NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

ANNUAL REPORT 2011

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Annual Report 2011

Published by:

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The cut-off date for the data included in this report was 19 March 2012.

ISBN 978-80-8043-179-2 (print)
ISBN 978-80-8043-181-5 (online)

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FOREWORD

Foreword

The year 2011 saw a marked escalation in the sovereign debt crisis of certain euro area countries. The adverse situation in Europe was accompanied by a deterioration of global financial markets. The only relief came from the new fiscal compact and the new non-standard monetary policy measures introduced by the European Central Bank (ECB).

Both global and euro area economic growth slowed considerably in 2011. Average annual growth in Slovakia was also lower than in the previous year, but at 3.3% it was far higher than the euro area average (1.4%). Euro area GDP even recorded a quarterly contraction in the last quarter of 2011. The adverse labour market situation improved moderately year-on-year, and employment in Slovakia recorded a slight rise. Nevertheless, the unemployment rate remained high, and this was reflected in the negative contribution of domestic consumption to GDP growth. In both Slovakia and the euro area, economic growth was driven by foreign demand. Inflation fluctuated at around 2%, and the average rate in Slovakia in 2011 stood at 4.1%. The main drivers of inflation were higher prices of oil and agricultural commodities, followed by increases in administered prices, and fiscal consolidation measures in the form of tax hikes and new fees and charges.

The ECB changed its monetary policy settings on four occasions in 2011. After two years of keeping the key rates at historical lows, the ECB Governing Council raised them by 25 basis points in April and by a further 25 basis points in July, thus increasing the main refinancing rate to 1.5%. These decisions were a response to the mounting upside risk to the inflation target. Towards the end of the year, however, the ECB opted to loosen monetary policy again, due to rising instability in the euro area market. The key rates were cut by 25 basis points in November and by the same margin in December, to leave the main refinancing rate back at 1%.

Within the implementation of monetary policy through national central banks, the ECB is also employing various non-standard instruments. Late last year it crucially decided to replace two announced 12-month operations with two 36 month operations, with the option to be repaid after one year. At the same time, European banks that had already drawn funds under a 12-month operation had the option of switching to 36-month operation, which was partially used. These measures went a long way to easing pressures in the euro area market.

With euro area countries still facing an excessive debt burden, the ECB continued its government bond purchasing programme, under which national central banks buy bonds issued by selected countries. The programme was originally intended for the purchase of bonds issued by the so-called peripheral countries of Ireland, Greece and Portugal, but in 2011 it was extended to include Spanish and Italian government bonds. In order to mitigate the effect of these interventions, the ECB conducted liquidity-absorbing operations and thereby neutralised the programme's impact on the monetary stance.

The uncertain public finance situation in several European countries, as well as in the United States, caused exchange rate volatility to increase. The EUR/USD exchange rate appreciated significantly in the first half of 2011 and recorded its strongest level of the year in May, at 1.48 USD/EUR. Over subsequent months, however, the single currency depreciated amid the euro area's mounting problems, and it ended December at its weakest level of the year (EUR/USD 1.2950).

As part of the new European-level supervisory architecture, new institutions were established on 1 January, responsible for macro- and microprudential oversight. In connection with their establishment, Národná banka Slovenska was involved in the drafting of several technical regulatory and implementing standards at the EU-level. Much of this work concerned the drafting of implementing regulations for EU Directives on European supervisory rules, capital requirements, the insurance sector, and collective investment. Last year therefore saw increasing interaction with the ECB, especially in the coordination of new requirements for statistics on financial institutions and for statistics used in financial stability analysis.

Národná banka Slovenska took further steps in 2011 to improve the efficiency of its work. In line with decisions of the NBS Bank Board, two amendments to the NBS Organisational Rules were approved, and they entered into force on 1 January 2012. The organisational changes made under these amendments included the closure of four NBS branches, a change to the organisational structure of NBS, and modifications to the duties and competences of certain senior managers.

With investor uncertainty elevated by the debt crisis there was a widening of not only internal imbalances, but also external imbalances, among euro area countries. On the one hand, the more successful countries have a balance of payments current account surplus; on the other hand, troubled countries report rising deficits and at the same time face low competitiveness and economic contraction. The central issue of 2012 will be how to strike a balance between fiscal consolidation measures and economic growth. Looking at developments at the end of 2011 and beginning of 2012, it appears that financial market stability and further progress of the euro area will probably not be attainable without substantial support by the ECB, especially by its monetary policy.

March 2012

Jozef Makúch
Governor

Members of the NBS Bank Board in 2011
Seated (from the left): Jozef Makúch and Viliam Ostrožlík
Standing (from the left): Karol Mrva, Gabriela Láni Sedláková and Štefan Králik

The Bank Board of Národná banka Slovenska

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

The number of Bank Board members has been set at five since 1 December 2009, under Article 7 of the NBS Act. The five members include the Governor and two Deputy Governors.

The Governor and Deputy Governors 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 Slovak Government at the proposal of the NBS Governor.

The term of office of Bank Board members is five years, commencing as of the effective date of their appointment. There are no term limits for Bank Board members, but no one may serve as Governor or Deputy Governor for more than two terms.

Under transitional provisions of the NBS Act, effective from 1 December 2009 until the number of Bank Board members was reduced to five, the Bank Board consisted of the Governor, two Deputy Governors and all other members who were appointed to the Bank Board before 1 December 2009 and whose terms had not expired by that date.

The members of the Bank Board as **at 31 December 2011** 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 Láni Sedláková, Executive Director for information technology and premises.

CHAPTER 1

MACROECONOMIC DEVELOPMENTS

1

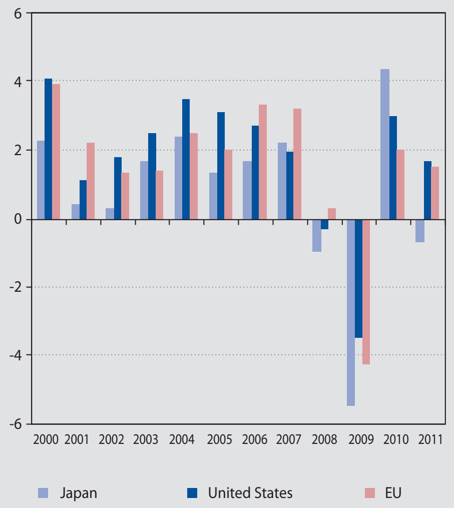
1 Macroeconomic developments

1.1 The external economic environment

1.1.1 Global trends in output and prices[1]

The global economy continued to grow in 2011, but its annual rate of expansion was markedly slower than in the previous year, down to 3.8% from 5.2%. The main causes of the slowdown in economic activity were the natural disaster in Japan, and the sovereign debt crisis mainly in euro area countries which resulted in measures to repair fiscal positions. As in the previous year there were persisting differences in the pace of economic recovery between emerging and advanced economies. Economic activity in emerging economies was far stronger, although it slowed towards the end of 2011. In advanced countries, economic growth was dampened by weak domestic demand, high unemployment and concerns about public debt sustainability. Growth in global external trade decelerated to 6.9% in 2011, from 12.7% in the previous year.

Chart 1 Annual GDP growth (%)



Source: Eurostat.

Global price developments accelerated further in 2011. In advanced economies the annual rate of inflation rose to 2.7%, from 1.6% in 2010, while in emerging economies it increased to 7.2%, from 6.1%. Prices in advanced economies were driven up by energy price movements, although they also came under downward pressure from the slowdown in economic activity. Despite the accelerating inflation rate, inflation expectations in advanced countries remained well-anchored. Price inflation in emerging economies fluctuated at high levels, and inflation pressure in some of these countries remained elevated. As regards commodity prices, crude oil prices rose sharply while prices of agricultural commodities, metal commodities and non-metal commodities declined. The rise in oil prices was most pronounced in the first half of 2011, reflecting increased demand, restricted production capacities, and political strains in several oil-exporting countries. Although the oil price was volatile during the rest of the year, it declined gradually. The average price of oil increased by 39% in 2011 (after rising by 29% in 2010).

