). The monthly development of the volume and value of executed transactions in 2009 and 2010 is shown in Charts 32 and 33.

In 2010, TARGET2-SK had 258 operational days. On a daily basis, the average volume of payment transactions processed in the system was 581 with an average overall value of almost €2,644 million.

As for the payments processed in 2010 and their breakdown into customer and interbank transactions, customer payments have the slightly higher share by volume (54:46) while interbank payments have the overwhelmingly larger share by value (97:3).

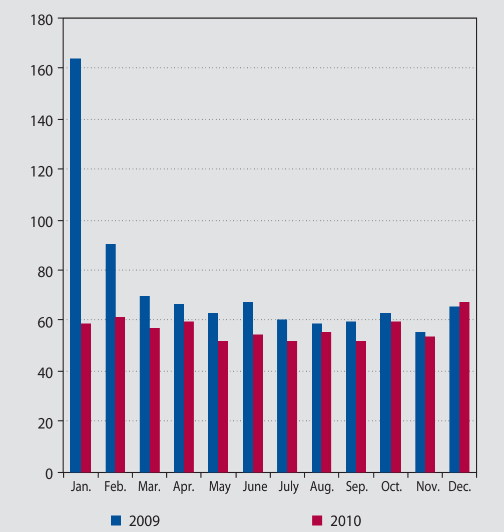
Bulgaria and its banking community joined TARGET2 in 2010, bringing to 23 the total number

Chart 32 Volume of payments processed in TARGET2-SK



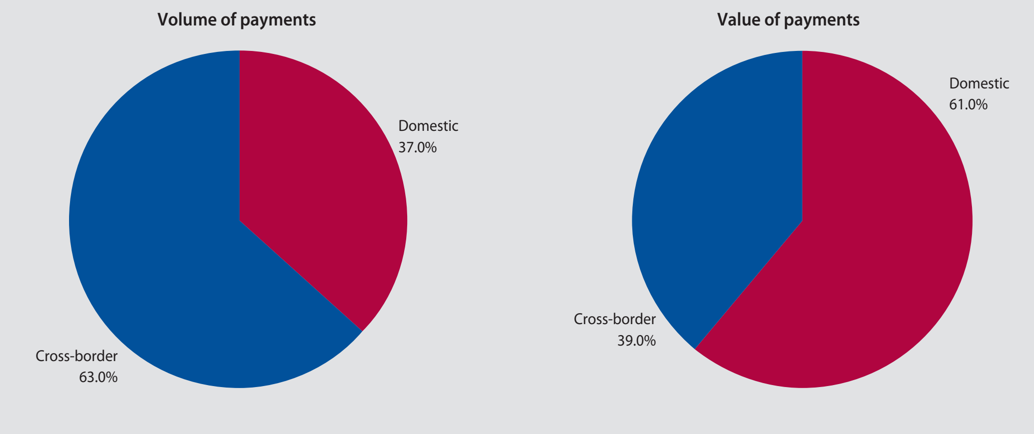
Source: NBS.

Chart 33 Value of payments processed in TARGET2-SK (EUR billions)



Source: NBS.

Chart 34 Breakdown of domestic and cross-border payments made by TARGET2-SK participants in 2010



Source: NBS.

of EU Member States that are now connected to the payment system. Of the total volume of payments made by TARGET2-SK participants in 2010, 37% were domestic transactions and 63% of payments were cross-border. As regards the value of such payments, however, the ratio is almost exactly the opposite. Chart 34 shows the breakdown of domestic and cross-border payments.

5.2.3 The EURO SIPS payment system

EURO SIPS is a retail payment system designed for the processing and clearing of customer payments in euro, and, at the same time, it is an ancillary system using the trans-European TARGET2-SK payment system. The processing of payment transactions in EURO SIPS takes place in clearing cycles, the results of which cycles are financially settled in TARGET2-SK.

Since 1 January 2009, interbank transactions have been processed and settled exclusively in TARGET2-SK.

The EURO SIPS payment system will be made compatible with the Single European Payments Area (SEPA) in connection with the implementation of SEPA payment instruments in Slovakia. The modification of EURO SIPS will be carried out in accordance with a strategy approved by the NBS Bank Board, according to which the EURO SIPS is expected to be SEPA-scheme compliant by the end of 2012.

During 2010, Národná banka Slovenska assessed the EURO SIPS payment system in compliance with a Eurosystem requirement for countries entering the euro area. In the assessment, the adherence to the "Core Principles" was applied, and, as a result, the EURO SIPS system was considered to be in full compliance with the required principles.

5.2.4 Payments executed in EURO SIPS

In 2010, the number of participants in the EURO SIPS retail payment system increased from 28 to 30. A total of 162,796 thousand transactions were executed in EURO SIPS in 2010, which corresponds to a trend increase of almost 5% over recent years. The value of the processed transactions came to €164,590.1 million and therefore also maintained its growth curve (at 6.5%). Charts 35 and 36 show the volume and value of transactions executed in EURO SIPS during each month of 2010 and in comparison with the corresponding periods of 2009.

5.2.5 Payment cards

The number of bank payment cards in circulation fell to 4.98 million in 2010, down by almost 2 percent from the previous year (5.08 million). Of that total number, debit cards accounted for 4.18 million and credit cards for 0.8 million.

As at 31 December 2010 there were 2,363 ATMs and 37,459 POS terminals in the territory of Slovakia. Whereas the number of bank payment

Chart 35 Volume of transactions executed in EURO SIPS (millions)

Source: NBS.

Chart 36 Value of transactions executed in EURO SIPS (EUR billions)

Source: NBS.

cards declined in comparison with the previous year, the number of ATMs increased by 2.2% (from 2,310 in 2009) and the number of POS terminals rose by 5.7% (35,438 in 2009).

5.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF PAYMENT SYSTEMS

Assessment of the CDCP securities settlement system – approval of the report on monitoring of compliance with recommendations

With Slovakia having adopted the single European currency, the European Central Bank assessed the securities settlement system (SSS) operated by the central securities depository – Centrálny depozitár cenných papierov (CDCP) – against the Eurosystem's *Standards for the use of EU securities settlement systems in ESCB credit operations*. With the approval of the ECB Governing Council, CDCP was considered "compliant" with the Standards and was included in the list of SSSs eligible for use in the collateralisation of Eurosystem credit operations. The CDCP also received several recommendations from the ECB, and its fulfilment of them was monitored at the end of 2009. The report on the monitoring was approved by the Governing Council in March 2010. The next assessment of the SSS is due to be carried out in 2011.

The Single European Payments Area (SEPA) – the ECB and European Payments Council

Following the successful introduction of the euro for cash payments, the SEPA project represents another step towards establishing an integrated European payment services market by ending the differentiation between the national and cross-border payments. The realisation of the SEPA project will mean that payments could be made in any of the countries in the SEPA area from a single bank account, using the same payment instruments, just as easily and securely as domestic payments are made today.

In October 2010, the European Central Bank published the 7th SEPA Progress Report on the ECB website. Like previous reports, it brings information on milestones achieved in the SEPA project (launch of the SEPA direct debit scheme), problem areas (the slow pace of migration – as at the end of 2010, SEPA credit transfers represented around 10% of total credit transfers), and a list of tasks that will have to be accomplished in order to ensure a smooth transition to the SEPA schemes. In June 2010, the first meeting was held of the SEPA Council – a new European governance body for facilitating SEPA migration. The issues addressed at the meeting included the setting of end-dates for SEPA migration, so-called SEPA Migration End-Dates (SMED) and the future of SEPA payment cards. Since 1 November

2010, it has been mandatory for all euro-area banks to be reachable for cross-border direct debit transactions, as already stated in Regulation (EC) No 924/2009 on cross/border payments in the Community.

New releases of the SEPA Direct Debit Rulebooks were approved by a plenary meeting of the European Payments Council (EPC) in September and they were subsequently published on the EPC website. The releases in question were the SEPA Core Direct Debit Scheme Rulebook version 5.0 and the SEPA Business to Business Direct Debit Scheme Rulebook version 3.0. At the same time, an updated version of the SEPA Credit Transfer Scheme Rulebook (version 5.0) was also published. The SEPA Cards Framework was last updated at the end of December 2009 with the release of version 2.1. A new version (5.0) of the SEPA Cards Standardisation Volume – Book of Requirements will be published by the EPC in January 2011. A newly approved EPC publication is the SEPA Direct Debit Fixed Amount Scheme Rulebook (version 1.0), which in the coming period will be subjected to a consultation process with the banking communities of SEPA countries.

The most pressing issue addressed in 2010 was again the setting of end-dates for the migration from the existing domestic payment instrument schemes to the new direct debits (SDD) and credit transfers (SCT) schemes. A final decision on this matter will probably be taken during the course of 2011. In this regard, EU bodies are expected to adopt a legal regulation of general application.

The Eurosystem, TARGET2 Securities

Work on the TARGET2-Securities (T2S) project continued in 2010. A key milestone in the implementation of the T2S project was achieved in February 2010, when the ECB Governing Council approved version 5.0 of the T2S User Requirements Document (URD), which marked the culmination of the specification phase of the T2S project and therefore the beginning of the development phase. In April 2010, the Governing Council approved the T2S Guideline. Other T2S-related decisions taken by the Governing Council concerned the project management and future operation of the T2S system, on T2S connectivity (there will be a maximum of two network providers and one provider for direct links, selected on the basis of a tender), and on the T2S price policy (the approved price structure as well as the DvP transaction fee). As for the legal side, a Framework Agreement covering the T2S development and operational phases is currently being drafted.

The T2S Advisory Group (AG) continued its activities in 2010. The TS2 AG gives advice on the T2S project to the ECB's decision-making bodies, and it includes also a representative from Národná banka Slovenska. In Slovakia, the National User Group (NUG-SK) is a forum in which financial market participants engage in, and receive information about, the work on the T2S project. Last year, the NUG-SK held four regular meetings, each preceding a T2S AG meeting at the European level and dealing with matters on the agenda of the T2S AG meeting. These included mainly the harmonisation of matching fields, proposals for the future T2S tariff structure, the coexistence of communication standards in T2S, issues surrounding the finality of settlement on omnibus accounts where a layered model is used, consultations on smooth cross-CSD settlement in T2S (the need for harmonisation, i.e. identification and removal of obstacles and peculiarities in particular market).[15]

15 All relevant information may be found on the ECB website.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 6

STATISTICS

6

6 Statistics

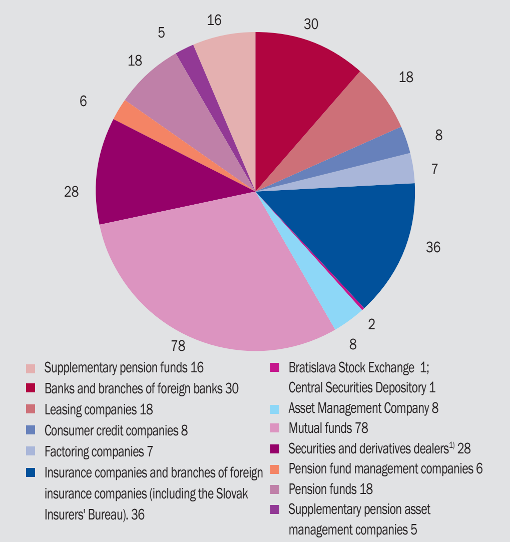
Národná banka Slovenska develops, collects, compiles and disseminates various types of statistics, primarily to support the implementation of monetary policy, the maintenance of financial stability, and various other activities of the ESCB. In 2010, the provision of monetary and financial statistics, quarterly financial accounts, statistics for the insurance, capital market and pension saving sectors, and balance of payments data was carried out in line with the requirements of the ECB/ESCB, Eurostat, the BIS, and other international institutions. Links with the ECB became closer in 2010, especially in the coordination of new requirements for statistics of financial institutions and for financial stability. The compiled data were utilised by internal users, financial market entities, the general public and the media. The data were analysed and published by NBS in various reports, analyses and surveys relating to the financial sector. As a competent separate unit, the Statistics Department had the opportunity in 2010 to report on its activities through official publications.

Reporting entities for which statistics are compiled (other than the government, non-financial corporations and households) are broken down by number of entities (Chart 37) and by their share of total financial market assets (Chart 38).

Monetary and financial statistics

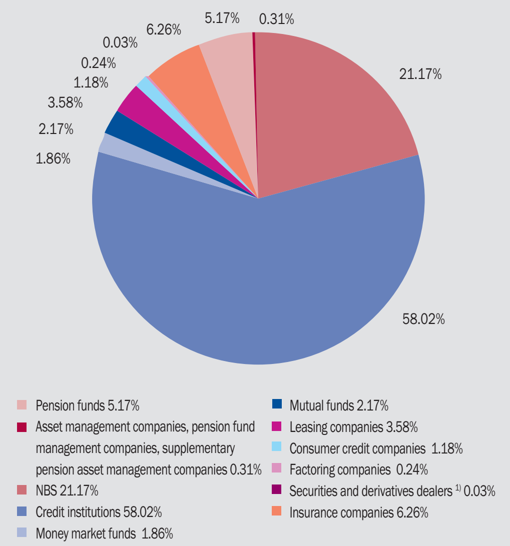
Since Slovakia's entry into the euro area and fulfilment of the accession process requirements, the focus of activities in monetary and financial statistics has been on the new reporting of items **for balance sheet and interest statistics of monetary financial institutions** (MFIs). These new requirements were incorporated into the legal framework of NBS last year, thus creating sufficient scope for the individual reporting entities to prepare for extended provision of data. At the national level, the new reporting system has been running since the beginning of January 2010 and outputs in the new structure started to be transmitted to the ECB in June 2010. The main new element in reporting under ECB regulations is the expanded breakdown of data for collateralised loans (espe-

Chart 37 Reporting entities in the financial market broken down by number of units (as at 31 December 2010)



Source: NBS.
1) Securities and derivatives dealers (authorised under Act No. 566/2001 Coll.) other than banks, branches of foreign banks, asset management companies or branches of foreign asset management companies.

Chart 38 Reporting entities in the financial market broken down by their share of total financial market assets (preliminary data in %; as at 31 December 2010)



Source: NBS.
1) Securities and derivatives dealers (authorised under Act No. 566/2001 Coll.) other than banks, branches of foreign banks, asset management companies or branches of foreign asset management companies.

cially loans secured by real estate) into size of loan, remaining maturity, and interest rate fixation. The new structure corresponds with the requirements of the analysis of monetary developments and allows users to have a more harmonised view of the financing of small and medium-sized enterprises.

In addition to the analysis of national data quality, the process includes the qualitatively and quantitatively expanded analysis of differences in data vis-à-vis the euro area, fine-tuning of the euro area's concept methodology and the setting of tolerances for individual indicators. The checking of time series quality was focused on the official publication of data published within the ECB/ESCB in 2011. The number of reporting entities in the MFI sector was increased by three credit institutions (from 26 to 29, not including NBS), and the number of money market mutual funds remainded unchanged at 13.

As for **securities statistics**, the regular compilation of statistics of securities issuance for Slovakia's resident entities continued during 2010. These statistics are based on individual securities; the quality of these statistics, as well as their connection to MFI balance sheet statistics, influences the quality of the ECB's central securities database. Work also continued on the coordination of data for the national database of securities at NBS.

The project of new ECB/ESCB statistics for holdings of securities was continued in 2010. Regarding the new ECB requirements, their projected costs were evaluated and a schedule was established for the drafting of the respective legal framework and for the commencement of reporting for 2011 and 2012. Thus, the statistics of securities issues and holdings will, through detailed data at the sectoral level, become complete in regard to the "matrix structure of securities". NBS cooperated closely on an ECB pilot project to produce experimental statistics, based on the currently available data on part of the securities issues and holdings.

As regards **statistics of other financial intermediaries** (comprising investment funds, leasing companies, factoring companies and consumer credit companies), no methodological changes concerning the collection or transmission of data to the ECB were made in 2010. The homogeneity of reporting continued to be analysed for analytical purposes and the samples of individual types of company were updated. Data submitted in 2010 for the purposes of monetary and financial statistics included data for 41 investment funds, 18 (out of 114) leasing companies, 7 factoring companies, and 8 (out of 78) consumer credit companies.

To improve the presentability of data, links were added between the national data on the NBS website and the Statistical Data Warehouse of the ECB/ESCB.

MFI monetary statistics were expanded to include a summary of money market mutual funds.

The focus of activities related to monetary and financial statistics in 2010, as well as the concept of these statistics, may generally be said to have been influenced by requirements and work coordination from the ECB and from related EU institutions.

Quarterly financial account statistics

Under ECB requirements, Národná banka Slovenska is responsible for the production of Quarterly Financial Accounts (QFAs) for Slovakia. The main purpose of producing QFAs is to record all financial flows in the economy, thus giving a picture about the extent to which, and the way in which, financial institutions, households, firms and government are providing or claiming funds. The financial accounts provide information about stocks of assets and levels of debt in individual sectors. QFAs are one of the key analytical tools that support monitoring of the monetary policy transmission mechanism and the analysis of financial stability.

Národná banka Slovenska, in producing QFAs, cooperates with the Statistical Office of the Slovak Republic (SO SR) and the Ministry of Finance of the Slovak Republic (MF SR). In regard to QFAs, the SO SR is responsible for the general government sector data and also for the annual financial accounts for the economy as a whole. In 2010, NBS cooperated with the SO SR in the preparation of a methodology for quarterly and annual financial accounts and in the integration of non-financial and financial accounts.

In line with the ECB's requirement for the earlier publication of data (by 2014), NBS in 2010 managed to shorten the deadline for the collection of preliminary input data on the government sector from SO SR data sources to T+60 days and the deadline for the collection of data on the external sector from the preliminary balance of payments data sources to T+85 days. NBS also made progress in improving the quality of data, specifically by ensuring the more accurate specification of other changes based on the methodology for the revaluation, reclassification and exchange rate differences.

Statistics on insurance, the capital market and pension saving

The regular collection and processing of data on insurance market entities, capital market entities and pension saving market entities continued in 2010. The data were used for the exercise of supervision and for statistical purposes, for both national and supranational institutions; they were kept up to date, accurate and comparable. At the end of the year, a total of 197 reporting entities were recorded, including 36 insurance market entities, 116 capital market entities and 45 pension saving market entities.

Owing to the complexity of financial markets and the interconnection of financial transactions made by different entities (including to a large extent insurance companies and pension funds), the ECB in 2009 broadened the group of entities providing statistical data on financial assets and liabilities, broken down by sector, to cover also insurance companies and pension funds. Such statistical data are provided on a quarterly basis in the structure of financial instruments (currency in circulation, deposits, loans, equity and debt securities, financial derivatives, mutual funds, insurance technical reserves, and other claims and liabilities).

The ECB received in the required structure not only data from the current period, but also revised data as from 2006; it uses the data for internal analytical purposes, i.e. for an in-depth analysis of the euro area's financial stability. These data will be published in the near future.

In 2010, the field of insurance statistics was influenced by preparations for the next phase of the Solvency II project, which involves harmonising data release conditions and ensuring the transparency and consistency of data within the European Union. The Solvency II regime is due to be implemented in 2012. The extent of the changes in the reporting procedures for insurance market entities were subjected to review and comment procedures, as was their impact on the structure and form of the presented data.