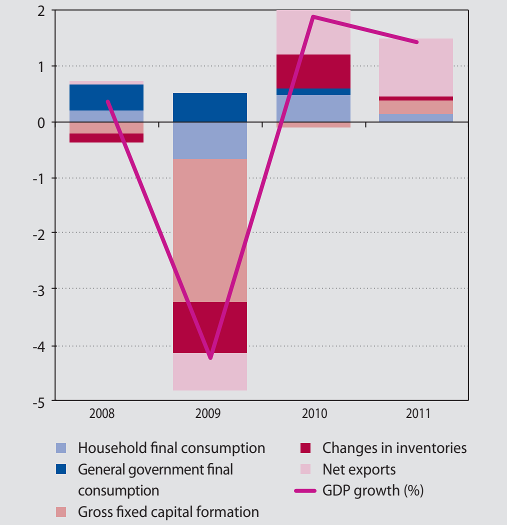
1.1.2 Economic developments in the euro area

Annual economic growth in the euro area decelerated to 1.4% in 2011, from 1.9% in 2010. This slowdown was expected due to the moderating growth in global demand and to the difficulties posed by worsening financing conditions (stemming from persisting strains in euro area sovereign debt markets, which escalated towards the year-end). At the same time, both business and consumer surveys showed a deterioration in expectations among respondents. After three quarters of growth, economic activity in the euro area contracted in the fourth quarter of 2011. The downturn was reflected in the labour market, with the unemployment rate edging up over the course of the year, from 10% in January to 10.6% in December. Consumption decelerated, with the result that the contribution of household final consumption to GDP growth declined and the contribution of general government consumption stood at zero. Although global demand moderated, net trade made the largest contribution to GDP growth. The contribution of investment demand increased in comparison with the previous year.

The overall average inflation rate, as measured by the harmonised index of consumer prices (HICP), increased to 2.7% in 2011, from 1.6% in the previous year. The inflation rate remained above 2% throughout the year. Compared to 2010, the rise

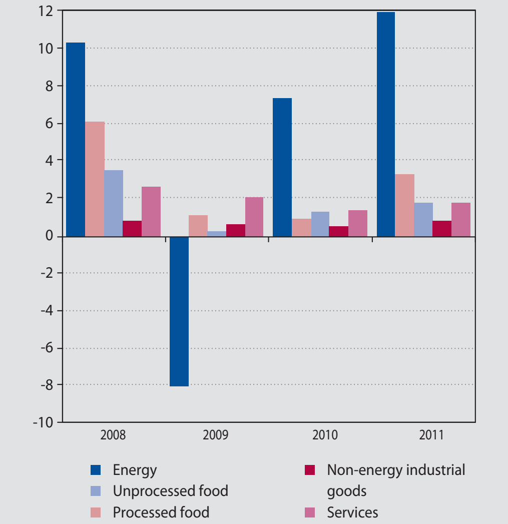
1 *The data are taken from the IMF World Economic Outlook Update published in January 2012.*

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



Source: Eurostat.

Chart 3 HICP inflation in the euro area broken down into components (annual percentage changes)



Source: Eurostat.

in price inflation was affected to a greater extent by commodity price movements. Other factors were the increase in indirect taxes and administered prices in certain euro area countries, as well as upward pressures from the labour market: wage growth accelerated, labour productivity moderated, and unit labour costs rose at a faster pace. The annual rate of HICP inflation increased to 2.7% in December 2011, from 2.2% in December 2010. Core inflation (the HICP rate excluding prices of energy and unprocessed food) rose to 1.7% in 2011, from 1.0% in 2010.

The exchange rate of the euro against the US dollar continued to be marked by volatility during 2011. It was affected by financial market strains related to the euro area sovereign debt crisis, as well as by multi-level measures aimed at mitigating the repercussions of the crisis. The exchange rate also reflected economic developments in the euro area and the United States. The euro's value against the dollar was 3.2% lower at the end of 2011 than at the end of 2010.

The ECB Governing Council adjusted the key ECB rates on four occasions during 2011 in response to current developments. Amid rising price pressures, the key rates were raised by 25 basis points in April and by the same margin again in July. Pressures in financial markets subsequently escalated and had a dampening effect on economic recovery; in response, the Governing Council decided to cut the key rates by 25 basis points in November and by a further 25 basis points in December. At the end of 2011 the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility stood at 1.0%, 1.75% and 0.25% respectively.

During the second half of the year the Governing Council responded to renewed strains in financial markets by adopting further non-standard measures. In August it decided to conduct a liquidity-providing supplementary longer-term refinancing operation (LTRO) with a maturity of approximately six months; in October it decided to conduct two LTROs, one with a maturity of 12 months and the other with a maturity of 13 months; and in December it decided to conduct two LTROs with a maturity of 36 months. On 7 August it was announced that the ECB would again begin actively implementing the Securities Market Programme (SMP), which had first been announced on 10 May 2010. At the same time there would be one-week maturity SMP-sterilising liquidity absorbing operations. The Governing Council also decided to continue conducting its main refinancing operations as fixed rate tender procedures with full allotment, and to launch a new covered bond purchase programme (CBPP2) with the first purchases to be made in November 2011. In December the Governing Council decided to increase the availability of collateral for Eurosystem credit operations, to reduce the reserve ratio to 1%, and to discontinue for the time being the fine-tuning operations carried out on the last day of each maintenance period.

1.2 MACROECONOMIC DEVELOPMENTS IN SLOVAKIA

The Slovak economy continued in its growth trend in 2011, although the annual rate of expansion was more moderate than in 2010, when the economic recovery was relatively strong. The macroeconomic situation during 2011 was marked by a gradual improvement in economic performance until the middle of the year, followed by a moderate slowdown in the third quarter. This turnaround stemmed mainly from the escalating uncertainty and declining confidence in financial markets as a result of the sovereign debt crisis in some euro area economies. The Slovak economy had grown relatively sharply by the end of the year, despite subdued economic activity at the global level and weaker economic sentiment, and this growth was accompanied by a substantial trade surplus.

According to preliminary data from the Statistical Office of the Slovak Republic (SO SR), the annual rate of GDP growth in Slovakia in 2011 was 3.3% (at constant prices), compared to 4.2% in 2010. External demand continued to be the driver of economic growth. Domestic demand, by contrast, had a dampening effect on economic growth, as household final consumption declined further and general government consumption fell as a result of fiscal consolidation measures. The drop in domestic demand was partly counterbalanced by an increase in gross fixed capital. Looking at the output measure of GDP, its growth was driven mainly by industry and certain services. Towards the year-end, the strongest positive contribution was from net taxes on products, due to the payment of VAT on PPP projects. The relatively strong economic activity and sustained external demand also contributed positively to the profitability of both non-financial enterprises as well as financial corporations. Net exports remained the main source of GDP growth with the nominal trade surplus reaching its highest level since 1995.

The balance of payments current account improved markedly in 2011 and ended the period with a surplus of 0.1% of GDP (following a deficit in 2010). The main positive contribution to that surplus came from a rise in the trade surplus, which in turn reflected increased exports in the automotive sector. Imports grew more moderately owing to a decline in import intensity and increased destocking, amid uncertainty about future developments in external demand.

Labour market indicators performed relatively well in 2011 as economic activity remained relatively buoyant. After declining in 2010, employment increased year-on-year in 2011, although its pace of growth slowed in each of the last two quarters. The number of hours worked increased moderately year-on-year, after stagnating in the previous year. The annual rate of growth in nominal wages accelerated slightly, but real wages declined due to the rising price level. In parallel with GDP growth, labour productivity increased in both nominal and real terms in 2011, albeit at a slower pace than in the previous year. The increase in real labour productivity exceeded real wage growth. Unit labour costs declined year-on-year as growth in real labour productivity was higher than growth in nominal compensation per employee. The unemployment rate remained at a high level, although it declined in comparison with the previous year.

The price level rose at a faster pace during the year owing to a combination of both external and domestic factors. The average rate of HICP inflation increased from 0.7% in 2010, to 4.1%. The inflation rate was to some extent dampened by stagnating domestic demand. The prices of all core components of inflation recorded a higher year-on-year increase, owing to rising world prices of oil and agricultural commodities and a subsequent increase in administered prices and fiscal consolidation measures, and despite a gradual moderation in food commodity price inflation in the second half of the year.

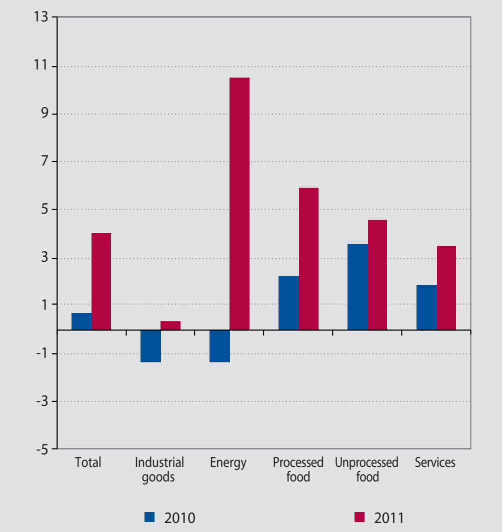
1.2.1 Price developments

Consumer prices

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

The HICP inflation rate stood at 4.6% in December 2011, which was 3.3 percentage points higher

Chart 4 Inflation components (average annual percentage changes)



Source: SO SR; NBS calculations.

than in December 2010. The average inflation rate increased from 0.7% in 2010 to 4.1% in 2011.