Statistics on non-banking entities

Statistics on non-banking entities are collected and processed from statistical reports submitted by legal entities other than banks and branches of foreign banks, for the compilation of the balance of payments, the international investment position, and foreign direct investment statistics.

The harmonisation of statistics on non-banking entities continued in 2010 in line with the recommendations of international institutions, primarily the ECB, made in regard to the compilation methodology for balance of payments statistics, international investment position statistics and foreign direct investment statistics.

A Decree of NBS on the submission of reports in accordance with the Foreign Exchange Act was approved in 2010. Under this Decree, the threshold above which it is obligatory to report information on assets and liabilities vis-à-vis residents abroad and non-residents abroad was increased from €700,000 to €1,000,000. This adjustment was made in order to reduce the burden of the foreign-exchange reporting obligation on small businesses.

The Decree also introduced an additional specification of the methodology used in the reports DEV (NBS) 1-12 for 2011: the classification of changes in the headquarters country of foreign direct investment enterprises as *transactions*; the classification of changes in headquarters country of foreign direct investment as *transactions*; a change of approach in the reporting of mutual fund shares; revaluation reporting only for exchange-rate and other differences; and the reporting of interest received from loans (recorded as *acquisition of assets*) as a transaction, without a separate record under expenses.

Statistical information system and technical support

Analytical work for the preparation of a new system called the Statistics Collection Portal took place during 2010. This is expected to enhance communication with reporting entities, accelerate the processing of data at NBS, and to create a central data warehouse for data from all reporting entities (banks, non-bank financial entities, entities with a foreign exchange reporting obligation). A Feasibility Study laying down the main features of the new information system was completed in 2010, and an Economic Analysis of the project was also produced. The Statistics Collection Portal shoud replace the information systems currently in use.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

ECONOMIC RESEARCH

7

7 Economic research

The content of research work in 2010 focused mainly on the need for a more in-depth analysis of economic developments in Slovakia in the context of its euro area membership. The most important outputs did not simply bring more detailed information about the current state of Slovakia's competitiveness, convergence, financial situation and fiscal position vis-à-vis other EU or euro area countries, but also provided thought-provoking ideas for structural reforms aimed at accelerating economic growth and raising the quality of life. In elaborating a structural macroeconomic model (DSGE) of the Slovak economy, account was taken of the euro area's increasing effect on the domestic economy. The research team also intensified its international cooperation, especially in regard to macro-prudential modelling and consumer behaviour. In addition, a greater number of papers were published in English.

The purpose of the economic research undertaken at the central bank is to better identify the economic and financial interrelationships in the economy and their connection with monetary policy. That is particularly true of applied research, which provides supporting information for monetary policy decision-making and contributes to specialist discussions on current economic issues. The majority of the research is carried out by staff members of the NBS Research Department. The most notable results and findings of 2010 were published in specialist articles, while the more extensive outputs were published as reviewed working papers (with the designation WP). Analyses and findings not included in working papers are published as discussion papers (DP) or specialist analyses – mostly policy papers (PP) and occasional papers (OP).[16]

A total of eight research papers intended for the public were published during the course of 2010. Four of them were specialist analyses, one was a discussion paper, and three came under the heading of working papers. Although most of the authors of these papers were members of the Research Department staff, they cooperated to an increasing extent with staff members of other NBS departments and with external authors and co-authors. In addition to these specialist papers, the Research Department staff produced two Financial Stability Reports (FSRs) in cooperation with colleagues from other NBS departments involved in financial stability issues.

The published papers helped to deepen our knowledge about the domestic economy in several areas. The first of them focused on the calculation of total factor productivity (TFP) at the corporate level and on estimating the effect of TFP on unit labour costs. The key finding for the purposes of monetary policy was that increasing corporate productivity is accompanied by a rise in hourly wages, which are the main factor in unit labour cost growth. The next paper examined the relationship between the local level of unemployment and the wage level, and confirmed that wages in Slovakia are, on average, relatively flexible – although there are significant differences between sectors, regions and worker skill groups. Research on the effect of labour cost increases on inflation in the euro area indicates that prices in Slovakia are also flexible. Another paper offers a detailed description of developments in the nominal and real economy. As a consequence of the financial and economic crisis, real divergence was prevalent in a number of Member States (and also candidate countries) in 2010. This in turn led to the non-fulfilment of Maastricht criteria, particularly in respect of the substantial worsening fiscal situation. A further paper dealt with issues of competitiveness and found that the deterioration of Slovakia's price and cost competitiveness following the euro adoption was only temporary and that the decline in output was caused by the global downturn in demand. As a result of the financial crisis, increasing importance was attached to the macro-prudential aspects of financial supervision and changes were made to the financial regulatory system. These subjects are covered in detail in the FSR annexes. In 2010, a comprehensive quarterly database of general government revenue and expenditure was completed. The details of how it is compiled and how it may be used are the subject of another research paper. A working paper produced in cooperation with the Monetary Policy Department presents the

16 The full texts are also available on the NBS website at www.nbs.sk/sk/publikacie/vyskumne-studie second generation of the DSGE model of the Slovak economy. The paper that attracted the most public interest was one proposing ten outcome indicators that could be used both for setting targets and for the quantitative evaluation of structural policies in Slovakia. A more detailed description of the published papers is provided in Box 1.

An important role is played by the exchange of knowledge through expert seminars and conferences. In cooperation with Comenius University in Bratislava and Heriot-Watt University in Bratislava, Národná banka Slovenska organised a prestigious three-day international conference attended by senior representatives and experts from several European central banks, international institutions and universities. The conference helped to further the international exchange of valuable insights concerning the euro area and the financial crisis. Altogether in 2010, NBS hosted more than 30 seminars at its headquarters. The work presented at these seminars included not only published research, but also findings that were still to be released. A positive development last year was the increase in the number of seminars at which external lecturers presented their work – to the point that they even outnumbered the seminars on NBS research results. The information presented by our foreign guests was of great value. In addition to the subject-matter of the published studies, the expert seminars focused on current economic and monetary-policy issues, supervision of financial institutions, and specific issues in the field of economic modelling.

Cooperation with international research teams continued to be developed in 2010. Since an NBS representative attends meetings of Heads of Research of EU national central banks, NBS's domestic research activities can to a greater extent be dovetailed with the research undertaken by other euro area NCBs. Last year, Národná banka Slovenska was a member of three ESCB expert groups that performed research-related activities.

The Household Finance and Consumption Network (HFCN) examines the financial position and consumption expenditure of households. As part of a joint project of euro area national central banks, a survey of more than 2,000 households was conducted in Slovakia in 2010, the aim being to collect reliable data on the financial situation of Slovak households. Analysis of the collected data will help to further understanding of how macroeconomic shocks and monetary-policy or institutional changes affect different household groups. What now seems particularly relevant from the central bank perspective is the analysis of the wealth effect on household consumption and the analysis of household indebtedness. The collected data represents a suitable starting point for several future papers, whether on household access to loans, the household saving ratio, the increase in household debt, or how to address the housing issue.

The financial crisis and its far-reaching consequences made clear the need for a deeper knowledge of financial stability and its interconnection with the real economy. In this regard, the ESCB established a Macro-prudential Research Network (MaRs) in 2010 following the successful completion of the MaRs preparatory phase in 2009. At the first plenary meeting of the MaRs, the attending experts analysed and classified the submitted drafts of research projects. The MaRs activities are divided into three core areas: 1) the development of macro-financial models connecting financial stability with the real economy; 2) early warning systems and systemic risk indicators; and 3) the assessment of contagion risk. NBS was represented at the plenary meeting and has also been involved with the research into early warning systems and systemic risk indicators. At the same time, the MaRs will focus also on the following areas: the identification of stress and credit growth, the emergence of asset price bubbles, fiscal surveillance, and individual and systemic bank risks.

Issues surrounding the interrelationships between the financial economy and real economy have also come to the fore in the Working Group on Econometric Modelling (WGEM). This group brings together three teams: the first team examines potential output within DSGE models; the second deals with the benefits and costs of fiscal consolidation; and the third focuses on macro-financial links. Staff members of the NBS Research Department contributed to the preparation of the interim report and they were actively involved in the work of the third team, focusing on the transmission of shocks from the financial sector to the real economy and on the potential feedback loops to the financial sector.

Box 1

PAPERS PUBLISHED IN 2010

Michal Benčík
OP 1/2010: The impact of total factor productivity on wages and unit labour costs
This paper focuses on estimating total factor productivity (TFP) at the corporate level over the period 2001–2007. It examines the effect of TFP on wages, employee numbers and the number of hours worked, as well as on unit labour costs measured by the share of wages in value added. Total factor productivity is estimated using the Levinsohn and Petrin method. By applying a dynamic panel estimator, it was found that TFP affects the share of wages in value added through several channels. In the case of unit wage cost development, the wage channel is dominant. This means that the TFP acts mainly through hourly wages, which are an increasing function of corporate productivity and a declining function of sectoral productivity. The effect of TFP is seen to a lesser extent in the number of employees and the number of hours worked per employee – here the increase in corporate productivity has a negative impact and the level of sectoral productivity has a positive impact.

Mária Marčanová and Ľudovít Ódor
OP 2/2010: Quarterly fiscal database 1996-2006 (for analytical purposes)
This paper presents a comprehensive quarterly database of general government revenues and expenditures in the period 1996-2006, which had not previously been available in Slovakia. Compiled on the basis of the economic budget classification, the database preserves the main principles of the ESA 95 methodology and so remains internationally comparable. It has the advantage of allowing quantitative research of certain aspects of fiscal policy: multiplier size, the efficiency of consolidation measures, and structural deficit size. The data can also be applied in comprehensive models of the Slovak economy to improve fiscal blocks.

Tibor Lalinský
OP 3/2010: Business competitiveness after the euro adoption in Slovakia
Slovak enterprises recorded a significant worsening of economic and financial indicators in the period after the euro adoption. Dramatic changes in the results of non-financial corporations were observed in most EU countries. The principal factor behind the adverse development was the slump in global demand. Some indicators suggest that the adoption of the euro and consequent appreciation of the effective exchange rate may have had an additional negative effect on selected services sectors. The decrease in the price and cost competitiveness of these sectors after the introduction of the euro proved to be only temporary. The tradable sector, represented mainly by manufacturing, seems to be sufficiently competitive. The gradual recovery of the global economy is accompanied by the rising importance of the competitiveness factors identified at the outset, in particular: support for research and development, education, and innovation.

Martin Filko, Štefan Kišš, Ľudovít Ódor and Matej Šiškovič
DP 1/2010: Structural policy challenges in Slovakia
This paper presents possible approaches to measuring the quality of life, including their strengths and weaknesses. It identifies ten outcome indicators that could be used both for setting targets and for the quantitative evaluation of structural policies in Slovakia. In addition, it provides several case studies of best practice from around the world, as a potential source of ideas for economic policy-makers.

Tibor Lalinský
Analysis of the Slovak economy's convergence in 2010
In 2009, real divergence was prevalent in several EU Member States as well as EU candidate countries. In Slovakia, the relative performance declined somewhat while the relative price

level increased. The close link between real and nominal convergence was confirmed. In most countries (including Slovakia), the fiscal situation worsened dramatically. Only Estonia managed to meet all the Maastricht criteria. Although the process of real convergence is expected to recover in the years ahead, Slovakia is unlikely to be able to eradicate its excessive deficit within the near term. Without the adoption of severe consolidation measures, the fiscal situation in other countries under review will also remain largely unchanged. For several countries, the higher average inflation rate in the EU will improve their chances of meeting the inflation criterion; in Slovakia, however, the risk of not meeting this criterion will increase.

Matúš Senaj, Milan Výškrabka and Juraj Zeman
WP 1/2010: MUSE: Monetary Union and Slovak Economy model (DSGE)
This paper presents a new structural model of the Slovak economy called the MUSE model. It is a second-generation dynamic stochastic general equilibrium (DSGE) model which simultaneously models economic developments in Slovakia and in the euro area as a whole. This means that the contribution of NBS, as part of the Eurosystem, to monetary policy decisions affecting the entire euro area can be taken into account. Another improvement of the current model is that its dynamic parameters are estimated by the Bayesian method, which is at present the best estimation technique for complex models. The model may be used to simulate the outcomes of different types of economic policies or technological changes. The paper shows how the model variables react to selected structural shocks.

Sandra Tatierska
WP 2/2010: Do unit labour costs drive inflation in the euro area?
This paper analyses the relationship between unit labour costs and inflation. For eleven euro area countries, it estimates an independent model of optimum price growth based on a New Keynesian Phillips curve, assuming that unit labour costs are proportional to marginal costs. The outcomes obtained by the two-stage method of estimation confirm the validity of the relationship between labour costs and prices in eight of the eleven countries under review. The average period within which a change in unit costs is reflected in a change in prices is eight months. The outcomes for Slovakia indicate the predominant flexibility of prices.

Pavel Gertler
WP 3/2010: The wage curve: a panel data view of labour market segments
The paper studies the relationship between the local unemployment rate and wage level – commonly referred to as the wage curve. Using a panel data setup for annual business-level microdata, it confirms previous findings that wages in Slovakia are, on the whole, relatively flexible – with a rise in the local unemployment rate of 1 percentage point being associated with a drop in wages of 0.85%. However, these elasticities are found to differ considerably across sectors, regions and, in particular, skills. The estimate results indicate that overall wage flexibility in the Slovak labour market is driven more by the wage flexibility of higher-skilled employees, and their broader opportunities for employment, than by the institutional arrangements of the labour market.

Financial Stability Report for 2009
The Report evaluates the most important factors that affected financial stability in Slovakia in 2009 and assesses the risks to financial stability in the medium-term horizon. In 2009, the downturn in the global economy and in international financial markets tested the resilience of Slovakia's economy and its financial system; domestic financial stability was not threatened and the financial system comfortably withstood the shocks, owing mainly to the strong financial position of financial institutions that had sufficient amounts of high-quality capital. Given the difficult conditions in the external environment, the principal risk in the medium-term horizon was judged to be the expected development in weaker institutions. The Report also includes annexes dealing with several key issues that

have come to the fore during the financial crisis. Two of them address proposals for improving the financial regulatory system. They stress the need for a greater focus on systemic risk and/or the significance of macro-prudential aspects of financial supervision and regulation. The third annex concerns the macrofinancial implications of household indebtedness.

Financial Stability Report for the First Half of 2010

The Report evaluates the most important factors that affected financial stability in Slovakia in the first half of 2010. It notes a slight improvement in domestic conditions for financial stability and the persistence of several risks originating from the external environment. Apart from its regular content, the Report includes an annex focused on the establishment, structure, roles and objectives of the new European financial supervisory framework, with an assessment of its benefits and drawbacks. The Report's second annex analyses the changes brought about by Slovakia's entry into the euro area from the view of the country's external debtor position and the sustainability of the balance of payments current account. The third annex evaluates the role of the Maastricht criteria in the budgetary policies of EU countries – the effect of general government deficit and debt on budget revenue and expenditure.

CHAPTER 8

EUROPEAN AFFAIRS AND INTERNATIONAL COOPERATION

8

8 European affairs and international cooperation

8.1 European affairs

The Eurosystem

On 1 January 2009, NBS became a member of the Eurosystem, which comprises the ECB and the national central banks of all the EU Member States that have adopted the euro. The NBS Governor is, by virtue of his position, a member of the ECB Governing Council (the ECB's highest monetary-policy authority), whose main responsibility is to formulate monetary policy for the euro area. The Governor is also a member of the ECB General Council, a transitional decision-making body that will cease to exist once all EU Member States have adopted the single currency.

The ECB's decision-making bodies are assisted in their tasks by the committees of the Eurosystem/European System of Central Banks, established for each of the principal areas of central bank activities. During 2010, more than 70 representatives of NBS participated directly in the work of these committees and their working groups, which is a key element in cooperation between the national central banks. The participation of NBS specialist units in the tasks of the Eurosytem represents a significant part of the central bank's activities.

The European Union

The NBS Governor attended the informal meetings of the ECOFIN in 2010, which were held in Madrid in April and in Brussels in September. These meetings are held in the capital city of whichever country holds the EU Presidency. During the year, NBS representatives also took part in the activities of selected committees and working groups of the European Council and European Commission: for example, meetings of the Economic and Financial Committee (EFC).

European cooperation in the field of supervision

Back in November 2008, the European Commission responded to the financial crisis by establishing a group of experts whose task was to make recommendations on how to strengthen cooperation in the field of supervision at the European level and thus to help restore confidence in the financial system. In its final report (the so-called De Larosière Report), the group recommended the formation of a new supervisory framework over European financial institutions and markets in order to strengthen the general level of financial stability in the European Union. On 24 November 2010, the European Council acted on these recommendations by approving the texts of regulations and a directive that would be the basis for the establishment of the European System of Financial Supervision (ESFS) as of 1 January 2011. The ESFS consists of the following bodies:

- the European Systemic Risk Board (ESRB),
- the European Banking Authority (EBA),
- the European Insurance and Occupational Pensions Authority (EIOPA),
- the European Securities and Markets Authority (ESMA),
- the Joint Committee of European Supervisory Authorities,
- the competent authorities or supervisory authorities in Member States.

The main purpose of the ESFS is to ensure that the rules for the financial sector are properly applied, so as to safeguard financial stability and to ensure both confidence in the financial system as a whole and sufficient protection for users in the field of financial services. Financial market supervision is divided into two broad areas – micro-prudential oversight of financial institutions (the European Supervisory Authorities – ESAs), and macro-prudential oversight of financial system of EU (the ESRB). The ESAs have replaced the European Commission's three advisory committees that were operating at Level 3 of the Lamfalussy process – the CEBS, the CEIOPS and the CESR.[17]

NBS is a member of all the above-mentioned institutions and will have a representative on the highest body of each of them. NBS experts will be taking part in meetings of the individual working groups, where they will help to formulate implementing and regulatory legislation, recommendations, and guidelines.

17 The London-based Committee of European Banking Supervisors (CEBS) has been replaced by the European Banking Authority (EBA); the Frankfurt-based Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) has been replaced by the European Insurance and Occupational Pensions Authority (EIOPA); and the Paris-based Committee of European Securities Regulators has been replaced by the European Securities and Markets Authority (ESMA).

8.2 NBS COOPERATION WITH INTERNATIONAL INSTITUTIONS

The International Monetary Fund (IMF) and the World Bank

For these Bretton Woods Institutions, the most significant milestones in 2010 were the approval of quota and governance reforms in the case of the IMF (in December 2010) and the approval of a capital increase for the World Bank (in April 2010). The main events in 2010 were the IMF/WB spring and annual meetings in April and October, which were attended by the NBS Governor in his position as Governor of the IMF for Slovakia.

Slovakia's exposure to the IMF increased in 2010. The country's commitment under the Financial Transactions Plan (FTP) represented approximately SDR 64.6 million as at 31 December 2010. Furthermore, Slovakia last year extended SDR 26.83 million to the IMF under a bilateral loan agreement that entered into force in February 2010.