All core components of inflation contributed to the higher inflation rate, reflecting the effects of a hike in administered energy prices in January 2011, the implementation of fiscal consolidation measures, and commodity price movements. The Government's consolidation measures (changes in indirect taxes – a hike in the VAT rate, from 19% to 20%, and in excise taxes on cigarettes – and the introduction of various fees and charges) contributed approximately 1 percentage point to the rise in inflation.

Goods

Food prices had a strongly inflationary effect on goods prices only until the middle of the year. The most pronounced inflation was in prices of sugar, oils, fats, bread, and baked products. Prices of non-alcoholic beverages increased as a result of rising prices of sugar on world markets. Inflation in prices of basic agro-commodities gradually slowed down in the second half of the year, reflecting the movement of unprocessed food prices and the effect of a relatively good harvest. Another cause of the slower food price inflation was the slump in vegetable prices from June to September, which stemmed from fears of E-coli contamination.

As for prices of non-energy industrial goods, their annual rate of change increased moderately in line with developments in the euro area. At the beginning of the year, prices of industrial goods were still declining in year-on-year terms, but by the end of the year they were rising, with the most pronounced increases in pharmaceutical products, footwear and clothing.

Inflation in prices of energy-producing raw materials, particularly oil prices, were directly reflected in strong fuel price inflation and indirectly in hikes in administered prices of gas, heat (not only in January, but also during the year) and electricity.

Services

Services price inflation increased in 2011, as prices of accommodation, recreational and personal services, and in particular transport services went up gradually over the course of the year. Services prices also came under indirect upward pressure from external factors, specifically the pass-through of higher agricultural commodity prices to restaurant services prices and the pass-through of higher fuel price inflation to transport prices. Prices of both municipal and regional transport rose throughout the year, due to the cost factors of rising fuel prices and also to the efforts of local and regional authorities to make savings (by reducing fare subsidies) in response to the decline in their budget revenue. Transport price inflation included a rise in passenger train fares at the year-end.

Producer prices

Producer prices remained relatively steady during 2011, except for markedly slower annual inflation in overall agricultural product prices in the last quarter of the year.

The annual rate of industrial producer price inflation (2.7%) reflected substantial price rises in the components of food and refined oil products and increasing prices in the manufacture of basic metals and fabricated metal products. A negative contribution to producer price inflation was made by the component of manufacture of transport equipment. In the energy supply component, annual price inflation declined steadily and even entered negative territory, before rising at the end of the year.

The annual rate of change in prices of agricultural products in 2011 was affected mainly by plant product prices, as their movement changed

Table 1 HICP inflation (average for the period; annual percentage changes)

	2010		2011					
	Dec.	Q1-Q4	Q1	Q2	Q3	Q4	Dec.	Q1-Q4
Headline rate	1.3	0.7	3.5	4.1	4.1	4.7	4.6	4.1
Goods	1.0	0.1	3.8	4.4	4.4	4.7	4.4	4.3
Industrial goods	-1.1	-1.3	2.8	3.4	4.0	4.6	4.5	3.7
Non-energy industrial goods	-1.1	-1.4	-0.7	0.3	0.6	1.0	1.0	0.3
Energy	-1.2	-1.3	9.8	9.6	10.7	11.8	11.2	10.5
Food	5.1	2.9	5.6	6.4	5.0	4.8	4.3	5.4
Food – processed (including alcohol and tobacco)	2.6	2.3	3.9	5.8	7.2	6.8	6.8	5.9
Food – unprocessed	9.8	3.6	8.9	7.5	1.0	0.8	-0.6	4.5
Services	1.8	1.9	2.9	3.2	3.4	4.6	5.0	3.5
Core inflation (headline rate excluding energy and unprocesssed food prices)	0.9	0.7	1.7	2.6	3.1	3.7	3.8	2.8
Headline rate excluding energy prices	1.7	1.1	2.4	3.1	2.9	3.4	3.4	2.9

Source: NBS calculations based on SO SR data.

gradually from a substantial annual increase in the first half of the year to an annual decline in the fourth quarter of 2011. This turnaround was partly explained by the base effect of a sharp rise in plant product prices in the same period of the previous year.

1.2.2 Gross domestic product

Slovakia's gross domestic product (GDP) in 2011 increased year-on-year by 3.3% (at constant prices), according to preliminary data from the Statistical Office of the Slovak Republic. In 2010, by comparison, the country's GDP grew by 4.2%.

In expenditure terms, the growth in GDP was driven mainly by the recovery of external demand, which decelerated gradually towards the end of the year. Domestic demand declined due to lower private consumption and lower general government consumption. As for the output measure of GDP, the contributions to its growth came mainly from industry and, to a lesser extent, from construction and certain services. Nominal GDP in 2011 amounted to €69,058 million, which was 5.0% higher than the figure for the previous year.

Supply side of GDP

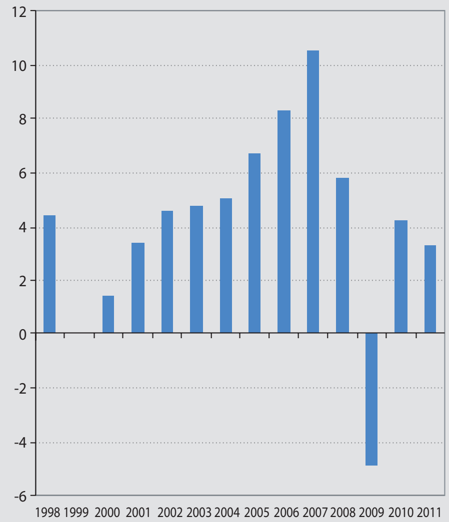
The GDP figure for 2011 was affected by the annual rate of growth in value added (at constant prices), which slowed to 3.0%, from 4.2% in 2010. There was, however, a moderately positive contribution to GDP growth from net taxes on products (value added tax, excise tax, and import tax, less subsidies), which increased by 6.4% mainly due to a one-off payment of VAT made towards the year-end on a completed PPP project.

Table 2 Average annual producer price inflation (%)

	2010	2011				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Industrial producer prices	-2.8	2.8	3.0	2.2	2.8	2.7
Mining/quarrying product prices	1.1	6.8	2.3	3.1	7.7	5.0
Manufacturing product prices	0.0	3.9	4.9	4.1	3.4	4.1
Energy prices	-6.7	1.1	0.3	-0.4	1.9	0.8
Water and sewerage charges	6.2	6.8	5.0	4.7	4.4	5.2
Construction work prices	1.0	1.3	1.4	1.2	0.8	1.2
Building material prices	-3.3	1.6	1.5	2.3	1.7	1.8
Agricultural product prices	14.2	26.5	23.8	26.2	1.3	16.7
Plant product prices	29.9	75.9	72.4	33.1	-3.0	22.0
Animal product prices	1.1	7.4	11.5	14.6	9.9	10.8

Source: SO SR.

Chart 5 Real GDP (annual percentage changes)



Source: SO SR.

The most pronounced rise in value added was in the industry sector, and there were moderate increases in construction and certain services. By contrast, value added continued to decline in trade and financial services and it fell sharply also in the agriculture and public administration sectors.

Demand side of GDP

In terms of expenditure, economic growth in 2011 was attributable mainly to net exports and gross fixed capital formation. There were negative contributions from a further decline in consumption demand and from destocking.

Domestic demand had a dampening effect on GDP growth, due mainly to the decline in consumption demand. Household final consumption maintained a declining trend amid still high unemployment, decelerating growth in household disposable income (due to lower social benefits and compensation of employees), and low consumer confidence. Consumers therefore preferred increasing savings over consumption, as the high savings ratio confirms. General government consumption also contracted as a result of fiscal consolidation measures. The decline in consumption in 2011 was mitigated to some extent by an increase in gross fixed capital formation, which reflected both the rising profitability of firms and partly also an easing of bank credit standards. The largest contribution to gross fixed capital formation growth came from investments in machinery and equipment and other buildings made by non-financial corporations in the manufacturing sector.

The recovery of external demand in 2011 boosted the economy's export performance. Exports of goods and services increased by 15.2% (at current prices), although the pace of growth slowed gradually over the course of the year. On the other hand, imports of goods and services decelerated more markedly (to 10.0% at current prices), especially in the second half of the year. This may indicate falling import intensity, low domestic demand, and increasing uncertainty about the future situation. As a result of these developments, net exports in 2011 stood at €1,798.8 million, its highest level since 1995. As regards price developments, the import deflator increased more sharply than the export deflator owing to a rise in oil prices, and therefore net exports made a positive contribution (5.5 percentage points) to GDP growth.