In July 2010, the IMF conducted its regular mission to Slovakia as part of consultations under Article IV of the IMF Agreement. The process included consultations on Slovakia's economic policies, as well as the completion of consultations on matters of monetary and foreign-exchange policy common to all euro area countries. Slovakia was also involved in other regular IMF activities in 2010, for example, the updating of the Annual Report on Exchange Arrangements and Exchange Restrictions.

In 2010, Slovakia's contribution to the International Development Association (IDA) amounted to €680,000 and its contribution to the Multilateral Debt Relief Initiative (MDRI) represented €30,000. The donations were based on a commitment given as part of Slovakia's participation in the 15th replenishment of IDA funds and in the financing of the MDRI. Slovakia also took part in the 16th replenishment of IDA funds.

Organisation for Economic Cooperation and Development (OECD)

In 2010, NBS was visited by representatives of the OECD's structural and political missions; the missions are conducted periodically as part of the preparations of the OECD's Economic and Development Review Committee (EDRC) for a comprehensive evaluation the Slovak economy. The structural mission delegates were received by the General Director of the NBS Monetary Policy Department. As for the political mission, it was conducted with the participation of the NBS Governor. The conclusions from the missions were reflected in the OECD's Economic Survey of the Slovak Republic for 2010, which the OECD Secretary-General, Angel Gurria, presented at an International Economic Conference in Bratislava.

European Bank for Reconstruction and Development (EBRD)

The Board of Governors of the EBRD met at the EBRD's Annual Meeting in Zagreb in May 2010. The Slovak delegation included the NBS Deputy Governor. The main topics of discussion were the EBRD's role in the post-crisis recovery of the region and how to support sustainable growth. The Board of Governors' meeting also approved the EBRD's medium-term strategy for the period 2011 to 2015.

8.3 INTERNATIONAL ACTIVITIES OF NBS IN THE FIELD OF SUPERVISION

Bank for International Settlements (BIS)

The Annual General Meeting of the BIS was held in June 2010 with the NBS Governor in attendance. The BIS meetings of Governors were held at bimonthly intervals in 2010; they focused on current issues, such as: interest rate risk in the financial system, responses to capital inflows, reform proposals put forward by the Basel committees, and the report of the Irving Fisher Committee on Central Bank Statistics. Also in 2010, NBS participated in activities of the BIS Central Bank Governance Group.

Other international supervisory institutions

In connection with NBS's commitments to international organisations, the European Central Bank, EU committees and others, staff members of the Financial Market Supervision Unit ("FMS Unit") regularly attend meetings of various working groups and committees. In 2010, the FMS Unit cooperated extensively with foreign supervisory authorities (particularly in regard to the supervision of banking and insurance groups) by participating in working groups and committees of international institutions. These include, for example, the so-called Level 3 Committees:

the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), and the Committee of European Securities Regulators (CESR).

Within the European System of Central Banks was established the Banking Supervision Committee (BSC). One of its tasks was to monitor and evaluate developments in the European financial sector in terms of financial stability. As at 1 January 2011, under a decision taken by the 298th meeting of the ECB Governing Council, the BSC was dissolved and the new Financial Stability Committee (FSC) was established. The tasks and activities previously carried out by the BSC and its working groups are expected to be assumed by either the FSC or the ESRB's Advisory Technical Committee, although the decision on this matter has still to be taken. The new arrangement was intended to strengthen the committee's mandate in the area of financial stability and to reduce any potential overlap with the competences of the of the European Banking Authority. The FSC will be tasked with monitoring and assessing financial stability in the euro area, drafting ECB opinions, assessing the impacts of regulation, sharing information on financial stability, and providing the assistance in the area of financial stability for other committees of ESCB.

The CEBS was a committee comprising representatives of banking supervisors and representatives of EU central banks. Its tasks included giving advice to the European Commission, implementing EU directives, and enhancing cooperation and the exchange of information between banking supervisors. The CEBS focused mainly on capital requirement rules for financial institutions, so as to ensure that financial institutions have a closer link between their capital and the risks they are exposed to. Various working groups and expert groups were established under the CEBS. Among them was the Groupe de Contact (GdC), an expert group focusing on the harmonisation of supervisory procedures and the sharing of information.

The task of the CESR was to improve coordination among securities regulators across the European Union, to act as an advisory group to the European Commission, and to work to ensure more consistent and timely implementation of European Union legislation in Member States.

The Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) was established by a decision of the European Commission. The CEIOPS members were supervisory institutions of the insurance sector and occupational pension fund sector of EU Member States. Before its dissolution, the Committee focused primarily on the Solvency II project.

The FMS Unit's activities in 2010 also included cooperation with supervisory authorities from other countries, in particular with the supervisors of the parent banks and parent insurance undertakings of subsidiary banks and insurance undertakings established in the Slovak Republic. The cooperation with supervisors takes place at bilateral and multilateral levels, and its main focus in recent years has been the activities of the supervisory colleges for individual banking and insurance groups. The FMS unit is a member of 11 supervisory colleges in the field of banking (of which nine are for banks and two are for branches of foreign banks) and 11 supervisory colleges for cross-border insurance groups.

8.4 FOREIGN TECHNICAL ASSISTANCE

In 2010, NBS was one of fourteen Eurosystem central banks that contributed to the Crisis Response Package. This programme has been put together by the ECB, in cooperation with the IMF and the World Bank, as a response to the financial crisis; its sole focus is to support supervision in eight EU candidates and potential candidates (Croatia, the Former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Albania, Montenegro, Turkey, Serbia and Kosovo). The programme is divided into three components: 1) a system of training courses; 2) cooperation in drafting measures to improve prudential supervision in individual countries; and 3) simulation exercises focusing on cross-border cooperation between supervisors. The involvement of NBS concerned the first two components. For component 1, NBS arranged a set of seminars on the topics Pillar II, ICAAP/SREP, and risk assessment and measurement. For component 2, NBS regulators are assisting the Central Bank of Montenegro in the preparation of requisite supervisory measures related to Pillar II, in the licensing of banks and in IAS/financial reporting.

NBS also joined the Eurosytem's programme of technical assistance for the National Bank of Serbia, which was approved by the ECB Governing Council in December 2010.

In 2010, NBS continued to provide technical assistance at the bilateral level. In recent years, the main beneficiary of such assistance has been the National Bank of Ukraine (Національний банк України). For the benefit of the Ukrainian central bank, three specialist events were organised in Bratislava and Kiev on the following topics: payment and settlement systems; monetary swaps and spot transactions; and money laundering. In March 2010, NBS signed an agreement on technical cooperation with the National Bank of the Republic of Belarus (Нацыянальны банк Рэспублікі Беларусь). On this basis, NBS organised two specialist seminars for experts of the Belarus central bank, one on the subject of human resources and the other on the measurement of financial instruments in accordance with IAS. NBS experts took part in specialist training events in Belarus and gave lectures on the NBS archive and library system, on Economic and Monetary Union, and on the introduction of the euro.

CHAPTER 9

LEGISLATION

9

9 Legislation

In 2010, Národná banka Slovenska continued to implement its legislative and approximation competences in the field of monetary matters, currency, currency circulation, foreign exchange management, banking, capital market, insurance, and retirement pension saving.

LEGISLATIVE AMENDMENTS PREPARED AND IMPLEMENTED IN 2010 TO LAWS ON MATTERS WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No. 566/1992 Coll. on Národná banka Slovenska, as amended, was amended in 2010 by Act No. 403/2010 Coll. The new law amended Section 13 of the Act by deleting the provision under which the NBS Governor or, in his absence, the Deputy Governor authorised by him had the right to attend meetings of the Government of the Slovak Republic.

Act No. 483/2001 Coll. on banks and on amendments to certain laws, as amended, was amended in 2010 by Act No. 129/2010 Coll. The new law amended the Act by introducing a basic banking product containing the banking services that banks are required to offer customers/consumers and also by modifying certain prudential banking rules, particularly in the use of the internal ratings-based approach for credit risk.

Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws (the Securities Act), as amended, was amended in 2010 by Act No. 129/2010 Coll. and Act No. 505/2010 Coll. In the case of Act No. 129/2010 Coll., the principal amendment concerned the central depository's new task of recording foreign securities issued by the European Central Bank or by the European Central Bank in cooperation with Národná banka Slovenska. This law also modified the position and roles of credit rating agencies in accordance with EU law. As for Act No. 505/2010 Coll., the main amendment concerned the protection provided to customer assets of up to €50,000 by the Investment Guarantee Fund.

Act No. 747/2004 Coll. on supervision of the financial market and on amendments to certain laws, as amended, was amended in 2010 by Act No. 129/2010 Coll. Under this amendment, credit rating agencies were included among the entities that come under the supervision of Národná banka Slovenska; in addition, the position of the Financial Market Supervision Unit ("FMSU") of Národná banka Slovenska and the FMSU's new organisational integration in Národná banka Slovenska were modified, and it was made obligatory for Národná banka Slovenska to maintain a register of creditors providing consumer credits and a sub-register of other creditors providing loans other than consumer credits.

Act No. 8/2008 Coll. on insurance and on amendments to certain laws, as amended, was amended in 2010 by Act No. 129/2010 Coll. This amendment allowed insurance companies to perform reinsurance activities under legally defined conditions on the basis of an authorisation for reinsurance activities, and it also made it obligatory for insurance companies to inform the policyholder about the key terms of the insurance contract prior to its signature.

Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended, was amended in 2010 by Act No. 105/2010 Coll. and Act No. 543/2010 Coll. In the case of Act No. 105/2010 Coll., the amendment concerned the rules on investments by pension fund management companies in transferable securities and money market instruments. As for Act No. 543/2010 Coll., it introduced transitional provisions that enable savers to change their participation in retirement pension schemes.

Act No. 186/2009 Coll. on financial intermediation and financial counselling and on amendments to certain laws was amended in 2010 by Act No. 129/2010 Coll. This law specified the position and roles of financial agents, financial advisers, and financial intermediaries in line with EU requirements.

Act No. 381/2001 Coll. on compulsory contractual motor vehicle third party liability insurance and on amendments to certain laws, as amended, was amended in 2010 by Act No. 144/2010 Coll. This amendment made it obligatory for the insurer to provide the policyholder, without delay, with a form for writing down the details of a motor vehicle accident or an incident causing damage.

Act No. 118/1996 Coll. on deposit protection and on amendments to certain laws, as amended, was amended in 2010 by Act No. 70/2010 Coll. and Act No. 505/2010 Coll. Under Act No. 70/2010 Coll., the deposits of apartment building administrators held in apartment building accounts were classified as protected deposits. As for Act No. 505/2010 Coll., it mainly changed the level of compensation for an inaccessible deposit of more than €100,000, in line with the European Union's requirement that such compensation be set at the same level throughout the EU.

DECREES ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2010 UNDER ITS LEGISLATIVE COMPETENCES TO ISSUE IMPLEMENTING LEGAL REGULATIONS OF GENERAL APPLICATION

- Decree No. 69/2010 Coll. of Národná banka Slovenska which amends Decree No. 91/2008 Coll. governing the provision of information on transactions in pension fund assets and on the balance of pension fund assets by pension fund management companies and their depositories, and amending Decree No. 567/2006 Coll. specifying the contents of reports on the management of pension fund assets, the management of own funds by a pension fund management company, the manner and scope of their publication, and the contents of daily information on each transaction in pension fund assets, as amended by Decree No. 523/2008 Coll.
- Decree No. 467/2010 Coll. of Národná banka Slovenska on the submission of reports in accordance with the Foreign Exchange Act.
- Decree No. 1/2010 of Národná banka Slovenska of 26 January 2010 on the method of demonstrating compliance with the conditions for the granting of an authorisation to perform the activities of an independent financial agent and for the granting of an authorisation to perform the activities of a financial adviser (Notification No. 39/2010 Coll.).
- Decree No. 2/2010 of Národná banka Slovenska of 26 January 2010 on the content, structure and method of submitting a report on the performance of financial intermediation and a report on the performance of financial counselling (Notification No. 40/2010 Coll.).
- Decree No. 3/2010 of Národná banka Slovenska of 16 February 2010 on the submission of reports by insurance undertakings from other Member States for statistical purposes (Notification No. 59/2010 Coll.).
- Decree No. 4/2010 of Národná banka Slovenska of 9 March 2010 stipulating the template for insurance policy terms (Notification No. 87/2010 Coll.).
- Decree No. 5/2010 of Národná banka Slovenska of 9 March 2010 stipulating details of the internal control system and activities of the internal audit department of an insurance undertaking, reinsurance undertaking, branch of a foreign insurance undertaking and branch of a foreign reinsurance undertaking (Notification No.88/2010 Coll.).
- Decree No. 6/2010 of Národná banka Slovenska of 11 May 2010 stipulating the elements of an application for prior approval of Národná banka Slovenska pursuant to Section 28(1) of the Act on Banks (Notification No. 219/2010 Coll.).
- Decree No. 7/2010 of Národná banka Slovenska of 11 May 2010 stipulating the elements of an application for prior approval of Národná banka Slovenska pursuant to Section 70(1) (Notification No. 220/2010 Coll.).
- Decree No. 8/2010 of Národná banka Slovenska of 11 May 2010 stipulating the elements of an application for prior approval of Národná banka Slovenska pursuant to Section 45(1) of Act No. 8/2008 Coll. on insurance and on amendments to certain laws, as amended (Notification No. 221/2010 Coll.).
- Decree No. 9/2010 of Národná banka Slovenska of 25 May 2010 on the professional examination and certification examination for the purposes of the Act on Financial Intermediation and Financial Counselling (Notification No.259/2010 Coll.).
- Decree No. 10/2010 of Národná banka Slovenska of 15 June 2010 amending Decree No. 8/2008 of Národná banka Slovenska on fees for acts performed by Národná banka Slovenska, as amended (Notification No. 277/2010 Coll.).

- Decree No. 11/2010 of Národná banka Slovenska of 8 June 2010 stipulating methods of valuing positions recorded in the banking book and details of the valuation of positions recorded in the banking book, including the frequency of such valuations (Notification No. 278/2010 Coll.).
- Decree No. 12/2010 of Národná banka Slovenska of 8 June 2010 amending Decree No. 4/2007 of Národná banka Slovenska on banks' own funds of financing and banks' capital requirements and on investment firms' own funds of financing and investment firms' capital requirements (Notification No. 279/2010 Coll.).
- Decree No. 13/2010 of Národná banka Slovenska of 31 August 2010 on additional types of risk, on details of the risk management system of banks and branches of foreign banks, and on defining a sudden and unexpected change in market interest rates (Notification No. 367/2010 Coll.).
- Decree No. 14/2010 of Národná banka Slovenska of 31 August 2010 amending Decree No. 18/2008 of Národná banka Slovenska on the liquidity of banks and branches of foreign banks and the liquidity risk management process of banks and branches of foreign banks and on the amendment of Decree no. 11/2007 of Národná banka Slovenska on the submission of statements, reports and other disclosures by banks, branches of foreign banks, investment firms, and branches of foreign investment firms for supervision and statistical purposes, as amended by Decree No. 5/2009 (Notification No. 368/2010 Coll.).
- Decree No. 15/2010 of Národná banka Slovenska of 21 September 2010 on disclosures by banks and branches of foreign banks (Notification No. 387/2010 Coll.).
- Decree No. 16/2010 of Národná banka Slovenska of 21 September 2010 on disclosures by investment firms and branches of foreign investment firms (Notification No. 388/2010 Coll.).
- Decree No. 17/2010 of Národná banka Slovenska of 28 September 2010 stipulating the elements of a notification regarding persons in a special relationship with an insurance undertaking, foreign insurance undertaking, reinsurance undertaking or branch of a foreign reinsurance undertaking (Notification No. 389/2010 Coll.).
- Decree No. 18/2010 of Národná banka Slovenska of 28 September 2010 on the average level of expenses related to financial intermediation in life insurance (Notification No. 390/2010 Coll.).
- Decree No. 19/2010 of Národná banka Slovenska of 14 December 2010 on fees for acts performed by Národná banka Slovenska (Notification No. 521/2010 Coll.).

CHAPTER 10

INSTITUTIONAL DEVELOPMENTS

10

10 Institutional developments

10.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska was established as the independent central bank of the Slovak Republic on 1 January 1993, under Act No. 566/1992 Coll. on Národná banka Slovenska. On the same date that Slovakia adopted the euro, 1 January 2009, NBS became a member of the Eurosystem – the euro area's central banking system within the European System of Central Banks.

Eurosystem/ESCB committees

The Eurosystem/ESCB committees play an important role in assisting the ECB's decision-making bodies. They provide expertise in their fields of competence and perform specific tasks mandated by the ECB Governing Council.

- Accounting and Monetary Income Committee
- Banking Supervision Committee[18]
- Banknote Committee
- Committee on Cost Methodology
- Eurosystem/ESCB Communications Committee
- Financial Stability Committee[19]
- Information Technology Committee
- Internal Auditors Committee
- International Relations Committee
- Legal Committee
- Market Operations Committee
- Monetary Policy Committee
- Payment and Settlement Systems Committee
- Risk management Committee
- Statistics Committee

- Budget Committee
- Eurosystem IT Steering Committee
- Human Resources Conference

The primary objective of Národná banka Slovenska is to maintain price stability. To this end, NBS:
- participates in the common monetary policy set by the European Central Bank for the euro area;
- issues euro banknotes and euro coins in accordance with separate regulations that apply

Source: ECB.
Note: Eesti Pank, the central bank of Estonia, became a Eurosystem member on 1 January 2011.

18 The Banking Supervision Committee was dissolved as at 16 December 2010 (on the date of the establishment of the ESRB).
19 The Financial Stability Committee was established on 13 January 2011.

in the euro area to the issuance of euro banknotes and coins;
- promotes the smooth operation of payment and settlement systems; regulates, coordinates and oversees currency circulation, payment systems, and payment settlements; and ensures that these systems are run efficiently and cost-effectively;
- maintains and manages foreign reserves and conducts foreign exchange operations in accordance with separate regulations applicable to Eurosystem operations;
- performs other activities relating to its participation in the European System of Central Banks.

As regards the financial market, Národná banka Slovenska contributes both to the stability of the financial system as a whole and to the secure and sound functioning of the financial market, with the aim of maintaining confidence in the financial market, protecting customers, and ensuring compliance with competition rules. Národná banka Slovenska is also the financial supervisory authority in Slovakia, meaning that it exercises supervision of banks, branches of foreign banks, investment firms, investment services intermediaries, stock exchanges, asset management companies, investment funds / collective investment undertakings, insurance companies, reinsurance companies, pension fund management companies, pension funds, supplementary pension fund asset management companies, and other supervised entities of the Slovak financial market.

10.2 HUMAN RESOURCES

Národná banka Slovenska had 1,079 employees as at 31 December 2010, seven fewer than at the end of 2009. A total of 55 employees ended their employment in 2010, twelve of them due to organisational changes.

From the 84 recruitment procedures held in 2010 (including internal, external and re-announced procedures), a total of 34 new employees were recruited. Positions were filled through external recruitment only where it was not possible to fill them through internal recruitment.

The average monthly salary for 2010 was €1,703.24, which in comparison with 2009 represented an increase of €49.54 or 3%.