Both the export performance and the import intensity of the Slovak economy improved year-on-year in 2011, by around, respectively, 8 percentage points and 4 percentage points. The openness of the Slovak economy, as measured by the ratio of exports and imports of goods and

Table 3 GDP formation and its components (index: same period a year earlier = 100; at constant prices)

	2010	2011				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Gross output	108.7	107.5	108.3	103.2	101.8	105.1
Intermediate consumption	111.8	109.9	111.8	103.3	101.4	106.4
Value added	104.2	103.7	102.9	103.2	102.4	103.0
Net taxes on products[1)]	104.0	100.5	110.7	101.3	112.9	106.4

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

Table 4 GDP broken down by expenditure (index: same period a year earlier = 100; at constant prices)

Indicator	2010 Q1–Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2011 Q1–Q4
Gross domestic product	104.2	103.4	103.5	103.0	103.4	103.3
Domestic demand	104.1	100.8	100.4	95.6	97.6	98.5
Final consumption	99.7	99.5	98.7	98.6	98.7	98.9
Household final consumption	99.2	99.8	99.9	99.1	99.6	99.6
General government final consumption	101.1	98.3	94.9	96.8	96.3	96.5
Non-profit institutions serving households	101.4	101.4	101.0	101.4	101.0	101.2
Gross fixed capital formation	112.4	101.6	106.4	105.9	108.4	105.7
Exports of products and services	116.5	116.8	113.1	106.8	107.5	110.8
Imports of products and services	116.3	111.4	110.9	98.2	99.0	104.5

Source: SO SR.

services to nominal GDP, increased by 11.8 percentage points to 175.6%.

1.2.3 Labour market

With the economy maintaining relatively strong growth, the performance of the labour market in 2011 was favourable compared to the previous year. But although labour market indicators were positive during the year, the rate of employment and wage growth slowed and the unemployment rate remained high.

Employment

Employment (on the ESA 95 measure) increased year-on-year by 1.8% (after falling by 1.5% in 2010), but its annual rate of growth declined in each quarter of the year. The number of hours worked rose by 1.0% in comparison with the previous year. Looking at the labour market situation in 2011 on a sector by sector basis, the most marked annual rise in employment was observed in the industry sector (3.2%). Other notable positive contributions to employment growth came from the professional, scientific and technical activities sector and the information and communication sector. There were negative contributions only from the construction sector and the public administration, defence, education and health care sector.

According to the Labour Force Survey, the number of people working abroad in 2011 declined year-on-year by 8.1% (or by 10,100 people), which was greater than the drop recorded in the previous year. The number of employees in the domestic economy increased by 1.6%, and the number of entrepreneurs rose by 1.5%.

Unemployment

According to the Labour Force Survey, the number of unemployed fell year-on-year by 5.4% in 2011 amid an upturn in the labour market, and the unemployment rate declined by 0.9 percentage point, to 13.5%.

According to official data from Offices of Labour, Social Affairs and Family, the unemployment rate in 2011 averaged 13.2%, which was 0.7 percentage point higher than in 2010.

Wages and labour productivity

The average monthly nominal wage in 2011 increased to €786, while its annual rate of growth declined to 2.2%, from 3.2% in 2010.

The sectors that recorded the highest nominal wage growth were information and communication (8.7%), financial and insurance activities (8.4%), construction (4.1%), and industry (3.6%). Sectors in which the average nominal wage declined year-on-year included the following: administrative services; scientific and technical activities; and public administration, defence and compulsory social insurance. With the annual inflation rate rising, the average real wage in 2011 declined year-on-year by 1.6% (after rising by 2.2% in 2010).

While GDP in 2010 was produced by a far lower number of workers, employment increased moderately in 2011 although GDP growth slowed. The annual rate of growth in labour productivity (measured as GDP per employee) decelerated in 2011 after rising sharply in the previous year.

Table 5 Labour market indicators

	2010	2011				
	Q1–Q4	Q1	Q2	Q3	Q4	Q1–Q4
Nominal wage (index)	103.2	102.9	103	102.5	100.5	102.2
Real wage (index)	102.2	99.6	99.1	98.6	96.2	98.4
Nominal compensation per employee – under ESA 95 (index)	104.4	101.6	100.5	101.7	100.2	100.9
Labour productivity in terms of GDP (index, current prices)	106.4	102.1	103.3	102.9	104.4	103.2
Labour productivity in terms of GDP (index, constant prices)	105.8	101.0	101.2	101.3	102.5	101.5
Employment – under ESA 95 (index)	98.5	102.3	102.3	101.7	100.9	101.8
Unemployment rate according to LFS[1] (%)	14.4	13.9	13.1	13.1	14.0	13.5
Nominal unit labour costs (ULC)[2]	98.7	100.6	99.2	100.4	97.7	99.4

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

The increase in real labour productivity exceeded real wage growth by 3.2 percentage points. This disparity was reflected in unit labour costs, whose annual rate of decline moderated by 0.7 percentage points in comparison with 2010, to 0.6%.

1.2.4 Financial results

Non-financial and financial corporations in Slovakia made a total profit of €1,763.8 million in 2011, according to preliminary data from the Statistical Office of the Slovak Republic. That figure was 17.7% higher than the total profit in 2010 (which increased by 24.4% year-on-year). Both financial and non-financial corporations contributed to the improved financial result, with the total profit of non-financial corporations rising year-on-year by 12.2% (compared to 30.4% in 2010) and the total profit of financial corporations soaring by 103.0% (after falling by 27.8% in 2010).

In the case of non-financial corporations, the largest contribution to the total profit growth came from the health care sector (3.5 percentage points); the total profit in this sector rose by 892.9% year-on-year due to the forgiveness of hospital debts at the end of 2011 (in relation to the transformation of hospitals' legal status). The profit growth of industrial corporations was driven mainly by the electricity and gas supply sector. On the other hand there was a negative contribution from the manufacturing sector (from two segments in particular: manufacture of basic metal and fabricated metal products, and manufacture of computer, electronic and optical products); the total profit of this sector fell year-on-year by 8%, after rising by 109.8% in 2010.

Financial corporations made a total profit of €1,125.4 million in 2011, which was €571.1 million higher than the figure for the previous year. Monetary financial institutions made the largest contribution to the annual growth in the financial sector's total profit, and there was also a positive contribution from insurance corporations and pension funds. The only segment that recorded a decline in profits was other financial intermediaries.

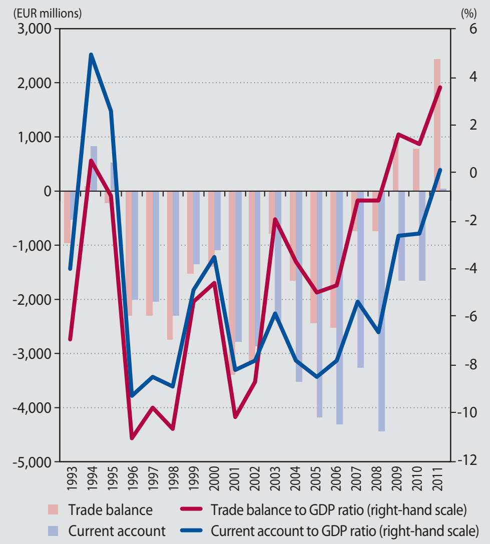
1.2.5 Balance of payments

Current account

The current account of the balance of payments recorded a surplus of €38.0 million in 2011, which represented a marked improvement in comparison with the previous year and included positive contributions from all components except for the income balance. The ratio of the current account surplus to GDP (at current prices) stood at 0.1%, which represented an improvement of 2.6 percentage points in year-on-year terms.

The trade surplus increased year-on-year in 2011 as it benefited from growth in external demand, which boosted mainly exports in the automotive industry. On the import side there were positive contributions to the balance from the decline in import intensity as well as from the running down of inventories in a climate of uncertainty

Chart 6 Current account and trade balance developments between 1993 and 2011



Source: NBS and SO SR.

about the future level of external demand. Both exports and imports increased markedly year-on-year in 2011 by, respectively, 16.9% and 13.6%.

The deficit in the services balance declined largely on the back of improvements in the categories of *services in other activities* and, to a lesser extent, *transportation*. The *travel* category, by contrast, saw a moderate decrease in its surplus, as the growth in expenditure exceeded the rise in receipts. Thus the main cause of the improvement in the services balance was an increase in receipts related to growth in external demand.