Exchanges of staff members between ESCB national central banks, the ECB, and other international financial institutions are carried out in order to support staff mobility within the ESCB, the exchange of experience and know-how, and the development of human resources. In 2010, a total of seven NBS staff members were on secondment either to the ECB or to the Committee of European Banking Supervisors (CEBS).

10.3 ORGANISATION AND MANAGEMENT

Four amendments to the NBS Organisational Rules were approved in 2010. All of them were related to decisions of the NBS Bank Board, and one entered into force as of 1 January 2011. The organisational changes concerned mainly the restructuring of organisational units and departments, a move necessitated by the reduction in the number of members of the NBS Bank Board made in relation to an amendment of Act No. 556/1992 Coll. on Národná banka Slovenska as amended. This amendment changed the departmental structure of the Financial Market Supervision Unit and modified the duties of the Monetary and Financial Statistics Section of the Statistics Department.

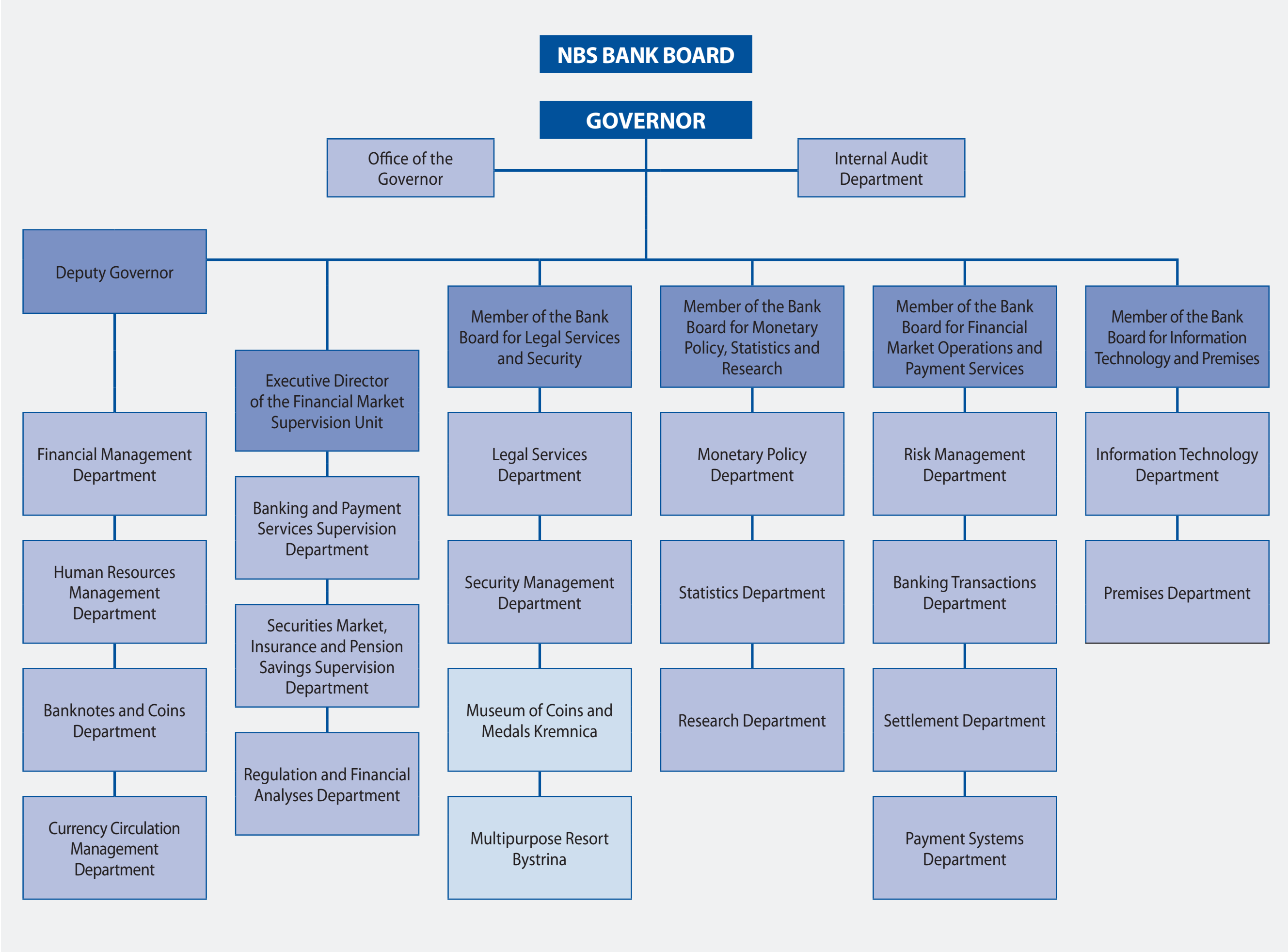
10.4 TRAINING AND EDUCATION

In the area of specialist training in 2010, the courses treated as a priority in terms of staff participation were those held within the European System of Central Banks and the European System of Financial Supervisors and those organised by other international financial institutions.

A total of 954 employees attended training courses in 2010. In organising these courses, the Human Resources Management Department cooperated with NBS's Institute of Banking Education.

The training courses focused on the following areas:
- specialist training,
- management training and development,
- language training,
- IT training,
- social skills training.

NBS organizational structure as at 31 December 2010



NBS spending on staff training and development in 2010 represented 5.20% of its total wage costs.

Národná banka Slovenska supports specialist internships for university undergraduates, and in 2010 a total of seven students completed internships at NBS. While at the central bank, they gained professional experience in selected organisational units and studied specialist publications in the NBS library. The foci of the internships were determined by the students' dissertation theses.

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 11

COMMUNICATION

11

11 COMMUNICATION

Like the ECB and other euro area national central banks, NBS performs communication activities according to the core principles of openness and transparency. Both principles contribute to the efficiency, effectiveness and credibility of the Eurosystem. NBS helps to strengthen these principles by regularly providing real-time information about euro area monetary developments and about other areas of NBS activities.

In 2010, NBS complied with the principle of openness and transparency in the provision of information about decisions concerning, in particular, financial market supervision, oversight of the payment system and currency circulation, issuing activities, and other areas. NBS organised press conferences to announce the publication of its quarterly Medium-Term Forecasts for basic macroeconomic indicators in Slovakia as well as to present analyses of developments in the Slovak Financial Sector.

During the year, NBS issued specialist publications providing information and analyses in areas covering the Bank's main activities. These publications included the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, Monthly Bulletin, and Medium-Term Forecast.[20] In addition, other analyses and research papers concerning monetary developments, the financial market and the effect of the euro on the Slovak economy were published in electronic form. In the area of communication there continued to be an important role for the BIATEC journal, which provides a platform for the presentation of specialist articles in the area of banking, finance and economics. The profile of its contributors and readers links together NBS, the banking and financial sector, and the academic and educational sphere. The full text of BIATEC is published on the NBS website.[21]

As a member of the Eurosystem, NBS engages in joint communication activities within the ESCB. In line with the principles of the Eurosystem/ESCB's multilingual communication system, NBS is involved in the preparation of national language versions of official ECB publications.[22] In 2010,

Box 2

COMMUNICATION ABOUT MONETARY POLICY DECISIONS

Decisions on monetary policy are taken by the ECB Governing Council, which comprises the six members of the ECB Executive Board and the governors of the national central banks of the seventeen euro area countries. The Council meets twice a month, and its decisions concerning key interest rates are, by convention, taken at the first meeting of the month. The schedule for meetings of the ECB Governing Council is published online at http://www.ecb.int/events/calendar/mgcgc/html/index.en.html

The decision on interest rates is published on the ECB website, and simultaneously on the NBS website, at 13:45 CET.

The reasoning behind the monetary policy decision is disclosed by the ECB President at a press conference given at 14.30 CET after the meeting of the Governing Council has ended. The ECB President presents a detailed introductory statement explaining the decision of the Governing Council, and then he and the ECB Vice-President field questions from the media. After the press conference, the ECB and NBS publish the introductory statement on their respective websites. The transcript and webcast of the press conference is published on the ECB website.

One week after the ECB's decision on the level of key interest rates, i.e. on the second Thursday of the month, the ECB Monthly Bulletin (providing a detailed analysis of monetary and economic developments) is published at 10:00 CET. Národná banka Slovenska publishes a Slovak translation of the full ECB Monthly Bulletin for the last month of each quarter. As for the other ECB Monthly Bulletins, NBS publishes only a translation of their editorials.

20 *http://www.nbs.sk/en/publications-issued-by-the-nbs*
21 *http://www.nbs.sk/sk/publikacie/biatec-odborny-bankovy-casopis*
22 *http://www.nbs.sk/sk/publikacie/publikacie-ecb*

NBS joined up with the ECB and the central banks of Germany, Belgium and Italy to take part in a pilot project for secondary schools in euro area countries. The aim of the planned competition, which will be run in all euro area countries from October 2011 to May 2012 is to stoke interest among secondary schoolchildren in monetary policy and central banking.

Among the communication channels of NBS, the NBS website continued to be the most used in 2010, attracting more than six million visitors. The most popular pages were those providing information about exchange rates, statistics, NBS itself, and financial market supervision (FMS). The following two registers were added to the FMS page in order to ensure more information for consumers in the financial market and to give them greater protection when entering into contractual relations for financial services:

– the Register of Financial Agents and Financial Advisors[23] enables the verification of information about legal or natural persons who in the Slovak Republic provide financial advisory services or perform financial intermediation in the areas of insurance or reinsurance, capital market, deposit taking, lending, and supplementary pension saving. The information recorded for insurance and reinsurance intermediation includes also financial intermediaries and financial advisers from other Member States or those who are based in Slovakia and provide such services in the territory of another Member State. The fact that a person is entered in the register is evidence that he is authorised to provide certain financial services and that he is professionally competent in this area;
– the Register of Creditors and Sub-register of Other Creditors,[24] accessible to the public since June 2010, is a register in which NBS records natural or legal persons who offer or provide consumer credits, or other credits and loans, other than consumer credits provided within the scope of their business activity, with the record entered at the proposal of the persons in question. A person who is not entered in the register may not provide such services.

Národná banka Slovenska is in direct contact with the public through both electronic and written communication. In 2010, the central bank dealt with more than 3,000 questions, responses, and suggestions from members of the public concerning information related to its various activities. This included 48 requests for information made under the Free Access to Information Act (No. 211/2000 Coll.).

Open day, exhibitions, lectures

NBS held its annual Open Day on 25 September 2010, with some 3,000 people taking the opportunity to look around the NBS headquarters. The event included exhibitions, film screenings, and presentations by the Museum of Coins and Medals at Kremnica, the NBS Archive and, for the first time, the European Central Bank. Visitors were also able to speak with the NBS Governor at a discussion forum held in the convention room. Other attractions included the chance to strike a coin, to view a gold bar, to verify the authenticity of one's own money, and to see a presentation about how money is transported using special vehicles.

In 2010, more than 10,000 visitors went to see the touring exhibition "Monetary Ups and Downs". Over the course of the year, this exhibition about the history of money in the territory of present-day Slovakia and in the countries of central and eastern Europe was installed at Bratislava, Trenčín, Žilina, Martin and Trebišov.

An exhibition at NBS headquarters about the introduction of the euro, entitled "The Euro - Our Currency" has been open to the public since September 2010.

Národná banka Slovenska hosted lectures during 2010 that altogether were attended by almost 2,000 visitors, mainly primary and second schoolchildren and university students.

NBS library and archive

The NBS Library offers access to key publications, information, and knowledge, particularly in the areas of central and commercial banking, financial supervision and monetary policy. Communication with the public forms an integral part of the library's activities,[25] through the provision of retrieval and library services and electronic consultations. In 2010, the library updated its online catalogue with bibliographical and content processing of 4,350 documents and it handled 3,600 search requests on a range of topics.

The NBS Archive is a specialised public archive that manages more than 180 archive collections

23 http://regfap.nbs.sk
24 http://regver.nbs.sk
25 Further details of the library's information services for the public are published on the NBS website at: http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-central-library

The exhibition Two Sides of Money during the Summer Nights of the Muses and the Night of the Museums events

of financial institutions that have operated in the territory of Slovakia since the 1940s.[26] In 2010, the NBS Archive managed, inter alia, to purchase a share of Tatra Banka, Martin from 1886.

As a member of the European Association for Banking and Financial History (EABH),[27] the NBS Archive has the opportunity to learn about the archival work carried out by central and commercial banks around the world as well as to help build up the EABH's information database and to participate in its events. In 2010, the long-term cooperation between the NBS Archive and the Archive of Česká národní banka in the dividing up of archived materials dating from the times of the common state was extended to include cooperation with the National Archive of the Czech Republic.

Also last year, the NBS Library and Archive stepped up their cooperation with the ECB's library and archive and with central bank libraries and archives within the ESCB. The NBS Library cooperated in the development of the ESCB's common database of legal information, and together with the NBS Archive it cooperated with Eurosystem libraries and archives. Staff of the NBS Archive and NBS Library also supported the provision of technical assistance to other central banks by lecturing at an expert seminar organised for representatives of the National Bank of Belarus.

Museum of coins and medals at Kremnica

The Museum of Coins and Medals (MCM) at Kremnica[28] has been a part of NBS since 1994. Its steadily-growing collections are presented to the public through the following permanent exhibitions: the numismatic-historical exhibition *Two Sides of Money – Money and Medals in the History of Slovakia*; the Town Castle's art-historical exhibition; and the exhibition *Routes of Collecting in 15th to 18th Century Art*, which is subtitled *Public and Private Collecting in Kremnica*.

In addition, the MCM has occasional exhibitions on different themes. In 2010, for example, there was an exhibition documenting the development of the Romanian currency between 1867 and 2010 (alongside an international numismatic symposium entitled "Money and its place in the history of society"), and a thematic exhibition of the MCM's numismatic and historical acquisitions in the period 1994–2009. The MCM's exhibitions and other presentational, cultural and educational activities in 2010 were dedicated to the 120th anniversary of the institution's establishment.

Last year, the MCM again took part in the international museum event "Night of the Museums", with people able to visit the museum in the evening hours to see the exhibitions *Two Sides of Money* and *Routes of Collecting in 15th to 18th Century Art* and to enjoy the many accompanying programmes. Another annual event was the MCM's "Summer Nights of the Muses", involving evening tours of the MCM exhibitions together with a varied programme of entertainments. In addition, the MCM ran various thematic educational programmes for schoolchildren and other particular groups of visitors.

In 2010, the exhibitions of the Museum of Coins and Medals at Kremnica attracted almost 34,000 visitors from Slovakia and abroad.

26 Information about the content of, and public access to, documents and publications kept in the archival library are published on the NBS website at: http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-archive

27 http://www.eabh.info/

28 http://www.muzeumkremnica.sk

INDEPENDENT ADITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2010

12

Ernst & Young

Ernst & Young Slovakia, spol. s r.o.

Independent Auditors' Report

To the Bank Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia ('the Bank'), which comprise the balance sheet as at 31 December 2010, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2010/20 ('the ECB Guideline') and with Act No. 431/2002 Coll. on Accounting, as amended ('the Act on Accounting') and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank Board of the National Bank of Slovakia, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

15 March 2011
Bratislava, Slovak Republic

Ernst & Young

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

Ing. Dalimil Draganovský
SKAU Licence No.893

FINANCIAL STATEMENTS OF NÁRODNÁ BANKA SLOVENSKA AS AT 31 DECEMBER 2010

BALANCE SHEET
of Národná banka Slovenska

		Note	31 Dec 2010 EUR '000	31 Dec 2009 EUR '000
	ASSETS			
A1	Gold and gold receivables	1	1,075,260	780,755
A2	Claims on non-euro area residents denominated in foreign currency	2	537,665	486,014
A3	Claims on euro area residents denominated in foreign currency	3	112,058	105,847
A4	Claims on non-euro area residents denominated in euro	4	2,910,931	2,450,078
A5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	1,005,000	2,063,000
A6	Other claims on euro area credit institutions denominated in euro	6	49,040	100,005
A7	Securities of euro area residents denominated in euro	7	11,038,843	10,196,074
A8	General government debt denominated in euro			
A9	Intra-Eurosystem claims	8	2,332,897	3,429,484
A10	Items in course of settlement			
A11	Other assets	9	5,905,237	5,784,452
A12	Loss for the year	33	515,173	
	TOTAL ASSETS		**25,482,104**	**25,395,709**
	LIABILITIES			
L1	Banknotes in circulation	10	7,674,876	7,481,457
L2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	715,464	1,198,172
L3	Other liabilities to euro area credit institutions denominated in euro	12	1,050,059	38,512
L4	Debt certificates issued			
L5	Liabilities to other euro area residents denominated in euro	13	111,383	66,443
L6	Liabilities to non-euro area residents denominated in euro	14	278,324	370,093
L7	Liabilities to euro area residents denominated in foreign currency	15	86,118	78,507
L8	Liabilities to non-euro area residents denominated in foreign currency	16	62,457	57,161
L9	Counterpart of special drawing rights allocated by the IMF	17	394,002	370,644
L10	Intra-Eurosystem liabilities	18	13,305,868	14,499,760
L11	Items in course of settlement			
L12	Other liabilities	19	895,866	503,334
L13	Provisions	20	4,876	4,950
L14	Revaluation accounts	21	544,466	297,743
L15	Capital and reserves	22	358,345	358,345
L16	Profit for the year	33		70,588
	TOTAL LIABILITIES		**25,482,104**	**25,395,709**

PROFIT AND LOSS ACCOUNT
of Národná banka Slovenska

		Note	31 Dec 2010 EUR '000	31 Dec 2009 EUR '000
	1.1 Interest income		666,364	647,802
	1.2 Interest expense		(623,173)	(555,919)
1	**Net interest income**	24	**43,191**	**91,883**
	2.1 Realised gains arising from financial operations		158,269	174,264
	2.2 Write-downs on financial assets and positions		(673,530)	(157,955)
	2.3 Transfer to/from provisions for foreign exchange rate, interest rate and gold price risks			
2	**Net result of financial operations, write-downs and risk provisions**	25	**(515,261)**	**16,309**
	3.1 Fees and commissions income		5,057	2,893
	3.2 Fees and commissions expense		(1,250)	(1,332)
3	**Net income / (expense) from fees and commissions**	26	**3,807**	**1,561**
4	**Income from equity shares and participating interests**	27	**16,891**	**8,652**
5	**Net result of pooling of monetary income**	28	**5,541**	**12,818**
6	**Other income**	29	**6,936**	**8,865**
	Total net income		**(438,895)**	**140,088**
7	**Staff costs**	30	**(34,365)**	**(31,569)**
8	**Administrative expenses**		**(16,205)**	**(18,766)**
9	**Depreciation of tangible and intangible fixed assets**	31	**(11,161)**	**(11,585)**
10	**Banknote production services**	32	**(9,498)**	
11	**Other expenses**	29	**(5,049)**	**(7,579)**
12	**Income tax and other government charges on income**			**(1)**
	(Loss) / Profit	33	**(515,173)**	**70,588**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2010

A. GENERAL INFORMATION ON NÁRODNÁ BANKA SLOVENSKA

Národná banka Slovenska (the National Bank of Slovakia, subsequently the "NBS" or the "Bank") is the independent central bank of the Slovak Republic. The NBS was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (subsequently the "NBS Act"). The NBS commenced its activities on 1 January 1993 as the bank issuing the currency of Slovakia. Upon euro-adoption in Slovakia as at 1 January 2009, the NBS became a full member of the Eurosystem, the euro area central banking system consisting of the European Central Bank (subsequently the "ECB") and the 16 national central banks of the European Union member states with the common euro currency.