Table 6 Balance of payments current account (EUR billions)

	2011	2010
Trade balance	2.4	0.8
Exports	56.4	48.3
Imports	54.0	47.5
Services balance	-0.4	-0.7
Income balance	-1.7	-1.2
of which: investment income	-2.9	-2.4
of which: reinvested earnings	-1.2	-0.6
Current transfers balance	-0.4	-0.4
Current account in total	0.0	-1.6
Current account to GDP ratio (%)	0.1	-2.5

Source: NBS, SO SR (GDP).

The year-on-year deterioration in the income balance was caused by a rise in the investment income deficit, which reflected an increase in the amount of earnings reinvested by foreign investors. The current transfers balance improved year-on-year due mainly to positive developments in the *other transfers* sub-category (stemming mainly from an increase in revenues).

Capital and financial account of the balance of payments

The capital and financial account of the balance of payments recorded a surplus of €3.9 billion in 2011, compared to a surplus of €0.5 billion in 2010.

In the category of *direct investment*, the inflow increased year-on-year as a result of the higher inflow of equity capital; it was dampened only partially by the outflow of other capital, caused by an increase in claims on direct investment enterprises and on direct investors.

In the category of *portfolio investment* there was a moderate inflow in 2011 (after an outflow in the previous year), owing to a rise in demand among non-residents for government securities as well as to lower demand among banks for foreign debt securities and among firms for equity securities.

In the category of *other investment,* the inflow was higher than in 2010 largely due to developments in the Government and NBS sector, where

Table 7 Capital and financial account of the balance of payments (EUR billions)

	2011	2010
Capital account	0.9	1.0
Direct investment	1.1	0.0
abroad	-0.4	-0.2
of which: equity capital	-0.1	-0.4
reinvested earnings	0.4	0.2
in Slovakia	1.5	0.3
of which: equity capital	0.8	-0.2
of which: non-privatisation FDI[1)]	0.8	-0.2
reinvested earnings	0.8	0.4
Portfolio investment and financial derivatives	0.0	-1.3
Other long-term investment	1.1	-0.1
Other short-term investment	0.8	0.9
Capital and financial account	**3.9**	**0.5**

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

the inflow of deposits to NBS accounts was only partly counterbalanced by the outflow of funds through loan repayments.

External debt of Slovakia

As a result of developments in the balance of payments, the external debt of Slovakia increased by €3.9 billion (USD 3.0 billion) in 2011, to €53.2 billion (USD 68.8 billion), mainly due to heightened demand for government bonds, an increase in the short-term foreign liabilities of the Slovak Government and NBS and a rise in the long-term liabilities of business entities from loans and trade credits. Slovakia's ratio of total gross external debt to GDP at current prices was 77 % as at 31 December 2011, representing an increase of 2.3 percentage points in comparison with the ratio for 2010 (74.7%).

Nominal and real effective exchange rates[2]

On average in 2011 the nominal effective exchange rate (NEER) appreciated year-on-year by 0.1%, after depreciating by 3.0% in the previous year. The strengthening of the NEER was mostly attributable to appreciation against the Polish zloty with a contribution of 0.2 percentage points. On the other hand, the NEER also reflected depreciation against the Czech koruna (the only one out of the relevant currencies) contributing -0.4 percentage points.

The effect of a negative inflation differential vis-à-vis relevant trading partners outweighed the NEER's appreciation, and resulted in the real effective exchange rate (REER) based on industrial producer prices – manufacturing depreciating by 2.1%. The rate of the REER's depreciation was 4.4 percentage points slower in comparison with the previous year.

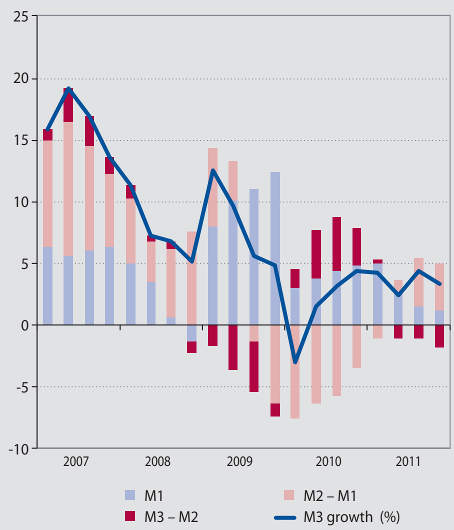
1.2.6 Monetary developments

Monetary aggregates and retail interest rates

Monetary indicators in 2011 reflected economic developments, which improved gradually in the first half of the year and then moderated in the second half, when there was escalating uncertainty and declining confidence in financial markets as a result of the euro area sovereign debt crisis. The annual growth of the M3 monetary aggregate stopped accelerating in the third quarter of 2011 and slowed markedly in the fourth quarter. As at the year end, the annual M3 growth stood at 1.8%,[3] compared to 4.3% at the end of the previous year. The relatively low annual M3 growth reflected lower nominal income growth in each of the most important sectors (non-financial corporations and households). However, the most important factor in M3 growth was interest rates, since their level determined the pattern of investment in deposits, especially in the household sector.

Chart 7 shows a comparison of tendencies in M3 components, which reflect developments in retail deposit rates. The household sector in particular took advantage of the advantageous rates on short-term deposits included in the monetary aggregate M2-M1 in the second half of 2011. Banks increased rates on longer-term time deposits mainly towards the end of the year, and the stock of these deposits rose as a result. Although interest rates on the longest-term deposits also had a rising trend, they affected the stock of long-term deposits with an agreed maturity of over two years, which are classed as M3 counterparts. There was a relatively marked increase in overnight deposits (the most liquid deposits, included in the M1 aggregate) mainly in the first half of 2011, in the non-financial corporations sector. This reflected mainly an increase in economic activity and the accompanying accumulation of deposits in the non-financial corporation sector. The stronger economic activity was indicated by production and sales figures, which increased

Chart 7 Contributions of components to M3 growth (p.p.; annual percentage growth)



Source: NBS.

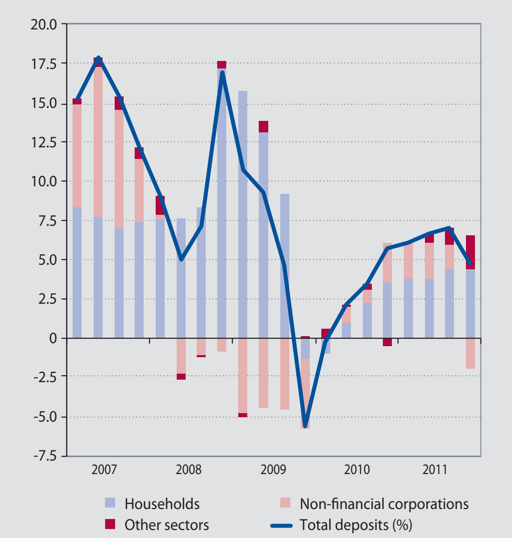
2 The methodology of the effective exchange rate calculation is published on the NBS website at: http://www.nbs.sk/_img/Documents/_Statistika/VybrMakroUkaz/EER/NEER_REER_Methodology.pdf

3 M3 growth in December was affected by a methodological change concerning the classification of money market funds, as a result of which a large proportion of these funds were reclassified as other funds not included in the M3 aggregate. Without this reclassification, M3 growth would have been higher, at around 2.7%.

substantially in the given period in year-on-year terms. Their growth subsequently decelerated and in doing so affected the stock of the most liquid deposits; the contribution of these deposits to the growth in the total stock of deposits included in M3 declined quite sharply. Marketable instruments (M3-M2) fell over the course of the year as a result of the mounting sovereign debt crisis. Banks issued fewer debt securities, and investors continued to shift money from money market funds to deposit products. From the sectoral view, households continued the trend of the previous year by making the largest contribution to private sector deposit growth. Due to uncertainty and weak consumer sentiment, households restricted their consumption and accumulated savings. While the contribution of household deposits rose moderately, the contribution of deposits from non-financial corporations became less positive amid the slowdown in economic activity in the second half of 2011, and actually turned negative in the fourth quarter.