The NBS is a legal entity (Corporate ID: 30 844 789) seated at Imricha Karvaša 1, Bratislava. In respect of its own assets, the NBS acts as a business entity. The NBS has its head office in Bratislava, nine branches in Slovakia, and special-purpose organisational units.

Under the NBS Act, the Bank's primary objective is to maintain price stability. For this purpose, the NBS:
- Participates in the common monetary policy determined by the ECB for the euro area;
- Issues euro banknotes and euro coins in accordance with special regulations valid in the euro area;
- Supports the smooth and cost-effective operation of payment services; controls, coordinates and facilitates the currency circulation;
- Holds and manages foreign reserves and executes foreign exchange operations; in conducting operations within the Eurosystem, it acts in accordance with the separate legal provisions applicable to Eurosystem operations;
- Performs other activities resulting from its participation in the European System of Central Banks.

In the area of the financial market, the NBS contributes to the stability of the financial system as a whole, as well as to the secure and sound operation of the financial market with the purpose of maintaining its credibility, client protection, and respect for the rules of economic competition. The NBS performs financial market supervision and other activities in the area of the financial market.

The Bank, with the authorisation of the Government of Slovakia (subsequently the "Government"), represents Slovakia in international institutions in the area of the financial market and in operations on the international financial markets where it ensures the fulfilment of tasks arising from such representation. Within its supervision of the financial market, the NBS also fulfils tasks in the area of international cooperation.

The NBS performs its tasks independently of instructions from state authorities, local self-government bodies and other public authorities. Within the scope of its authority, the NBS serves the Government in an advisory capacity.

The supreme governing body of the NBS is the NBS Bank Board (subsequently the "Bank Board"). In exercising its powers and authorities under the NBS Act, the Bank Board is required to observe the rules valid for the European System of Central Banks and the rules applicable for the Eurosystem. Following accession to the Eurosystem, the Bank Board primarily:
- Determines the procedural principles followed by the NBS and its organisational units when implementing the common European monetary policy;
- Determines the principles of conduct and the organisation of supervision of the financial market;
- Sets guiding principles for the activities and operations of the NBS;
- Approves the budget of the NBS, financial statements of the NBS, annual results of operations and annual reports of the NBS, decides on the use of profits or settlement of losses of the NBS, and sets the types of funds of the NBS and their amount and usage;
- Determines the organisational structure of the NBS;
- Sets the amount of annual contributions of supervised entities in the financial market;
- Determines the procedure followed by the NBS and its organisational units when issuing euro banknotes and euro coins, including commemorative euro coins and collector euro coins, in accordance with the separate

As at 31 December 2010, the Bank Board consisted of the following members:

Name	Term of Office in the Bank Board	Current Position	Date of Appointment
Doc. Ing. Jozef Makúch, PhD.	1. 1. 2006 – 12. 1. 2015	Governor	12. 1. 2010
Ing. Viliam Ostrožlík, MBA	1. 3. 2007 – 11. 7. 2012	Deputy Governor	11. 7. 2007
Ing. Slavomír Šťastný, PhD., MBA	1. 1. 2006 – 1. 1. 2011	Member	1. 1. 2006
RNDr. Karol Mrva	10.1. 2007 – 10. 1. 2012	Member	10. 1. 2007
Ing. Gabriela Sedláková	1. 6. 2007 – 1. 6. 2012	Member	1. 6. 2007
Ing. Štefan Králik	1. 4. 2009 – 1. 4. 2014	Member	1. 4. 2009

legal provisions applicable in the euro area for the issue of euro banknotes and euro coins;

- Approves the generally binding regulations issued by the NBS and bills which the NBS presents or co-presents to the Government; and
- Approves draft agreements on mutual assistance, cooperation, and provision of information and supporting documents between the NBS and foreign supervisory authorities in the area of financial markets or between the NBS and public authorities in Slovakia which perform oversight and supervision pursuant to separate regulations.

Pursuant to the amendment to Act No. 492/2009 Coll., the Bank Board should have five members: the Governor, two Deputy Governors, and two other members. Members of the Bank Board are appointed for a term of five years. A person may be reappointed as a member of the Bank Board with the provision that the same person may be appointed as Governor for no more than two consecutive terms of office and as Deputy Governor for no more than two consecutive terms of office. The Governor represents the NBS vis-à-vis third parties.

The number of Bank Board members will be adjusted to five gradually as the term of office lapses for those individual Bank Board members whose office existed as at 1 December 2009.

The assets and liabilities of the NBS falling under the Eurosystem regime are recognized and measured under the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (subsequently the "Statute"). The NBS participates in allocating monetary income in the Eurosystem and allocating net profits and losses of the ECB to the extent and under the conditions specified in the Statute.

In accordance with Article 39 (4) of the NBS Act, the financial result of the NBS for a reporting period is the profit it generated or loss it incurred. The profit generated by the Bank is allocated to the reserve fund and other funds created from profit, or it is used to cover accumulated losses from prior years. Any loss incurred in the current reporting period may be settled by the NBS from the reserve fund or from other funds; alternatively, the Bank Board may decide to carry the accumulated loss forward to the following reporting period.

The NBS submits the annual results of its operations to the National Council of the Slovak Republic within three months after the end of the calendar year. In addition to the NBS financial statements and the auditor's opinion thereon, the annual results of operations provide information on the NBS's operating costs. If so requested by the National Council of the Slovak Republic, the NBS is obliged, within six weeks, to supplement the report as requested and/or to provide explanations to the submitted report.

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Basis of Preparation of the Financial Statements

The Bank applies its accounting principles in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2010/20 (subsequently the "ECB Guideline"). In recognition of transactions not regulated by the ECB Guideline, the Bank observes the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and in line with the interpretations issued by the International Financial Reporting Interpretations Committee as adopted by the European Commission pursuant to the Directive of the European Parliament and the Council of the European Union. In other cases, the Bank acts in accordance with Act No. 431/2002 Coll. on Accounting, as amended (subsequently the "Act on Accounting").

In accordance with the ECB Guideline, the Bank applies the following basic accounting principles: the principle of economic reality and transparency, the principle of prudence, the recognition of post-balance-sheet events, the principle of materiality, the accruals principle, the going-concern basis, and the principle of consistency and comparability. Income and expenses are recognized in the accounting period in which they are earned or incurred.

Other accounting principles are detailed in the individual sections of the financial statements.

When preparing the financial statements, the Bank acts in accordance with the recommended harmonised procedures for the preparation of disclosures to the financial statements of a national central bank within the Eurosystem.

(b) Transaction Date

Foreign exchange transactions, financial instruments denominated in local and foreign currency and related accruals excluding securities are subject to the economic principle, i.e. transactions are recorded on off-balance sheet accounts on the trade date. On the settlement date, off-balance sheet booking entries are reversed and the transactions are recorded on the balance sheet accounts in the Bank's assets and liabilities.

Other economic transactions including transactions with debt securities are recorded in accordance with the cash/settlement principle, i.e. no accounting entries are made on the trade date and the transaction is recorded on the settlement date.

(c) Methods for Valuing Assets and Liabilities

Debt securities, except for held-to-maturity securities, are valued monthly at market prices. During the reporting period, valuation differences are recognized in equity. Profit/loss is only affected at the end of the reporting period if there is a loss on valuation.

Held-to-maturity debt securities purchased under the common monetary policy are valued at cost as at the acquisition date, and then at amortized cost. As at the balance sheet date, the Bank assesses whether there is any objective evidence of their impairment.

Interest rate swaps are valued individually at market prices on a monthly basis. During the reporting period, the valuation difference, which is the difference between the market price and the carrying amount, is recognized in equity. As at the year-end, gains on valuation are recognized in equity in the Bank's balance sheet and losses on valuation are recognized in the Bank's profit and loss account. Losses are amortized in subsequent years up to the maturity of the interest rate swap.

Options are valued individually at market prices on a monthly basis in line with the selected valuation model. During the reporting period, valuation differences are recognized on the revaluation accounts and disclosed in equity. As at the year-end, losses on valuation are recognized in the profit and loss account and gains on valuation are recognized in equity in the Bank's balance sheet.

Futures are valued at market prices on a daily basis and recognized in the profit and loss account.

During the year, assets (including gold) and liabilities denominated in foreign currency are valued at the average cost of the currency on a daily basis. Foreign exchange differences arising on the daily valuation from movements in assets and liabilities are recognized in the profit and loss account. As at the month-end, assets and liabilities are valued at the reference exchange rate announced by the ECB. The difference between the reference exchange rate and the rate used in the accounting books (the average cost of the currency) represents unrealized foreign exchange gains or losses, which are recognized on the revaluation accounts in equity over the course of the year. At the year-end, unrealized foreign exchange losses are recognized in the profit and loss account and unrealized foreign exchange gains remain recognized on the revaluation accounts in equity.

Foreign exchange spot transactions, currency forwards and currency swaps recorded on the off-balance sheet accounts from the agreed trade date affect the net foreign currency position for calculating the average cost of the currency. For the valuation of the off-balance sheet instruments, the same principle applies of as for the valuation of balance-sheet instruments.

Each currency is valued separately. Foreign exchange losses in one currency are not netted with foreign exchange gains in other currencies.

Foreign exchange rates of key foreign currencies used to value the assets and liabilities as at 31 December 2010 were as follows:

Currency	Amount	31 Dec 2010	31 Dec 2009
GBP	1	0.86075	0.88810
USD	1	1.33620	1.44060
JPY	1	108.65000	133.16000
XDR	1	0.86415	0.91861
EUR/ozs	1	1,055.418	766.347

(d) Gold and Gold Receivables

In accordance with the ECB Guideline, gold is treated as a foreign currency. No distinction is made between price and currency revaluation differences. Gold is valued on a daily basis at the average price of the currency (gold). On a monthly basis, gold is measured at the market value, which is the London gold morning fixing in USD/ozs (troy ounce) translated at the EUR/USD exchange rate valid as at the revaluation date.

Gold swap transactions are recognized as repurchase transactions with gold. The gold used in such transactions remains included in the Bank's total assets under the heading "Gold".

(e) Debt Securities

Debt securities are initially recognized at cost. From the date following the purchase date to the sale or maturity of the security (including the sale or maturity date), the Bank amortizes the premium or the discount on a daily basis (the difference between the cost and nominal value). The IRR method is applied to the calculation of the amortized premium/discount.

In the event of the acquisition of debt securities with a coupon, the amount of the purchased coupon is regarded as a separate item. From the date following the settlement date to the sale or maturity of the coupon (including the sale or maturity date) the interest income from the coupon is accrued. The straight-line method is applied to coupon accruals.

Debt securities, except for held-to-maturity securities acquired as part of the common monetary policy, are valued on a monthly basis at the mid-market price on an individual basis, i.e. separately based on the same ISIN number. The valuation difference is the difference between the mid-market price and the average cost net of the amortized discount/premium recognized in the accounting books. Over the year, valuation differences are recognized in equity. As at the year-end, gains on valuation are recognized in the Bank's equity and losses on valuation are recognized in the Bank's profit and loss account.

The mid-market price of debt securities for which an active market exists is derived from the mid-market price on the market. If no mid-market price is available, the price is determined by a qualified estimate.

Upon the sale of a security, the difference between the average cost adjusted for the amortized discount/premium and the selling price is the gain or loss realized on the sale (market effect), which is recognized in the Bank's profit and loss account.

Debt securities acquired under the Securities Markets Programme (subsequently "SMP") and covered bonds acquired under the Covered Bonds Purchased Programme (subsequently "CBPP") as part of the common monetary policy are held to maturity and at purchase are valued at acquisition cost and then at amortized cost. As at the balance sheet date, the Bank assesses whether there is any objective evidence of their impairment. Loss on impairment is calculated as the difference between the carrying amount of the debt security as at the last calendar day of the year and the present value of the estimated future cash flows discounted by the original interest rate.

The impairment test for bonds acquired under the SMP is performed by the European Central Bank (subsequently "ECB") on a centralized basis and is subject to the approval of the Governing Council. In the event of impairment of bonds, a provision is created as at the last calendar day of the year, in the amount of the NBS's share in the ECB's paid-up capital existing at the time of the initial impairment. Subsequently, the provision is adjusted annually as at the balance sheet date, on the basis of the Governing Council's decision.

The impairment test for bonds acquired under the CBPP is performed by the Bank. Impairment affects the average cost of the debt security and the loss is recognized in the profit and loss account. If the loss on impairment decreases in the subsequent reporting period, the loss on impairment previously recognized is reversed directly to the profit and loss account.

Debt securities are presented including the amortized premium/discount. Coupons are disclosed under "Other assets".

(f) Derivatives

In 2005 and 2006, the Bank entered into four long-term repo transactions with gold (subsequently the "gold repo transactions"). Seeking to eliminate the risk of a decrease in the gold market price, under the gold repo transactions the Bank purchased four European put options and sold four European call options for the same volume of gold. The option premiums for the options purchased and sold were not paid but were included in a lower than market interest rate for the long-term loan received by the Bank. The options are an embedded derivative which meets the criteria for separation from the host contract. Therefore, the options were separated from the loan received and are recognized separately.

The difference between the market price of the put options purchased and the call options sold on the transaction date affected the amount of the loan received and is accrued daily in expenses using the IRR method.

Since 2008, the Bank also recognizes short-term gold repo transactions not backed by options (see Notes 12 and 14).

The Bank also performs interest rate and currency swap transactions and deals in interest rate futures.

Initial margins to interest rate futures are deposited in cash.

For swap transactions, if there is an increase/decrease in the net swap position, a collateral adjustment is agreed upon contractually with selected counterparties. The collateral takes the form of deposits provided and/or received. Deposits bear interest at the ECB reference marginal rate or EONIA, which is adjusted on a daily basis. The interest on deposits received and granted is recognized in the profit and loss account on a daily basis.

(g) Receivables

Receivables are recognized on the balance sheet at their nominal value increased for accrued interest. Receivables are net of provisions for impairment losses. Creation and release of provisions for impairment losses is recorded in the profit and loss account.

Observing the prudence principle, the Bank assesses the risk of receivables, categorizes them, and recognizes provisions for receivables.

Receivables are written off into expenses based on a court decision on their irrecoverability or based on the Bank Board's decision. Related provisions are released to expenses.

(h) Reverse Transactions

Transactions in which the Bank received securities in exchange for cash with a simultaneous liability to return the securities at a certain date for an amount equalling the transferred cash plus interest (reverse repurchase transactions) or granted a collateralized loan, are recognized as granted loans. The securities and collateral received are not recognized by the Bank.

Transactions in which the Bank provided securities or gold in exchange for cash with a simultaneous liability to receive the securities or gold back at a certain date for an amount equalling cash plus interest (repurchase transaction) or received a collateralized loan are recognized as loans received. The collateral provided in repurchase transactions remains on the balance sheet and is revalued to the market price.

The Bank also performs Tri-party repurchase transactions, i.e. reverse repurchase transactions with a third party entering the relationship between the NBS and a partner bank.

(i) Receivables from / Payables to the International Monetary Fund

Receivables from and payables to the International Monetary Fund (subsequently the "IMF") are disclosed on a net basis, i.e. receivables and payables are netted. The payable from the allocation is disclosed under L 9 "Counterpart of special drawing rights allocated by the IMF".

(j) Participating Interests

The Bank records a participating interest in the ECB. In accordance with the Statute, the amount of the total capital share of individual national central banks depends on the capital key determined on the basis of the following statistical categories: GDP and population. In accordance with the Statute, the capital key is adjusted on a five-year basis or upon the accession of new members to the European System of Central Banks (subsequently the "ESCB"). The capital key was adjusted most recently as at 1 January 2009 and for the NBS represents 0.6934%.

In accordance with the Commercial Code (Act No. 513/1991 Coll. as amended), the NBS is the controlling entity with a majority share in the voting rights in RVS, a.s. Bratislava. The equity share of RVS, a.s. Bratislava is measured at cost.

The Bank recognized an equity share in the Bank for International Settlements in Basel, Switzerland (subsequently the "BIS"). The equity shares in BIS are measured at cost. The participating interest in the BIS is recognized in the amount of the share paid (25%). The outstanding portion (75%) is payable on demand. Dividends are paid in euro on the NBS's total share in the BIS maintained in XDR.

The NBS recognizes a capital share in Inštitút bankového vzdelávania NBS, n.o. Bratislava, which the Bank established on 28 October 2008. The capital share is valued at cost.

(k) Intra-Eurosystem Claims and Liabilities

Intra-Eurosystem claims and liabilities represent the position of the NBS towards other ESCB members from cross-border transactions; such transactions are performed mainly through TARGET2 (Trans-European Automated Real-Time Gross settlement Express Transfer system 2, subsequently "TARGET2").

In Intra-Eurosystem claims, the Bank recognizes its claim from the ECB related to the allocation of euro banknotes and the transfer of foreign reserves. The net position to TARGET2 together with a receivable resulting from the reallocation of monetary income is recognized on a net basis in liabilities.

(l) Monetary Income

Under Article 32(1) of the Statute and Decision ECB/2010/23 on the allocation of monetary income of the national central banks of participating member states, monetary income represents annual income derived from the assets of a national central bank held against banknotes in circulation and deposit liabilities to credit institutions. Monetary income results from implementation of the ESCB's monetary policy.

The amount of monetary income of each central bank in the Eurosystem is derived from the actual income on earmarkable assets held against the liability base. Earmarkable assets largely consist of gold, lending to euro area credit institutions related to monetary policy operations denominated in euro, securities held for monetary policy purposes, and intra-Eurosystem claims from allocation of euro banknotes. The liability base largely consists of banknotes in circulation, liabilities to euro area credit institutions related to monetary policy operations denominated in euro and liabilities resulting from TARGET2 transactions. Any interest paid on liabilities included within the liability base is deducted from the monetary income pooled.

Monetary income is allocated at the end of each financial year in proportion to the NBS's paid-up share in the capital of the ECB (0.9935%). The subsequent transfer of financial means is performed through the TARGET 2 payment system by the end of January of the following calendar year (see Note 28).

By decision of the Governing Council, the ECB loss can be settled from the monetary income of the respective financial year.

(m) Issue of Banknotes

Pursuant to Decision ECB/2008/26, euro banknotes are issued jointly by national central banks in the Eurosystem and the ECB. The total amount of banknotes in circulation is allocated to individual central banks in the Eurosystem on the last working day of each month, according to the Banknote Allocation Key. The ECB's share in the total amount of banknotes in circulation is 8%. Pursuant to the Decision cited above, the NBS's share in the total issue of euro banknotes within the Eurosystem is 0.914%. The share in banknotes in circulation is recognized under liabilities "Banknotes in Circulation" (see Note 10).

The difference between the banknotes allocated according to the Banknote Allocation Key and the banknotes actually in circulation represents an interest-bearing receivable or liability within the Eurosystem. This is disclosed under the heading "Net Claims Related to Allocation of Euro Banknotes within the Eurosystem" (see Note 8).