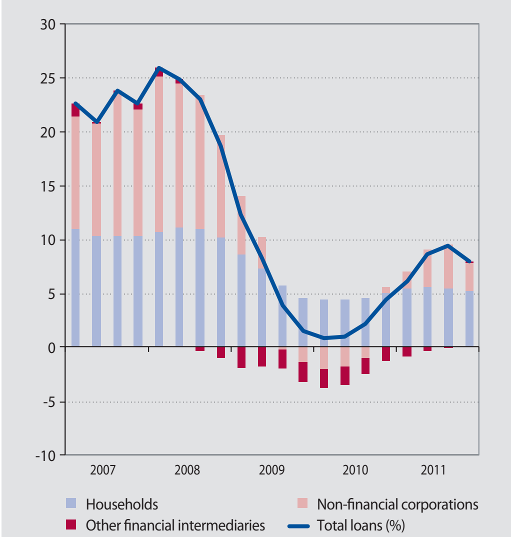
As regards the counterparts of M3 there was an increase in lending. Lending to non-financial corporations maintained its positive tendency of the previous year, when the economic growth resumed. The favourable economic situation was reflected in a gradual moderate increase in the annual growth rate of the stock of corporate loans. In the first half of the year lending growth to non-financial corporations was driven by both short-term loans and long-term loans for investment financing. Although lending rates for non-financial corporations rose slightly in the first half of 2011 – reflecting market rate increases that followed hikes in the key ECB rates – they remained relatively favourable in historical terms. The reduction of the key ECB rates later in the year supported the banking sector, but did not lead to any significant increase in lending. In fact, lending growth slowed in the last quarter of 2011 as the sovereign debt crisis escalated and credit standards were tightened. Growth in lending to households increased very moderately in the first half of 2011 and then slowed marginally in the second half of the year amid concerns about future developments. Both consumer loans and housing loans recorded lower growth. Throughout the year lending activity was supported by falling property prices and by interest rates being at relatively low historical levels. The pass-through from interbank market rates to retail interest rates was most pronounced in the first half of 2011 when retail rates increased. This period saw a widening of the difference between average interest rates on housing loans in Slovakia and in the euro area as a whole. The situation persisted also in the second half of 2011. On the other hand, the adverse situation in the labour market may have had a dampening effect on demand for loans.

Chart 8 Contributions to the annual rate of private sector deposit growth (quarter-end in p.p.; growth in percent)



Source: NBS.

Chart 9 Contributions to the annual rate of lending growth (p.p.; growth in percent)



Source: NBS.

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

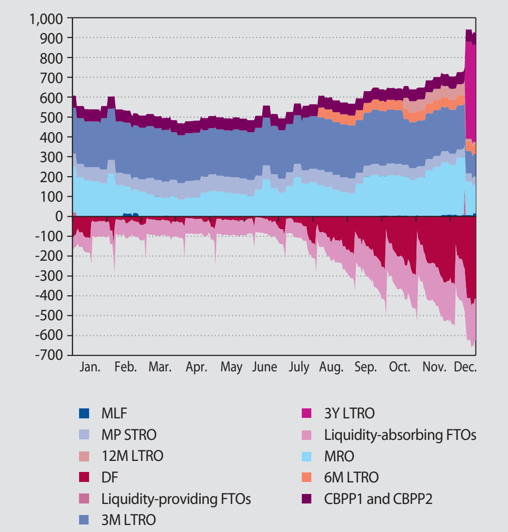
The European Central Bank implements monetary policy through the national central banks of the Eurosystem by means of various monetary policy instruments. The most widely used of these instruments are the main refinancing operations (MROs), longer-term refinancing operations (LTROs), fine-tuning operations (FTOs), and standing facilities, which include the deposit facility (DF) and marginal lending facility (MLF). In response to the deepening financial crisis in the euro area, the ECB continued to conduct operations as fixed rate tender procedures with full allotment and it expanded the use of longer-term operations by introducing extraordinary LTROs of six months and two years. In order to mitigate the mounting pressures in the euro area market, the ECB decided towards the end of the year to replace two planned 12-month LTROs with two LTROs that have a maturity of 36 months and may be repaid after one year. European banks that had already drawn funds under a 12-month LTRO had the option of switching their participation to the three year LTRO. This was partially used by the European banks.

Although the ECB maintained US dollar liquidity swap arrangements with the Federal Reserve System, there was minimal use of this swap line in the euro area banking sector. Participation in US dollar liquidity swap arrangements did not pick up until the end of the year, after the ECB announced a lowering of the prices on these operations.

Given the persisting problem of euro area countries' excessive indebtedness, the Eurosystem decided to continue the Securities Markets Programme (SMP), which began in 2010 and involves national central banks purchasing government bonds of selected countries. Several countries found that their excessive indebtedness made it difficult for them to obtain financing through the capital market, since the supply of their bonds far exceeded the demand for them. In August 2011, the ECB decided that the SMP, which had originally been used to purchase government bonds issued by the "peripheral countries" of Ireland, Greece and Portugal would be extended for the purchase of Spanish and Italian sovereign debt. By the end of 2011, ECB purchases under the SMP amounted to €211 billion. In order to mitigate the effect of these interventions, the ECB conducted liquidity-absorbing operations and thereby neutralised the programme's impact on the monetary stance.

Also as part of its non-standard measures, the ECB launched a new covered bond purchase programme (CBPP2) to run from November 2011 until October 2012, the aim being to revive activities in the covered bond market. Under the programme, purchases will be made for an intended amount of €40 billion and will be carried out in the primary and secondary markets. Národná banka Slovenska is not taking part in CBPP2. The programme was first implemented in 2009, when it was used to purchase bonds that had a total nominal value of €60 billion.

Chart 10 Eurosystem operations in 2011 (EUR billions)



Source: ECB.
Note: MP STRO – Special-term refinancing operation with a maturity matching the length of the maintenance period.

The ECB changed its key interest rates on four occasions in 2011. It raised them by 25 basis points in April and by the same amount in July. Following the second hike, the interest rate on the main refinancing operations stood at 1.50%. As instability in the euro area market mounted, the ECB responded by cutting the key rates by 25 basis points in November and by a further 25 points in December, thus bringing the main refinancing rate back down to 1.00%. The width of the standing facilities corridor remained unchanged throughout the year, at ± 75 basis points. The first half of 2011 was marked by improving sentiment in the global market and by a decline in the liquidity surplus of the euro area banking sector. The ECB had to some extent contributed to that surplus due to the exit strategy it adopted in 2010; its decision to conduct supplementary operations caused a substantial rise in the cumulative liquidity surplus of European banks in the second half of the year. The overnight market rate (EONIA) also reacted to the surplus by moving towards the lower end of the corridor in which it can fluctuate (defined by the standing facility rates). In 2011, the ECB continued to absorb the excess liquidity appearing regularly before the end of each maintenance period by conducting overnight fine-tuning operations. This was reflected in short-term increases in the EONIA rate at the end of each period.

Minimum reserves

Under Eurosystem rules, all credit institutions operating in the euro area are required to hold a minimum amount of reserves with their respective national central bank (NCB). In 2011, 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 (including credit cooperatives).

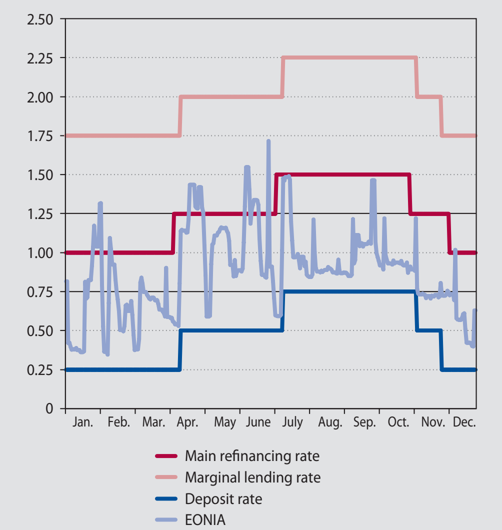
In 2011, the reserve ratio remained unchanged at 2% of the reserve base (selected types of deposits and debt securities issued). The ECB Governing Council decided at its meeting on 8 December 2011 to reduce the reserve ratio for 2012 to 1% in order to support money market activity.

The average amount of required reserves in 2011 stood at €702.34 million, which was around 1.02% higher than the average in 2010. The increase reflected to some extent the increase in deposits from households and the issuing activity of the banks under review.

Eligible assets

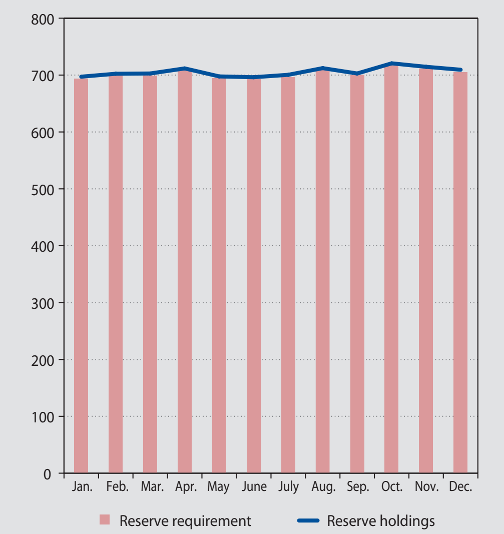
The conduct of Eurosystem monetary policy operations in 2011 was affected mainly by the repercussions of both the debt crisis of certain euro area countries and the financial crisis of

Chart 11 Key ECB interest rates and the EONIA rate (% p.a.)



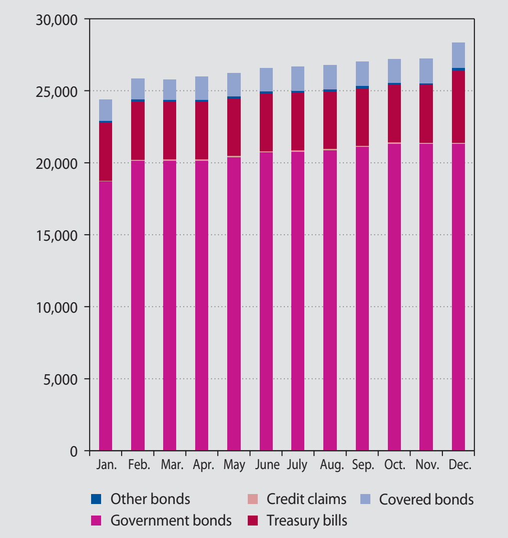
Source: ECB and Bloomberg.

Chart 12 Minimum reserves in 2011 (EUR millions)



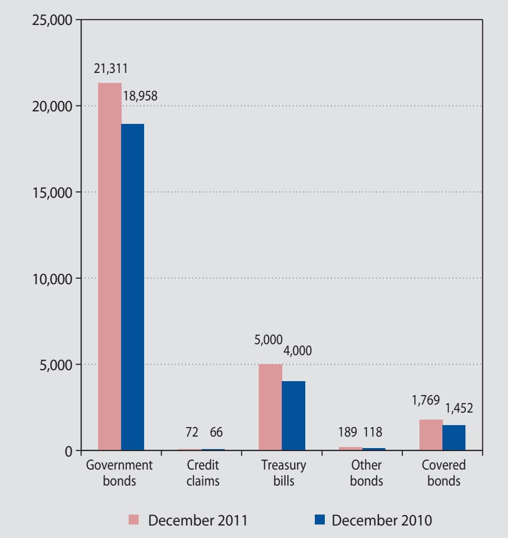
Source: NBS.

Chart 13 Composition of Slovak eligible assets in 2011 (EUR millions)



Source: NBS.

Chart 14 Changes in the composition of Slovak eligible assets in 2011 (EUR millions)



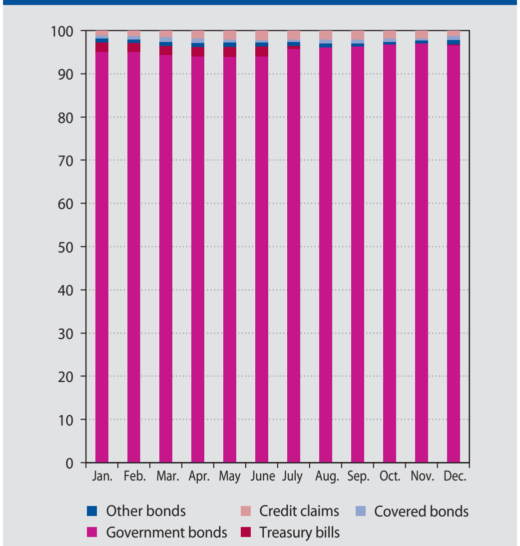
Source: NBS.

2008. These were reflected in the availability of assets eligible as collateral in Eurosystem credit operations. Over the year, the eligibility criteria were tightened for asset-backed securities and structured covered bonds, while at the same time they were eased for certain other assets, particularly those of countries included in the EU/IMF programme. Towards the year-end, as the need for liquidity among Eurosystem counterparties became more pressing, there was a prevailing tendency to ease the eligibility criteria, particularly in regard to the use of credit claims. In the end, the Governing Council decided for a temporary reversion to a two-tier system of eligible assets.

Eligible assets issued and held in Slovakia had an overall value of €28,341 million at the end of last year, representing an increase of 15% in comparison with the previous year. The largest share of that total, approximately 93%, consisted of bonds and Treasury bills issued by the Slovak government. Besides the increase in government debt securities, there was a gradual rise in the value of covered bonds issued according to UCITS directive and other bonds. The use of credit claims almost doubled during 2011, but by the year-end it had returned to its 2010 level.

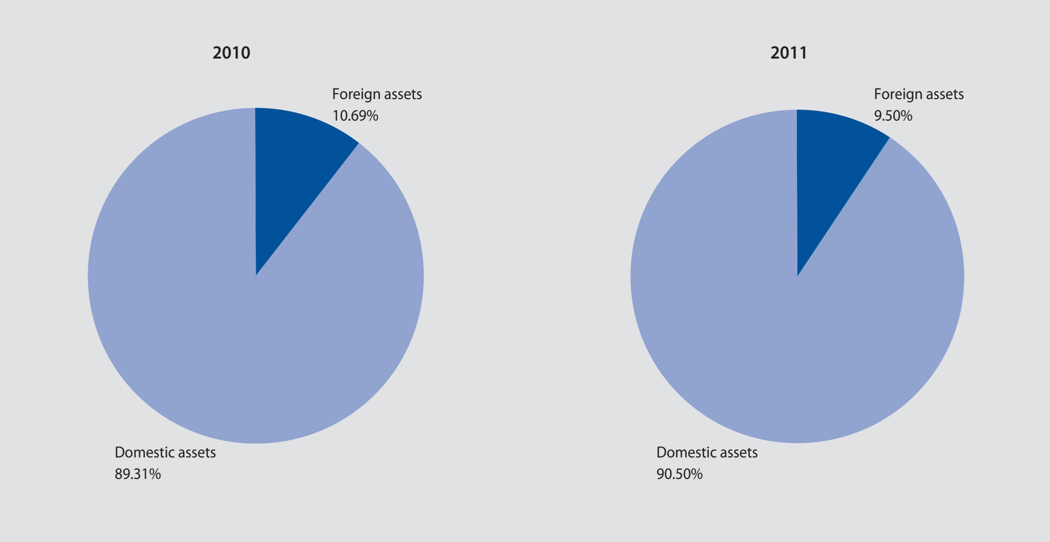
The activity of Slovak counterparties in Eurosystem monetary policy operations declined in 2011 in comparison with the previous year, while, by contrast, there was increased use of daylight credit in the TARGET-2SK payment system. The lower activity was reflected in the value of the collateral that Slovak banks pledged with Národná banka Slovenska. The assets most frequently used as collateral were those issued in Slovakia, which accounted for 90.5% of the total collateral value; assets issued in other euro

Chart 15 Use of eligible assets in 2011 (%)



Source: NBS.

Chart 16 Use of domestic and foreign eligible assets (%)



Source: NBS.

area countries saw their share of the total drop slightly from the levels of the previous two years. Government debt securities accounted for the vast majority (97%) of the collateral held in Slovakia, and the share of other asset types did not change significantly from the previous year. Slovak counterparties used a collateral pool to manage their collateral for monetary policy operations.

2.2 FOREIGN EXCHANGE OPERATIONS

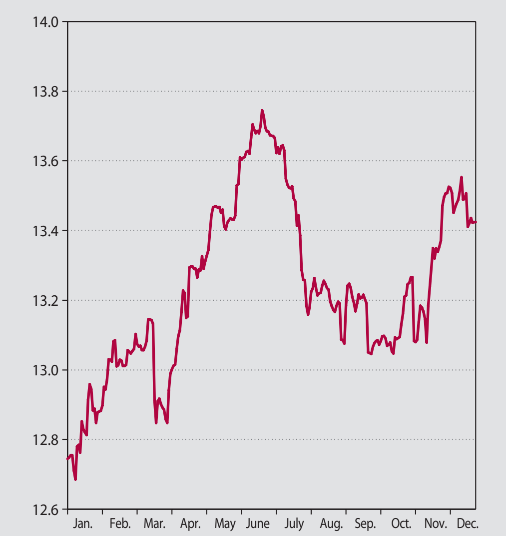
Foreign exchange market operations

The euro was significantly more volatile in 2011 as a consequence of the public finance difficulties in several European countries and the United States. The euro appreciated markedly against the US dollar in the first half of 2011, rising from 1.30 USD/EUR in January to

Chart 17 EUR/USD exchange rate in 2011

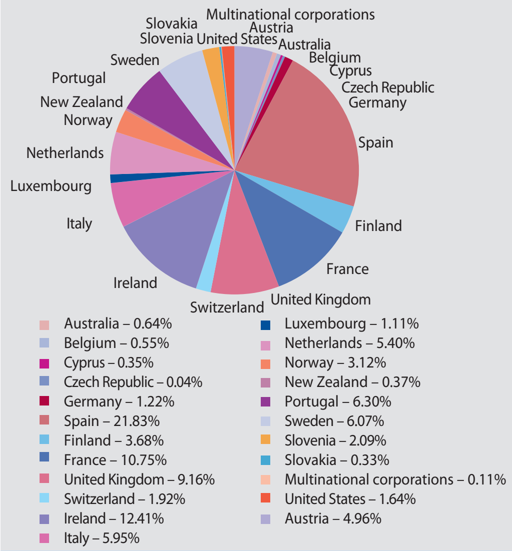
Source: Bloomberg.