Over the five years since the Bank's transition to euro as cash, receivables/liabilities relating to the allocation of euro banknotes within the Eurosystem have been adjusted in order to eliminate major changes in the yield position of a respective central bank compared to prior years. The adjustment is based on the average issue of banknotes of the local currency two years prior to accession to the Eurosystem. The period of adjusting banknote issue for the NBS for the reasons listed above ends on 31 December 2014.

Interest income or interest expense from the receivables/liabilities referred to above is disclosed in the Bank's profit and loss account under the heading "Net Interest Income" (see Note 24).

(n) ECB Profit Redistribution

In accordance with Decision ECB/2010/24 of 25 November 2010, the ECB's income, consisting of the ECB's 8% share in euro banknotes issue and net income from securities purchased by the ECB under the SMP, is re-allocated among the Eu-

Participating interests of the 27 central banks of the European Union in the capital of the ECB as at 31 December 2010:

	Capital Key for Subscription of ECB's Capital (%)	Subscribed Share in Capital (EUR)	Paid-up Capital (EUR)	Eurosystem Key (%)
Banque National de Belgique	2.4256	261,010,384.68	180,157,051.35	3.4755
Deutsche Bundesbank	18.9373	2,037,777,027.43	1,406,533,694.10	27.1339
Central Bank and Financial Services Authority of Ireland	1.1107	119,518,566.24	82,495,232.91	1.5915
Bank of Greece	1.9649	211,436,059.06	145,939,392.39	2.8154
Banco de España	8.3040	893,564,575.51	616,764,575.51	11.8983
Banque de France	14.2212	1,530,293,899.48	1,056,253,899.48	20.3768
Banca d'Italia	12.4966	1,344,715,688.14	928,162,354.81	17.9056
Central Bank of Cyprus	0.1369	14,731,333.14	10,167,999.81	0.1962
Banque centrale du Luxembourg	0.1747	18,798,859.75	12,975,526.42	0.2503
Central Bank of Malta	0.0632	6,800,732.32	4,694,065.65	0.0906
De Nederlandsche Bank	3.9882	429,156,339.12	296,216,339.12	5.7144
Oesterreichische Nationalbank	1.9417	208,939,587.70	144,216,254.37	2.7822
Banco de Portugal	1.7504	188,354,459.65	130,007,792.98	2.5081
Banka Slovenije	0.3288	35,381,025.10	24,421,025.10	0.4711
Národná banka Slovenska	**0.6934**	**74,614,363.76**	**51,501,030.43**	**0.9935**
Suomen Pankki – Finlands Bank	1.2539	134,927,820.48	93,131,153.81	1.7966
*Total euro-area NCBs**	*69.7915*	*7,510,020,721.55*	*5,183,637,388.22*	*100.00*
Българска народна банка (Bulharská národná banka)	0.8686	93,467,026.77	3,505,013.50	
Česká národní banka	1.4472	155,728,161.57	5,839,806.06	
Danmarks Nationalbank	1.4835	159,634,278.39	5,986,285.44	
Eesti Pank	0.1790	19,261,567.80	722,308.79	
Latvijas Banka	0.2837	30,527,970.87	1,144,798.91	
Lietuvos bankas	0.4256	45,797,336.63	1,717,400.12	
Magyar Nemzeti Bank	1.3856	149,099,599.69	5,591,234.99	
Narodowy Bank Polski	4.8954	526,776,977.72	19,754,136.66	
Banca Natională a României	2.4645	265,196,278.46	9,944,860.44	
Sveriges Riksbank	2.2582	242,997,052.56	9,112,389.47	
Bank of England	14.5172	1,562,145,430.59	58,580,453.65	
*Total non-euro area NCBs**	*30.2085*	*3,250,631,681.03*	*121,898,688.04*	
Total*	**100.00**	**10,760,652,402.58**	**5,305,536,076.26**	

** Subtotals and totals are not required to correspond, due to the effect of rounding.*

rosystem's individual central banks in the same financial year as accrued in the form of an interim distribution of the ECB's income.

The Governing Council decides on the amount of the interim distributed income prior to the end of the calendar year, whereas the amount cannot exceed the ECB's net profit for that year. At the same time, the Governing Council may decide to transfer all or part of the ECB's income to reserves for credit, exchange rate, interest rate and gold price risks (see Note 27).

The remaining net profit of the ECB is re-allocated among the central banks within the Eurosystem upon approval of the ECB's financial statements, i.e. in the following calendar year. Under Article 33 of the Statute, transfers from the earned net profit of the ECB are first made to the general reserve fund of the ECB (which may not exceed 20% of the net profit, subject to a limit equal to 100% of the capital). The remaining net profit is redistributed to the national central banks in the Eurosystem in proportion to their paid-up shares in the capital of the ECB (see Note 27).

In the event of a loss incurred by the ECB, the shortfall may be offset against the ECB's general reserve fund and, if necessary, following a decision by the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amounts allocated to the national central banks in the Eurosystem in accordance with Article 32.5 of the Statute.

(o) Fixed Assets

With effect from 1 January 2010 and pursuant to the ECB's Guideline, the NBS's fixed assets include tangible fixed assets and intangible fixed assets with an initial cost higher than EUR 10,000 and with a useful life of more than one year. Land, works of art, fixed historic landmarks and collections with the exception of those which are listed under separate regulations (e.g. Act No. 115/1998 Coll. on Museums and Galleries as amended) are recognized on the balance sheet regardless of their input price. Tangible and intangible fixed assets up to EUR 10,000 which were acquired and put in use prior to 1 January 2010 are depreciated as put in use until they are fully depreciated.

On the balance sheet, tangible and intangible fixed assets are recognized at cost including incidental expenses; depreciated fixed assets are net of accumulated depreciation. Land, works of art, collections and tangible and intangible assets under construction or in progress are not depreciated.

Tangible and intangible fixed assets of the NBS are included in the individual depreciation groups as follows:

Depreciation Group	Depreciation period in years
1. Land and structures	30 4 – 12[1)]
2. Utility networks	20
3. Plant and equipment	4 – 12
4. Transport means	4 – 6
5. Fittings and fixtures	4 – 12
6. Software	2 – 4
7. Other intangible fixed assets	2 – 4 or as per contract
8. Fixed property investment	30
9. Technical improvements of immovable historic landmarks	30

1) asset components

(p) Fixed Assets Held for Sale

Fixed assets available for sale include land and structures that are available for sale in their current condition, where the sale is considered to be highly probable. These assets are not depreciated.

Assets classified as fixed assets available for sale are disclosed under "Other assets" at the lower of cost less accumulated depreciation and provisions or fair value less costs of sale.

(r) Provisions

The Bank recognizes provisions if it has a present liability as a result of past events and it is probable that an outflow of financial resources will be required to settle the liability, and the amount of the liability may be reliably estimated.

(s) Cost of Employee Benefits

The NBS makes regular payments on behalf of its employees to health insurance companies for health insurance and to the Social Insurance Company for sickness, retirement, accident, guarantee and unemployment insurance and a contribution to the Guarantee Fund. Contributions are made in the amounts required by law in the respective year. The Bank also pays a contribution for not employing the obligatory percentage of persons with a disability, as stipulated in the Employment Act.

In association with supplementary pension management companies, the NBS has established a supplementary pension scheme for its employees.

The Bank also creates a provision for employee benefits in accordance with the statutory and other requirements.

(t) Taxation

The NBS is liable to corporate income tax. In accordance with Article 12 of Act No. 595/2003 Coll. on Income Taxes as amended, only income taxed by withholding tax is subject to taxation.

The NBS has been registered as a VAT payer since 1 July 2004.

(u) Off-Balance Sheet Instruments

Forward and spot purchases and sales are recognized in off-balance sheet accounts from the trade date to the settlement date at the spot rate of the transaction. On the settlement date the off-balance sheet booking entries are reversed, and the transactions are recorded on the balance sheet accounts.

Foreign exchange spot and forward transactions affect the net currency positions for calculating the average cost of the foreign currency position from the trade date. For foreign exchange swaps, the foreign currency position is only affected by the accrued interest expense and income (the difference between the spot and forward rates), which is accrued on the balance sheet on a daily basis.

For calculating and recognizing gains and losses on these off-balance sheet instruments, the same principle as for valuing assets and liabilities denominated in foreign currencies applies (see Section B, Note c).

Options and futures are recognized by the Bank on off-balance sheet accounts from the trade date to the settlement date at the price of the underlying instrument. Valuation of the underlying instruments does not affect the net foreign currency position for calculating the average cost of the currency.

C. PARTIES RELATED TO THE NATIONAL BANK OF SLOVAKIA

Parties related to the National Bank of Slovakia include members of the Bank Board. The salaries and employee benefits of the Bank Board's members amounted to EUR 1,463 thousand for 2010 (EUR 1,433 thousand for 2009).

The Bank has receivables from loans provided to the Bank Board's members totalling EUR 215 thousand as at 31 December 2010 (EUR 275 thousand as at 31 December 2009).

D. NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ITEMS

1. Gold and Gold Receivables

EUR '000	31 Dec 2010	31 Dec 2009
Bars in standard form	1,073,599	779,549
Gold in other form	1,661	1,206
	1,075,260	**780,755**

At 31 December 2010, gold comprises a total of 1,019 thousand troy ounces of gold (1,019 thousand troy ounces of gold as at 31 December 2009), of which 300 thousand troy ounces of gold are deposited in correspondent banks, 717 thousand troy ounces of gold are used in repurchase transactions, and 2 thousand troy ounces are deposited with the Bank.

The market value of gold as at 31 December 2010 was EUR 1,055.418 per ozs (EUR 766.347 per ozs as at 31 December 2009). As at 31 December 2010, the balance of the gold revaluation account was EUR 442,116 thousand (EUR 147,610 thousand as at 31 December 2009).

The value of gold provided as collateral in gold repurchase transactions at 31 December 2010 amounted to EUR 756,588 thousand (EUR 698,647 thousand as at 31 December 2009).

2. Claims on Non-Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2010	31 Dec 2009
Receivables from/payables to the IMF	501,345	445,665
Balance with banks and security investments, foreign loans and other foreign assets	36,320	40,349
	537,665	**486,014**

Receivables from / Payables to the International Monetary Fund

	31 Dec 2010		31 Dec 2009	
	Equivalent in XDR mil.	EUR '000	Equivalent in XDR mil.	EUR '000
Receivables from the IMF	**726**	**841,000**	**699**	**760,955**
1) National quota	358	414,427	358	389,070
– Membership contribution	293	339,655	290	315,290
– Reserve position	65	74,772	68	73,780
2) Nostro account in the IMF	341	395,525	341	371,885
3) Bilateral lending	27	31,048		
Liabilities to the IMF	**293**	**339,655**	**290**	**315,290**
1) IMF loro accounts	287	332,648	301	327,311
2) Adjustment account	6	7,007	(11)	(12,021)
Total (net)		**501,345**		**445,665**

Receivables from / Payables to the International Monetary Fund

Receivables from the IMF consist of the national quota of Slovakia in the IMF, nostro account in the IMF and bilateral loans granted. Part of the national quota is the membership contribution maintained in EUR and the reserve position in Special Drawing Rights (XDR), which represents a receivable from loans granted in respect of the Financial Transactions Plan (subsequently the "FTP"). Under the FTP, as at 31 December 2010, funds were provided to third countries in the amount of XDR 65 million, amounting to EUR 74,772 thousand (EUR 73,780 thousand as at 31 December 2009). The balance of the nostro account in the IMF as at 31 December 2010 of EUR 395,525 thousand (EUR 371,885 thousand as at 31 December 2009) is mainly represented by the general and special allocation from 2009. In accordance with the agreement with the IMF, the Slovak Republic granted bilateral loans to selected countries amounting to XDR 27 million, equalling EUR 31,048 thousand. In granting the loans, the NBS records a receivable from the IMF which bears an IMF interest rate.

Liabilities to the IMF represent financial funds of the IMF deposited on IMF loro accounts with the NBS in the amount of EUR 332,648 thousand (EUR 327,311 thousand as at 31 December 2009). Liabilities on the loro account in local currency change depending on the IMF representative exchange rate (currency adjustment). A significant part of the liabilities consists of a non-marketable and non-interest-bearing note of Slovakia due on demand in the amount of EUR 315,943 thousand (EUR 326,040 thousand as at 31 December 2009).

The Bank records a liability to the IMF from the allocation recorded under L 9 "Counterpart of special drawing rights allocated by the IMF" (see Note 17).

Balance with Banks and Security Investments, Foreign Loans and Other Foreign Assets

EUR '000	31 Dec 2010	31 Dec 2009
Debt securities	31,347	29,513
Other	4,973	10,836
	36,320	**40,349**

Debt securities recognized as at 31 December 2010, categorized in this caption, are denominated in US dollars. As for the security issuers, they are public authority securities.

As at 31 December 2010, "Other" mainly included cash in foreign currency on nostro accounts of euro area non-residents.

3. Claims on Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2010	31 Dec 2009
Debt securities	111,752	105,465
Current accounts	306	382
	112,058	**105,847**

Debt securities categorized under this heading are denominated in US dollars. As per security issuers, as at 31 December 2010 the Bank recorded securities of financial institutions and public authority.

4. Claims on Non-Euro Area Residents Denominated in Euro

As at 31 December 2010, within this category the Bank recognized debt securities of non-euro area residents of EUR 2,910,931 thousand (EUR 2,450,078 thousand as at 31 December 2009). As for the security issuers, as at 31 December 2010 the Bank mainly recorded securities issued by monetary financial institutions.

5. Lending to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

In accordance with the rules for monetary policy operations in the Eurosystem, the NBS performed main and longer-term refinancing operations in the amount of EUR 1,005,000 thousand as at 31 December 2010 (EUR 2,063,000 thousand as at 31 December 2009).

Main refinancing operations are regular liquidity-providing reverse transactions with a weekly frequency and a normal maturity of one week. Longer-term refinancing operations are regular liquidity-providing reverse transactions of a longer period; as at 31 December 2010, transactions with a maturity of three and six months were recognized. These transactions are performed through standard tenders.

As at 31 December 2010, the volume of main refinancing operations and longer-term refinancing operations was EUR 815,000 thousand and EUR 190,000 thousand, respectively (EUR 68,000 thousand and EUR 1,995,000 thousand as at 31 December 2009, respectively).

6. Other Claims on Euro Area Credit Institutions Denominated in Euro

EUR '000	31 Dec 2010	31 Dec 2009
Redistribution loan	48,200	55,138
Current accounts	840	44,563
Granted loans		304
	49,040	**100,005**

A discounted rate redistribution loan provided to finance comprehensive housing construction was delimited following the separation of the balance sheet of the State Bank of Czechoslovakia. As at 31 December 2010, the redistribution loan bore interest of 0.50% p.a. (0.50 % p.a. as at 31 December 2009).

As at 31 December 2010, the NBS recorded a state guarantee received for the redistribution loan of EUR 50,589 thousand (EUR 57,967 thousand as at 31 December 2009). The amount of the state guarantee represents the principal and interest up to maturity.

7. Securities of Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2010	31 Dec 2009
Debt securities held for monetary policy purposes	1,394,282	268,102
Other securities	9,644,561	9,927,972
	11,038,843	**10,196,074**

As at 31 December 2010, under the "Debt securities held for monetary policy purposes" caption the Bank disclosed securities purchased under the SMP of EUR 840,426 thousand and covered bonds of EUR 553,856 thousand (EUR 268,102 thousand as at 31 December 2009).

These securities are held to maturity and are subject to impairment testing. They were mainly issued by public authorities and monetary financial institutions of the euro area.

As at 31 December 2010, SMP securities within the Eurosystem totalled EUR 73,976,000 thousand. Under Article 32(4) of the Statute, any losses resulting from ownership of the SMP securities are shared by the central banks within the Eurosystem based on their participating interests in the ECB's paid-up capital. As at 31 December 2010, the Bank did not recognize any impairment losses.

As at 31 December 2010, under the "Other securities" caption, the Bank recognized securities issued by monetary financial institutions and public authorities of the euro area. These are included in the trading portfolio.

As at 31 December 2010, under the item referred to above, the Bank recorded securities issued by the Government of the Slovak Republic of EUR 41,854 thousand. The securities were purchased in compliance with the rules as defined in Article 123 of the Treaty on the European Union and Article 21 of the Statute.

8. Intra-Eurosystem Claims

EUR '000	31 Dec 2010	31 Dec 2009
Participating interest in ECB	205,715	194,158
Claims equivalent to the transfer of foreign reserves	399,444	399,444
Net claims related to allocation of euro banknotes within the Eurosystem	1,727,738	2,835,882
	2,332,897	**3,429,484**

Participating Interest in ECB

As at 31 December 2010, the Bank recorded a participating interest in the ECB's capital of EUR 51,501 thousand (EUR 39,944 thousand as at 31 December 2009), which in accordance with the percentage shares set, represents a 0.6934% share of the NBS on the ECB's capital.

Pursuant to Decision ECB/2010/26 of 13 December 2010, the ECB's capital was increased by EUR 5 billion to EUR 10,760,652 thousand. The NBS is required to pay the share in the ECB's increased capital in three equal annual instalments. The first instalment of EUR 11,557 thousand was paid on 29 December 2010 and two further instalments will be paid in 2011 and 2012.

In accordance with Article 49(2) of the Statute and the decision of the Governing Council, the NBS contributed EUR 154,214 thousand to the ECB's reserves to cover credit, foreign exchange, interest rate and gold price risks and to the ECB revaluation accounts.

Claims Equivalent to the Transfer of Foreign Reserves

The NBS recognizes a claim of EUR 399,444 thousand equivalent to the transfer of foreign reserves to the ECB made according to the NBS capital key under Article 30(1) of the Statute. The receivable bears interest amounting to 85% of the main refinancing operations rate. As at 31 December 2010, accrued interest income from the claim equivalent to the transfer of foreign reserves amounted to EUR 3,442 thousand (see Note 24).

Net Claims Related to the Allocation of Euro Banknotes within the Eurosystem

The item represents a claim related to the application of the banknote allocation key, which amounted to EUR 1,727,738 thousand as at 31 December 2010 (EUR 2,835,882 thousand as at 31 December 2009). The claim bears interest at the interest rate for main refinancing operations. As at 31 December 2010, net interest received from the receivable amounted to EUR 4,073 thousand (see Note 24).

9. Other Assets

EUR '000	31 Dec 2010	31 Dec 2009
Tangible and intangible fixed assets	162,701	171,584
Other financial assets	10,448	10,043
Revaluation differences of off-balance sheet instruments	127	101
Accruals and prepaid expenses	339,769	270,386
Accumulated losses from previous years	5,014,533	5,085,121
Sundry	377,659	247,217
	5,905,237	**5,784,452**

Tangible and Intangible Fixed Assets

This heading comprises fixed assets of the NBS. The balance of tangible and intangible fixed assets as at 31 December 2010 was as follows:

Tangible and Intangible Fixed Assets

EUR '000	TA & advances and assets under construction	IA & advances and assets under construction	TOTAL
Acquisition cost as at 1 January 2010	**278,936**	**24,736**	**303,672**
Additions	2,065	2,560	4,625
Disposals	3,390	1,580	4,970
Acquisition cost as at 31 December 2010	**277,611**	**25,716**	**303,327**
Accumulated depreciation as at 1 January 2010	**117,234**	**14,896**	**132,130**
Additions	7,899	3,262	11,161
Disposals	2,382	283	2,665
Accumulated depreciation and provisions as at 31 December 2010	**122,751**	**17,875**	**140,626**
Carrying amount of TA and IA as at 1 January 2010	**161,702**	**9,840**	**171,542**
Carrying amount of TA and IA as at 31 December 2010	**154,860**	**7,841**	**162,701**

As at 31 December 2010, the NBS did not recognize fixed assets held for sale (EUR 42 thousand as at 31 December 2009).

Other Financial Assets

As at 31 December 2010 and 31 December 2009, the Bank owned 1,080 certificate shares of RVS a.s. Bratislava with a value of EUR 3,585 thousand, representing a 52.33% share of the company's registered capital. Despite its majority share in RVS, a.s., the Bank does not prepare consolidated financial statements in accordance with Article 22 of the Act on Accounting. Based on the equity analysis, the Bank did not identify any significant risk associated with its equity share or any need for recognizing an impairment loss.

As at 31 December 2010, the Bank owned 2,858 BIS shares in the amount of EUR 19,232 thousand (EUR 18,092 thousand as at 31 December 2009), representing a 0.51% share in the registered capital of BIS. The share in BIS is recognized on the balance sheet in the amount equal to 25% of the paid-up shares, i.e. EUR 6,830 thousand (EUR 6,425 thousand as at 31 December 2009). The liability from the outstanding shares in the amount of 75% of the face value of each share represents EUR 12,402 thousand (EUR 11,667 thousand as at 31 December 2009). The outstanding portion of the shares is due on demand. As at 31 December 2010, the Bank recognized dividends from BIS shares of EUR 2,326 thousand (EUR 831 thousand as at 31 December 2009 – see Note 27).

As at 31 December 2010, the NBS recorded a contribution in the registered capital of Inštitút bankového vzdelávania NBS, n. o. Bratislava of EUR 33 thousand (EUR 33 thousand as at 31 December 2009).

Revaluation Differences of Off-Balance Sheet Instruments

The balance represents gains from the revaluation of off-balance sheet instruments amounting to EUR 127 thousand (EUR 101 thousand as at 31 December 2009).

Accruals and Prepaid Expenses

This item represents mainly accrued bond coupons of EUR 237,554 thousand (EUR 163,072 thousand as at 31 December 2009). The bond coupons purchased amounted to EUR 28,709 thousand (EUR 61,939 thousand as at 31 December 2009). Interest accrued on derivatives amounted to EUR 67,811 thousand (EUR 30,079 thousand as at 31 December 2009).

Sundry

EUR '000	31 Dec 2010	31 Dec 2009
Deposits granted related to interest rate swaps	306,000	196,500
Interest rate swaps	41,069	4,374
Purchased options	4,681	8,532
Interest rate futures	12,522	25,082
Investment and consumer loans granted to employees	10,950	10,240
Other	2,437	2,489
	377,659	**247,217**

The purpose of the deposits granted related to swap operations is to secure counterparty credit risk in respect of a decrease of the value of the swap on the part of the NBS.

10. Banknotes in Circulation

"Banknotes in circulation" represents the total amount of euro banknotes attributable to the NBS according to the Banknote Allocation Key:

EUR '000	31 Dec 2010	31 Dec 2009
Euro banknotes in circulation issued by the NBS	5,947,138	4,534,715
Euro banknotes not issued by the NBS	1,727,738	2,835,882
Total euro banknotes according to the NBS Banknote Allocation Key	**7,674,876**	**7,370,597**
SKK Banknotes		110,860
	7,674,876	**7,481,457**

The total volume of euro banknotes issued by the Eurosystem central banks is redistributed on the last day of each month in accordance with the Banknote Allocation Key (see Section B, Note m). The total of euro banknotes according to the Banknote Allocation Key attributable to NBS as at 31 December 2010 amounted to EUR 7,674,876 thousand (EUR 7,370,597 thousand as at 31 December 2009). Euro banknotes actually issued by the NBS as at 31 December 2010 amounted to EUR 5,947,138 thousand (EUR 4,534,715 thousand as at 31 December 2009). As at 31 December 2010, the difference between the euro banknotes actually issued and the euro banknotes attributable to the NBS according to the Banknote Allocation Key (see Note 8) represents a receivable for the NBS of EUR 1,727,738 thousand (EUR 2,835,882 thousand as at 31 December 2009). Unchanged Slovak banknotes in circulation are disclosed as of 1 January 2010 under L12 "Other liabilities" (see Note 19).

11. Liabilities to Euro Area Credit Institutions Related to Monetary Policy Operations Denominated in Euro

EUR '000	31 Dec 2010	31 Dec 2009
Current accounts covering the minimum reserve system	600,731	520,802
Deposit facility	89,733	677,370
Term deposits	25,000	
	715,464	**1,198,172**

As at 31 December 2010, current accounts represented monetary reserves of credit institutions that are subject to the minimum reserve system in accordance with the Statute. The deposit facility represents overnight deposits at a pre-specified interest rate.

12. Other Liabilities to Euro Area Credit Institutions Denominated in Euro

EUR '000	31 Dec 2010	31 Dec 2009
Repo transactions (Tri – party)	1,000,000	
Liabilities from repo transactions with gold	49,951	38,501
Interbank clearing in Slovakia (SIPS)	108	11
	1,050,059	**38,512**

13. Liabilities to Other Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2010	31 Dec 2009
Public authority	115	70
Other liabilities	111,268	66,373
	111,383	**66,443**

Public authority

As at 31 December 2010, the NBS recognized current accounts of the State treasury in the amount of EUR 115 thousand under this heading (EUR 70 thousand as at 31 December 2009).

Other Liabilities

EUR '000	31 Dec 2010	31 Dec 2009
Client current accounts	11,187	10,981
Client term deposits	29,290	29,279
Current accounts of auxiliary financial institutions	215	2,347
Term deposits of auxiliary financial institutions	70,576	23,766
	111,268	**66,373**

Auxiliary financial institutions include the Deposit Protection Fund and the Investment Guarantee Fund.

14. Liabilities to Non-Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2010	31 Dec 2009
Liabilities from repo transactions with gold	275,029	356,704
Liabilities to international financial institutions	3,277	13,388
Client loro accounts	18	1
	278,324	**370,093**

15. Liabilities to Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2010	31 Dec 2009
Liabilities from repo transactions with gold	86,117	78,507
Current accounts of the State Treasury in foreign currency	1	
	86,118	**78,507**

16. Liabilities to Non-Euro Area Residents Denominated in Foreign Currency

As at 31 December 2010, this caption included liabilities from long-term repo transactions with gold denominated in US dollars in the total amount of EUR 62,457 thousand (EUR 57,161 thousand as at 31 December 2009).

17. Counterpart of Special Drawing Rights Allocated by the IMF

As at 31 December 2010, the Bank recorded a liability to the IMF from the allocation of EUR 394,002 thousand (EUR 370,644 thousand as at 31 December 2009). The liability from the allocation is denominated in XDR. The IMF allocated XDR 265 million as part of the general allocation and XDR 75 million as part of a special allocation to Slovakia.

18. Intra-Eurosystem Liabilities

The major part of this caption represents the Bank's liability to TARGET2, which was EUR 13,311,469 thousand as at 31 December 2010 (EUR 14,520,625 thousand as at 31 December 2009) (see Section B, Note k). The position bears interest at the rate applied to main refinancing operations. Total interest paid was EUR 141,974 thousand as at 31 December 2010 (see Note 24).

19. Other Liabilities

EUR '000	31 Dec 2010	31 Dec 2009
Revaluation differences of off-balance sheet instruments	892	97
Accruals and income collected in advance	231,307	139,977
Sundry	663,667	363,260
	895,866	**503,334**

As at 31 December 2010, "Revaluation differences of off-balance sheet instruments" represented a loss from off-balance sheet instruments valuation of EUR 892 thousand (EUR 97 thousand as at 31 December 2009).

The major part of accruals represented interest expense from interest rate swaps in euro of EUR 219,142 thousand (EUR 126,422 thousand as at 31 December 2009) and interest on TARGET2 remuneration of EUR 11,155 thousand (EUR 12,818 thousand as at 31 December 2009).

Sundry

EUR '000	31 Dec 2010	31 Dec 2009
Derivatives	414,027	220,124
SKK banknotes in circulation	93,539	
Euro coins in circulation	103,709	91,637
SKK coins in circulation	47,395	47,566
Other	4,997	3,933
	663,667	**363,260**

As at 31 December 2010, "Derivatives" consisted of call options sold of EUR 189,587 thousand (EUR 123,387 thousand as at 31 December 2009) and an interest rate swap of EUR 214,540 thousand (EUR 96,737 thousand as at 31 December 2009). Collaterals of EUR 9,900 thousand in swap operations are also disclosed under this item (see Section B, Note f).

20. Provisions

EUR '000	31 Dec 2010	31 Dec 2009
Provisions for payables to employees	3,479	3,460
Provisions for unbilled supplies	575	733
Provisions for legal disputes	766	669
Provision for audit	42	66
Provision for Annual Report	14	22
	4,876	**4,950**

21. Revaluation Accounts

EUR '000	31 Dec 2010	31 Dec 2009
Valuation differences from gold valuation	442,116	147,610
Valuation differences from derivatives valuation	41,069	4,374
Valuation differences from securities valuation	56,277	139,581
Valuation differences from foreign currency valuation	5,004	6,178
	544,466	**297,743**

The balance of "Valuation Differences from Derivatives Valuation" is represented by revaluation differences from the valuation of interest rate swaps.

22. Capital and Reserves

EUR '000	31 Dec 2010	31 Dec 2009
Capital	16,041	16,041
Reserves	342,304	342,304
	358,345	**358,345**

Capital

This item includes the statutory fund representing the paid capital assumed from separation of the balance sheet of the former State Bank of Czechoslovakia, which has been in the amount of EUR 15,490 thousand since establishment of the NBS, and the assumed registered capital of the Financial Market Authority (Úrad pre finančný trh, "ÚFT") in the amount of EUR 551 thousand. With effect from 1 January 2006, the ÚFT was dissolved and merged with the NBS in accordance with the applicable law.

Reserves

Reserves consist of general reserves and capital reserves.

As at 31 December 2010, the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2009). The general reserves consist of contributions from generated profits of EUR 337,412 thousand. As at 1 January 2006, following the merger of the ÚFT with the NBS, the ÚFT's reserve fund of EUR 3,462 thousand was transferred to the NBS reserves.

As at 31 December 2010, the NBS's capital reserves amounted to EUR 1,430 thousand and included mainly real estate delimitation balances.

Summary of Changes in Equity and Accumulated Losses

EUR '000		Statutory fund	Capital reserves	General reserves	Valuation differences fund profit/(loss)	Accumulated (loss) from previous years	Profit/(loss) of current year
1.	**Balance as at 31 December 2009**	**16,041**	**1,430**	**340,874**	**297,743**	**(5,085,121)**	**70,588**
2.	Transfer of profit for 2009 to accumulated loss					70,588	(70,588)
3.	Transfer to statutory fund						
4.	Transfer to general reserves						
5.	Change in valuation differences from securities				(83,304)		
6.	Change in valuation differences from derivatives				36,695		
7.	Change in valuation differences from gold				294,506		
8.	Change in valuation differences from foreign currencies				(1,174)		
9.	(Loss)/profit for the current reporting period						(515,173)
10.	Remittances from profit						
11.	Change for the reporting period				246,723	70,588	(585,761)
12.	**Balance as at 31 December 2010**	**16,041**	**1,430**	**340,874**	**544,466**	**(5,014,533)**	**(515,173)**

23. Off-Balance Sheet Instruments

	31 Dec 2010		31 Dec 2009	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
Currency swaps in EUR (forward portion)	69,114		56,361	
Currency swaps in USD (forward portion)		43,032		39,914
Currency swaps in GBP (forward portion)		9,875		7,101
Currency swaps in JPY (forward portion)		16,972		9,342
	69,114	**69,879**	**56,361**	**56,357**

	31 Dec 2010		31 Dec 2009	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
Put options purchased	161,500	422,396	149,796	306,705
Call options sold	273,278	422,396	253,474	306,705
	434,778	**844,792**	**403,270**	**613,410**

	31 Dec 2010		31 Dec 2009	
EUR '000	Receivables	Liabilities	Receivables	Liabilities
Interest rate futures in EUR		245,400		2,335,472
Interest rate futures in USD		50,891		
		296,291		**2,335,472**

24. Net Interest Income

EUR '000	31 Dec 2010	31 Dec 2009
Interest Income	**666,364**	**647,802**
Interest income from bonds	417,293	366,694
Interest income from derivatives	221,338	239,866
Interest income from repo transactions	17,985	11,547
Interest received from euro banknotes remuneration	4,240	23,964
Interest received from a claim equivalent to the transfer of foreign reserves	3,442	4,374
Interest from redistribution loan	252	306
Interest from client loans and deposits	1,790	1,050
Other	24	1
Interest expense	**(623,173)**	**(555,919)**
Interest expense from derivatives	(465,604)	(362,123)
Interest expense from repo transactions	(6,306)	(10,774)
Interest paid from TARGET2 remuneration	(141,974)	(163,967)
Interest paid from minimum reserve requirement	(6,951)	(9,610)
Interest on current accounts, deposits and loans	(2,165)	(7,528)
Interest expense from NBS treasury bills		(1,459)
Interest paid from euro banknotes remuneration	(167)	
Other	(6)	(458)
	43,191	**91,883**

With effect from 2010, interest income from bonds also includes the amortization of premium. The 2009 comparatives were adjusted accordingly.

25. Net Result of Financial Operations, Write-Downs and Risk Provisions

EUR '000	31 Dec 2010	31 Dec 2009
Realized gains arising from financial operations	**158,269**	**174,264**
Net foreign exchange (losses)/gains from daily valuation	(725)	1,308
Net gains from sale of securities	111,137	172,908
Net gains from interest rate swaps	47,865	
Net foreign exchange (losses)/gains from other operations	(8)	48
Write-downs on financial assets and positions	**(673,530)**	**(157,955)**
Losses from write-downs on derivatives	(226,745)	(145,327)
Losses from write-downs on valuation of securities	(440,520)	(10,340)
Losses from write-downs on foreign currency	(6,265)	(2,288)
	(515,261)	**16,309**

Net gains from interest rate swaps also include the amortized year-end loss from 2009 as per Article 19 of the ECB Guideline. The net result from financial operations was influenced by a loss from the valuation of securities, options and interest rate swaps using fair value.

26. Net Income/Expense from Fees and Commissions

EUR '000	31 Dec 2010	31 Dec 2009
Fees and commissions income	**5,057**	**2,893**
Fees received from SIPS participants	1,788	1,731
Fees and commissions received from clients	334	425
Fees and commissions in operations with securities	2,516	359
Fees received from share on TARGET2 pooled income	344	343
Fees received from exchange of euro coins	71	
Received contractual penalties from monetary policy operations		23
Other	4	12
Fees and commissions expense	**(1,250)**	**(1,332)**
Fees paid to banks	(954)	(847)
Fees paid related to interest rate futures	(154)	(323)
Fees paid to SWIFT	(111)	(107)
Fees paid to TARGET2	(37)	(38)
Other	6	(17)
	3,807	**1,561**

27. Income from Equity Shares and Participating Interests

EUR '000	31 Dec 2010	31 Dec 2009
Participating interest in the ECB's net profit	14,565	
Dividends from shares and participating interests	2,326	831
Income on euro banknotes in circulation		7,821
	16,891	**8,652**

Income from equity shares and participating interests represents a share in the ECB's net profit received of EUR 14,565 thousand for 2009. As at 31 December 2010, in relation to the participating interest in BIS, the Bank recorded dividends received from BIS shares of EUR 2,326 thousand (EUR 831 thousand as at 31 December 2009 – see Note 9).

By the Decision of the Governing Council of 16 December 2010, the whole ECB's income from euro banknotes in circulation and from purchases of securities under the SMP will be used to create the ECB's reserves for credit, foreign exchange rate, interest rate and gold price risks.

28. Net Result of Pooling of Monetary Income

Monetary income pooled by the NBS for 2010 into the common pool of the monetary income of the Eurosystem was EUR 97,736 thousand. Monetary income corresponding to the 0.9935% share of the NBS in the common pool was EUR 103,928 thousand. The difference of EUR 6,192 thousand (EUR 12,818 thousand as at 31 December 2009) represents the net result arising from the pooling of monetary income.

The correction of the monetary income of the Eurosystem for the year 2009 resulted in costs for the NBS of EUR 651 thousand.

29. Other Income and Other Expenses

As at 31 December 2010, most of the Bank's other income represented income from fees and contributions from financial market entities of EUR 4,054 thousand (EUR 3,797 thousand as at 31 December 2009) and income from sales of commemorative coins and material from damaged SKK coins of EUR 2,066 thousand (EUR 1,463 thousand as at 31 December 2009).

As at 31 December 2010, the Bank's other expenses mainly represented coinage of euro coins of EUR 1,850 thousand (EUR 6,148 thousand as at 31 December 2009) and costs of coinage of commemorative coins of EUR 3,025 thousand (EUR 948 thousand as at 31 December 2009).

30. Personnel Costs

EUR '000	31 Dec 2010	31 Dec 2009
Wages and salaries	(22,339)	(21,638)
Social security costs	(7,303)	(6,689)
Other employee costs	(4,723)	(3,242)
	(34,365)	**(31,569)**

As at 31 December 2010, the average FTE number of employees was 1,082 (1,083 as at 31 December 2009), of which 102 were managers (106 as at 31 December 2009).

31. Depreciation of Tangible and Intangible Fixed Assets

EUR '000	31 Dec 2010	31 Dec 2009
Amortization of intangible fixed assets	(3,262)	(2,884)
Depreciation of tangible fixed assets	(7,899)	(8,701)
	(11,161)	**(11,585)**

32. Banknote Production Services

As at 31 December 2010, the cost of printing euro banknotes amounted to EUR 9,498 thousand.

33. Profit/Loss

The result of the Bank's operations as at 31 December 2010 was a loss of EUR 515,173 thousand (profit of EUR 70,588 thousand as at 31 December 2009). The Bank Board determined that the loss would be allocated to the accumulated loss from previous years. The reported loss was largely affected by unrealized losses from valuation of financial instruments to market value of EUR 673,530 thousand (see Note 25), which in accordance with the ECB's Guideline are recorded in the profit and loss account at the end of the reporting period. Unrealized gains remain on the balance sheet and are recognized in equity (see Note 21).

E. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 3 March 2011, the Governing

Council decided to distribute the ECB's net profit to individual central banks based on the key on the ECB's paid-up capital. The NBS income from the distribution of profit in the amount of EUR 1.7 million is included in the 2011 reporting period.

Following the accession of Estonia to the Eurosystem, Eurosystem key adjustments were made for national central banks on the basis of Decision ECB/2010/34. As at 1 January 2011, the NBS's Eurosystem key was adjusted to 0.99098906% (0.99353073% up to 31 December 2010). The key for the allocation of banknotes changed to 0.9115% (0.9140% up to 31 December 2010).

No significant events occurred subsequent to 31 December 2010 that would require any adjustments to the 2010 financial statements.

Bratislava, 15 March 2011

Doc. Ing. Jozef Makúch, PhD.
Governor

Ing. Viliam Ostrožlík, MBA
Deputy Governor

Ing. Katarína Taragelová
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**Appendix to the auditor's report
on the consistency of annual report with audited financial statements
in accordance with Act No. 540/2007 Z.z. § 23 par. 5**

To the Bank Board of the National Bank of Slovakia:

I. We have audited the financial statements of the National Bank of Slovakia ('the Bank') as at 31 December 2010 presented in the annual report on pages 81 - 103. We issued the following audit report dated 15 March 2011 on the financial statements:

"Independent Auditors' Report

To the Bank Board of the National Bank of Slovakia:

We have audited the accompanying financial statements of the National Bank of Slovakia ('the Bank'), which comprise the balance sheet as at 31 December 2010, the profit and loss account for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank Board of the National Bank of Slovakia for the Financial Statements

Bank Board of the National Bank of Slovakia is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with the Guideline of the European Central Bank of 11 November 2010 on the legal framework for accounting and financial reporting in the European System of Central Banks No ECB/2010/20 ('the ECB Guideline') and with Act No. 431/2002 Coll. on Accounting, as amended ('the Act on Accounting') and for such internal control as the Bank Board of the National Bank of Slovakia determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Bank Board of the National Bank of Slovakia, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2010 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

15 March 2011
Bratislava, Slovak Republic

Ernst & Young Slovakia, spol. s r.o.	*Ing. Dalimil Draganovský*
SKAU Licence No. 257	*SKAU Licence No.893"*

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

ERNST & YOUNG

II. We have also audited the consistency of the annual report with the above-mentioned financial statements. The Bank Board of the National Bank of Slovakia is responsible for the accuracy of preparation of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the accounting information presented in the annual report and derived from the financial statements is consistent, in all material respects, with the financial statements. We have checked that the information presented in the annual report is consistent with that contained in the audited financial statements as at 31 December 2010. We have not audited information that has not been derived from audited financial statements or Bank accounting records. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the financial statements of the Bank as at 31 December 2010 and is in accordance with the Act No 566/1992 Coll. on the National Bank of Slovakia, as amended and special regulations valid for the Eurosystem.

18 April 2011
Bratislava, Slovak Republic

Ernst & Young

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

Ing. Dalimil Draganovský
SKAU Licence No.893

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

ANNEXES

Abbreviations

AMA	Advanced Measurement Approach
ARDAL	Debt and Liquidity Management Agency
a.s.	joint stock company
b.p.	basic points
BIS	Bank for International Settlement
BRIBOR	Bratislava Interbank Offered Rates
BSC	Banking Supervision Committee
BSSE	Bratislava Stock Exchange
CDCP	Central Securities Depositary
CEBS	Committee of European Bank Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions
CESR	Committee of European Securities Regulators
Coll.	Collection of Laws of the SR
CI	collective investment
CPI	Consumer Price Index
DSGE model	Dynamic Stochastic General Equilibrium model
EBA	European Banking Authority
EBOR	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEA	European Economic Area
EFC	Economic and Financial Committee
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union
ERM	Exchange Rate Mechanism
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESMA	European Securities Markets Expert Group
ESME	European Securities Markets Expert Group
ESRB	European Systemic Risk Board
EU	European Union
EUR	euro/€
EURIBOR	Euro Interbank Offered Rate – fixing of interest rates on the euro area money market
EURO SIPS	retail payment system operated by NBS after the euro introduction
FDI	foreign direct investment
Fed	Federal Reserve System
FNM	Fond národného majetku – National Property Fund
FRA	forward rate agreement
FSC	Financial Services Committee
GdC	Groupe de Contact – CEBS committee expert group
GDP	Gross Domestic Product
HFCN	Household Finance and Consumption Network
HICP	Harmonised Index of Consumer Prices
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development
ICAAP	Internal Capital Adequacy Assessment Process
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors

IOSCO	International Organisation of Securities Commissions
IPP	Industrial Production Index
IRB model	credit risk model based on internal rating
LFSS	Labour Force Sample Survey
IRS	interest rate swap
JET	Joint European Tendering Group – association of Eurosystem NCBs for effective production and supply of euro banknotes
MaRs	Macro-prudential Research Network
MFI	Monetary Financial Institutions
NAV	Net Asset Value
NBS	Národná banka Slovenska – National Bank of Slovakia
NCB	national central bank
NEER	Nominal Effective Exchange Rate
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of Petrol Exporting Countries
OPF	Open-end Mutual Funds – otvorené podielové fondy
p.a.	per annum
PFCM	Pension Fund Management Company
p.p.	percentage points
PP	Policy Paper – analytical study
PPI	Producer Price Index
REER	Real Effective Exchange Rate
ROE	Return on Equity
RULC	Real Unit Labour Costs
SASS	Slovak Association of Asset Management Companies – Slovenská asociácia správcovských spoločností
SAX	Slovak Share Index
SDX	Slovak Bond Index
SDXG	Slovak Bond Index Group
SKK	Slovak koruna
SEPA	Single Euro Payments Area
SPMC	Supplementary Pension Asset Management Company
SO SR	Statistical Office of the Slovak Republic
SR	Slovak Republic
SSP	Single Shared Platform
SSS	Securities Settlement System
STATUS DFT	STATUS application software for financial market supervision
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer in the euro
UCITS	Undertakings for collective investment in transferable securities
ULC	Unit Labour Costs
USD	US dollar
VAR model	Vector Autoregression model
WB	World Bank
WDN	Wage Dynamics Network
WGMA	Working Group on Macro-prudential Analysis
WP	Working Paper – research study
WTO	World Trade Organization
ZBK SR	Bank Card Association in the SR

Glossary

Actuary – insurance mathematician responsible for the calculation of insurance premiums and reporting.

Autonomous liquidity factors – factors other than monetary policy operations influencing banking sector liquidity. Such factors are, in particular, net foreign assets held by the central bank, central government deposits with the central bank and currency in circulation.

Average value of currency mark – the total value of cumulative net issuance divided by the cumulative net issuance by number of coins and banknotes.

Central parity – the exchange rate vis-à-vis the euro of currencies of ERM II participant countries, around which the ERM II fluctuation margins are defined.

Collateral – an asset used to secure a loan. In case of the debtor's default the asset can be sold and the proceeds used to settle the outstanding loan.

Core inflation – measures the rate of growth of the price level on the basis of an incomplete consumer basket. The consumer basket does not include items with regulated prices and items with prices subject to other administrative measures (e.g. change of VAT, consumer taxes, subsidies). It is part of the national index of consumer prices.

Corporate governance – company management and administration.

Covered Bond Purchase Programme (CBPP) – A special monetary-policy instrument falling within the category of structural operations. The aim of this programme was to put downward pressure on money market rates, to revive the market in covered bonds as a way for banks and firms to obtain financing, and to stimulate bank lending to the private sector. The programme was launched in July 2009 and continued until June 2010. Under the CBPP, the Eurosystem acting through the national central banks purchased eligible securities with a total nominal value of €60 billion.

Cumulative net issuance at a given date – the difference between the volume (value) of euro cash put into circulation by Národná banka Slovenska and the volume (value) of euro cash taken out of circulation by NBS in the period following the introduction of the euro in Slovakia, including the given date.

Deflation – a decrease in the general price level, the opposite of inflation.

Deposit facility – a facility used to make overnight deposits with a national central bank. Under normal circumstances, there are no limits on access to the facility. The interest rate on the marginal deposit facility normally provides a floor for the overnight market interest rate.

Effective exchange rates (nominal: NEER, real: REER) – weighted averages of bilateral domestic currency exchange rates against the currencies of the main trading partners. The weights used reflect the share of each partner country in Slovakia's foreign trade. Real effective exchange rates are nominal effective exchange rates deflated by a weighted average of external, relative to domestic, prices or costs. They are measures of price and cost competitiveness of a country.

Electronic money business – the issue and administration of electronic money and electronic money payment instruments.

ERM II (exchange rate mechanism II) – an exchange rate system providing a framework for exchange rate policy cooperation between the euro area countries and the EU Member States not participating in the third stage of the Economic and Monetary Union. Membership in ERM II is one of the Maastricht criteria for the adoption of the euro.

ESA 95 – the European System of Accounts adopted in 1995. A common methodology for the compilation and reporting of GDP, employment and employee compensation data for all EU countries.

EURIBOR (Euro Interbank Offered Rate) **–** the interbank reference rate within the Economic and Monetary Union, which was introduced in 1999. It is the rate at which euro interbank term deposits are offered by one bank to another and is published at 11:00 a.m. CET for spot value (T+2). The company chosen to be responsible for computing and publishing EURIBOR is Reuters.

Euro area – the area encompassing those EU Member States in which the euro has been adopted in accordance with the Treaty. The responsibility for monetary policy in the euro area lies with the European Central Bank.

European Economic Area (EEA) – includes 27 Member States of the EU, Island, Lichtenstein and Norway (member states of the European Free Trade Association (EFTA), except for Switzerland).

European Economic Area – comprises all EU Member States, Norway, Lichtenstein and Iceland.

European Payments Council – an organisation associating European Union banking associations.

European System of Central Banks (ESCB) – the system of central banks comprising the European Central Bank (ECB) and the national central banks of all EU Member States.

EURO SIPS – a retail payment system that will be made up by the transformation of the present domestic SIPS payment system. It will be operated by Národná banka Slovenska as of the day of the euro introduction.

Eurosystem – a system of central banks comprising the European Central Bank (ECB) and the national central banks of the euro area countries (EU countries that have adopted the euro).

Financial market (for the purposes of chapter 3, entities regulated by NBS) – consists of four sectors: the banking sector (the main representatives are banks and branches of foreign banks), the capital market (the main representatives are investment firms, asset management companies, the stock exchange, the Central Securities Depository, issuers and investment services intermediaries), the insurance sector (the main representatives are insurance companies and branches of insurance companies from another EU Member State), and the pension saving market (the main representatives are pension asset management companies and supplementary pension asset management companies (pension insurance companies)).

Foreign direct investment (FDI) – a category of international investments reflecting the intention of a resident entity in an economy (direct investor) to acquire a permanent interest in a company residing in an economy other than that of the investor (direct investment company). Direct investments include the initial transaction between these two entities – i.e. the transaction giving rise to the investment relationship – and all subsequent transactions between these two entities and affiliated companies.

Foreign reserves – reserves of the Slovak Republic consisting of gold and other financial assets denominated in foreign currency held and managed by the central bank. They are used to directly finance payment imbalances, to indirectly regulate their size through foreign exchange market interventions in order to influence the exchange rate of the currency, or for other purposes.

GDP deflator – an aggregate price index reflecting developments in the price of products and services in an economy. It is calculated as a ratio of GDP at current prices to GDP at constant prices.

General government – a sector defined in ESA 95 as comprising resident entities that are engaged primarily in the production of non-marketable goods and services intended for individual and collective consumption and in the redistribution of national income and wealth. Included are central, regional and local government authorities as well as social security funds, and any budget-funded or subsidised organisations established by them, whose revenues cover less than 50% of their production costs.

General government debt – gross debt (deposits, loans and other debt securities other than financial derivatives) of the general government at nominal value. A debt-to-GDP ratio under 60% is one of the Maastricht convergence criteria for the adoption of the euro.

General government deficit – the difference between total revenues and total expenditures of the general government sector, if expenditures exceed revenues. A deficit-to-GDP ratio of less than 3% is one of the Maastricht convergence criteria for the adoption of the euro.

Gross domestic product (GDP) – the total output of goods and services in an economy in a given period. The main expenditure aggregates that make up GDP are household final consumption, government final consumption, gross fixed capital formation, changes in inventories, and imports and exports of goods and services.

Harmonised Index of Consumer Prices (HICP) – a consumer price index measured on a comparable basis across all EU Member States, which accounts for differences in national definitions. The HICP is one of the indicators used to assess price stability in a country (one of the Maastricht convergence criteria).

Households – population; i.e. accounts of citizens.

Inflation – an increase in the general price level.

Longer-term refinancing operations – liquidity-providing reverse transactions with a monthly frequency and a maturity of normally three months. These operations are aimed at providing counterparties with additional longer-term refinancing and are conducted by the national central banks of the Eurosystem on the basis of standard tenders. In these operations, as a rule, the Eurosystem aims to generate sufficient liquidity and ensure smoothness of financial flows in the financial sector.

M1 – a narrow monetary aggregate comprising currency in circulation and overnight deposits with MFIs and central government (e.g. with post office – Post Giro – or the State Treasury).

M2 – an intermediate monetary aggregate that comprises M1 plus deposits repayable at notice of up to 3 months (short-term saving deposits) and deposits with an agreed maturity of up to 2 years (short-term deposits) with MFIs and central government.

M3 – a broad monetary aggregate that comprises M2 plus negotiable instruments, i.e. repurchase agreements, money market fund shares and units as well as debt securities issued by MFIs with a maturity of up to two years.

Maastricht criteria – convergence criteria set out in the Maastricht Treaty that must be fulfilled before a country can join the euro area. There are four criteria: public finances (deficit and debt of the general government sector), inflation, long-term interest rates, and exchange rate.

Main refinancing operations – regular liquidity-providing reverse transactions with a weekly frequency and a maturity of normally one week. These operations are executed by the national central banks of the Eurosystem on the basis of standard tenders. The main refinancing operations play a pivotal role in pursuing the objectives of the Eurosystem. As from 1 January 2009, the rate for the main refinancing operations replaced the NBS base rate.

Marginal lending facility – a facility for obtaining overnight liquidity from a national central bank against eligible assets. Access to the facility is usually limited only by the requirement to submit sufficient eligible assets. Under normal circumstances, the interest rate on the facility provides a ceiling for the overnight market interest rate.

MFI claims on residents – MFI claims from residents other than MFIs (including the general government sector and the private sector) and securities issued by residents other than MFIs (stocks and other equity and debt securities) held by MFIs.

Minimum reserve requirement – financial reserves held by banks, branches of foreign banks, building societies and electronic money institutions on accounts with the central bank. It is a monetary policy tool with the level set by the central bank for each minimum reserve holder.

Monetary financial institutions (MFI) – financial institutions which together form the money-issuing/generating sector. These comprise the central bank (NBS), credit institutions (banks and branches of foreign banks) and all other financial institutions whose business is to receive deposits or redeemable funds from entities other than MFIs and, in their own name and for their own account, to extend credit and invest in securities (in particular money market funds).

NUG – a forum for national financial market participants' work on T2S project.

Number of turnarounds of euro banknotes (euro coins) of a given nominal value for a given year – the number of euro banknotes (euro coins) of the given nominal value received during the given year divided by the average cumulative net issuance of euro banknotes (euro coins) of the given nominal value.

Parent company – a legal person controlling, i.e. holding over 50% of equity or voting rights in another legal person, or the right to appoint or dismiss the majority of the members of its statutory body, supervisory board or another managing, supervisory or controlling body.

Pension pillar II – retirement pension schemes as a component of mandatory state pension insurance (funded defined contribution system).

Pension pillar III – a funded defined contribution system of supplementary pension schemes, enrolment in which is voluntary and which are supported by the state through tax relief.

Persons related to Národná banka Slovenska – legal or natural persons which are subsidiary accounting units of the NBS, affiliated accounting units, members of the NBS Bank Board, close relatives of a member of the NBS Bank Board, accounting units controlled, co-controlled or subject to the influence or significant voting rights exercised or held by members of the NBS Bank Board or their close relatives.

Portfolio investment – net transactions by residents and their holdings of securities issued by non-residents (assets) and net transactions by non-residents and their holdings of securities issued by residents (liabilities). They comprise equities and debt securities (bonds, bills of exchange and money market instruments). For investments to be considered portfolio investments, the interest in the company concerned must be lower than the equivalent of 10% of ordinary shares or voting rights.

POS terminal – technical equipment allowing payments by payment cards (Point of Sale).

Price stability – a year-on-year increase in consumer prices within the limits set by the ECB. As a medium-term target, the ECB seeks to maintain consumer price growth as measured by the HICP below 2%, but close to this level.

Recirculation – the number of months during which the volume of all banknotes returned by all banks to NBS equals the average cumulative net issuance of euro banknotes in a given year.

Regulated prices – prices and fees set by ministries or regulators (Network Industries Regulation Office, Slovak Post Office, Slovak Telecommunications Office, etc.) or by regional or local governments. They are included in the national consumer price index.

Reinvested earnings – consist of the share of a direct investor (relative to a direct participating interest) in profit not distributed as dividends by subsidiaries or affiliates and in profit of branches not distributed to the direct investor.

Repo operation – granting or receiving a loan against collateral in the form of securities.

RTGS (Real Time Gross Settlement) – a real-time gross settlement system.

Securities Markets Programme (SMP) – Interventions by the Eurosystem in public and private debt securities, made to support those segments that have become dysfunctional. The objective is to remove obstacles in the securities market and to restore an appropriate monetary policy transmission mechanism. Special fine-tuning operations are conducted to re-absorb the excess liquidity injected through these interventions and to ensure that the monetary policy stance is not affected.

SEPA (Single Euro Payments Area) – a single euro payments area the objective of which is to create a single internal market for cross-border euro payments.

Single list – list of eligible assets for Eurosystem operations.

SIPS – interbank payment system operated by Národná banka Slovenska before the euro introduction.

SSP – Single Shared Platform – a technical platform on which TARGET2 is operating.

Stability and Growth Pact – was designed to ensure sound public finances during the third stage of the Economic and Monetary Union in order to facilitate price stability and a strong sustainable growth contributing to job creation. To that end, the Pact requires Member States to set medium-term fiscal targets. It also defines a specific excessive deficit procedure. The Pact consists of the resolution on the Stability and Growth Pact adopted at the Amsterdam summit of the European Council on 17 June 1997 and two Council regulations, namely (i) Regulation 1466/97/EC of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies as amended by Regulation 1055/2005/EC of 27 June 2005 and (ii) Regulation 1467/97/EC of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure as amended by Regulation 1056/2005/EC of 27 June 2005.

Subsidiary – a legal person subject to control (a holding of over 50% of equity or voting rights in the legal person).

SWIFT – Society for Worldwide Interbank Financial Telecommunication – a provider of data infrastructure and technologies for the exchange of payment messages.

TARGET2 – a new generation of the TARGET system – a real-time gross settlement system for the euro with settlement in central bank money. It is functioning on the Single Shared Platform through which all payment orders received and payments accepted are technically processed in an equal way.

TARGET2–SK – the payment system of Národná banka Slovenska that is part of the TARGET2 system.

T2S – TARGET2 Securities – a technical platform for the settlement of security transactions.

Unit-linked insurance – life insurance linked to an investment fund.

Yield curve – a graphic representation of the relationship between the interest rate/yield and the maturity of an asset with the same credit risk, but different maturities at a specific point in time. The slope of the yield curve can be expressed as the difference between interest rates applied to two selected maturities.

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