Chart 18 Euro investment reserves managed by NBS in 2011 (EUR billions)



Source: NBS.

Chart 19 Euro investment portfolio – breakdown of investments by country of issuer



Source: NBS.

1.48 USD/EUR in May, its strongest level of the year. As problems mounted in the euro area, however, the exchange rate depreciated in the second half of 2011 and it ended December at 1.2939 USD/EUR.

Investment activities under investment reserves management

Národná banka Slovenska manages its investment reserves with the aim of ensuring that they make a positive contribution to its overall financial result. The total value of investment assets, at corresponding exchange rates and market prices, increased by 5.4% between the end of 2010 and the end of 2011 – from €12.9 billion to €13.6 billion. The NBS reserves are managed in accordance with the principles laid down in the NBS Investment Strategy approved in 2008. This means that interest rate risk in the euro investment portfolio is managed in a standard way through interest rate swaps and futures contracts. The return on this portfolio in 2011, after taking into account interest expenses and hedging, stood at 0.063% for 2011. As for the central bank's US dollar investment portfolio, it ended 2011 with a total value of €206.5 million, which, compared with the respective benchmark, represented a negative return of 0.42%.

CHAPTER 3

SUPERVISION OF THE FINANCIAL MARKET

3

3 Supervision of the financial market

The Financial Market Supervision Unit of Národná banka Slovenska (hereinafter 'the FMS Unit') performs regulatory, licensing, supervisory, analytical and international activities[4] within the limits of its competence. Its regulatory activities comprise the drafting of generally binding NBS regulations pertaining to the financial market, prudential business rules, the rules of secure operation, and other requirements for the activities of entities that are subject to supervision.

In conducting licensing activities and/or first-instance proceedings before NBS (on the basis of which decisions concerning the rights and duties of entities under supervision or other persons are made in various areas of supervision), the FMS Unit grants authorisations, licences, approvals and prior approvals; imposes penalties, remedial measures or other sanctions; issues other decisions and opinions under the financial market supervision law[6] and related laws; and oversees the implementation of its decisions, including compliance with the conditions laid down therein. In addition, the FMS Unit delivers and/or receives notifications to/from entities operating in various areas of the financial market and intending to provide services in Slovakia and/or in other member states of the European Economic Area, either through a local branch or directly on the basis of the freedom to provide services. Furthermore, the FMS Unit keeps a register of entities that are subject to supervision, as well as a register of creditors providing consumer credits or loans under the law on consumer credits[6].

When exercising supervision through on-site and off-site inspections, NBS ascertains important facts about the entities under supervision and their activities, especially shortcomings, their causes and consequences, and the persons responsible for these shortcomings.

3.1 Financial market regulation in Slovakia

In 2011, the FMS Unit devoted a significant part of its regulatory activity to cooperation in the preparation of Act No. 520/2011 Coll. of 30 November 2011 amending and supplementing the Securities Act[7], and to the preparation of related legal regulations. The purpose of this Act was to implement the European Union's directives 2010/73[8], Omnibus I[9], and CRD III[10]. The provisions transposed from the Omnibus I directive were intended to adjust the relevant Slovak legislation to the new needs of the new European supervisory architecture, requiring the individual national supervisory bodies to cooperate closely with the newly established European supervisory authorities. The modified legal regulations should ensure that the required exchange of information between them is free of obstacles. Among other things, the European supervisory authorities should help the national supervisory bodies to settle their conflicts and should keep European registers and databases. Another objective was to improve the functioning of the internal market by ensuring top-level, effective, and consistent prudential business regulation and supervision, investor protection, as well as enterprise and consumer protection, integrity protection, properly functioning financial markets, a stable and sustainable financial system, real economy, protection for public finances, and effective international cooperation in the area of supervision.

Regarding banking, the regulations implementing the CRD III directive were mainly designed to modify the capital requirements for the trading book and for re-securitisation, and the supervisory review of remuneration policies.

In the area of payment services, the FMS Unit cooperated mainly in the drafting of Act No. 394/2011 Coll. of 19 October 2011, which amends the law on payment services[11]. The new law was designed to modernise the previous one with special emphasis on the prudential business of electronic money institutions, in line with the system prescribed for payment institutions by the directive on payment services. The main purpose of this law was to create conditions for the introduction of new, innovative and safe electronic banking services, and to provide a clear legal

4 A detailed report on the activities of the Financial Market Supervision Unit for 2011 is available 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 Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws as amended.

6 Act No. 129/2010 Coll. on consumer credits and other credits / loans for consumers, and on amendments to certain laws as amended by Act No. 394/2011 Coll.

7 Act No. 566/2001 Coll. on securities and investment services (Securities Act) and on amendments to certain laws as amended.

8 Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010, amending Directives 2003/71/ES on the prospectuses to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

9 Directive 2010/78/EU of the European Parliament and of the Council amending directives of the European Union in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority), and the European Supervisory Authority (European Securities and Markets Authority).

10 Directive 2010/76/EU of the European Parliament and of the Council of 14 December 2010, amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisation, and the supervisory review of remuneration policies.

11 Act No. 492/2009 Coll. on payment services and on amendments to certain laws as amended.

framework for the strengthening of the common market for electronic payments. This was partly a reaction to the emergence of new categories of prepaid payment instruments in the context of rapid changes in the business environment resulting from progress in information technology, aimed at opening a market for the issuance of electronic money via electronic money institutions controlled on the basis of a special prudential business regime.

In the area of insurance, there were no marked legislative changes in 2011. In connection with the approved EU directive *Solvency II*[12], however, a new insurance law was prepared during the year, with the aim of transposing the said directive into Slovak legislation.

In the area of financial intermediation and financial counselling, 2011 was the year when the law on financial intermediation and financial consulting[13] was applied in practice in full range (except for the section on professional competence) for the first time. In this connection, financial intermediaries and financial advisors had to be guided in methodological terms throughout the year. On the website of NBS[14], explanations were published in respect of all the key provisions of the law on financial intermediation and financial counselling. The time limit for meeting the requirements for medium-level professional competence expired in 2011, as well as the time limit for meeting the requirements for professional competence at a higher level. Professional examinations at the respective levels were passed by almost 20,000 persons. Professional examinations for certified financial advisors were conducted directly by NBS at the beginning of October and December.

In the area of pension saving, the FMS Unit devoted a substantial part of its regulatory and methodological activities to cooperation in the preparation of a draft amendment to the law on retirement pension savings[15] (Act No. 334/2011 Coll., which entered into force on 1 November 2011). The main changes in the regulation of saving for retirement concerned the structure and amount of payments, the creation of a new pension fund, the extension of investment possibilities to existing pension funds, including extensive requirements for the risk management systems of all pension funds, as well as changes in approach to the so-called 'guarantees'. The basic provisions of this amendment, for example those pertaining to investment in pension funds, will become effective on 1 April 2012. Apart from the aforementioned activities, the FMS Unit also commenced work on the preparation of implementing regulations for the approved amendment to the retirement pension savings law, i.e. decrees on risk management, the valuation of assets managed by pension funds, and the reporting requirement for pension asset management companies.

The most significant regulatory changes in the area of securities market supervision in 2011 were the adoption of a new recodified law on collective investment[16] and the preparation of implementing regulations for that law. As the recodified collective investment law represents a completely new legal regulation for numerous areas of supervision, the FMS Unit received lots of applications from entities under supervision for opinion on certain problems related to the new law. Since the law on collective investment gives NBS a relatively wide range of authority in this area, numerous implementing regulations were issued in 2011 in connection with this law. The most significant was a decree on risk**s** and risk management systems[17], which was the first decree concerning collective investment in Slovakia to set detailed rules regarding the basic obligations of asset management companies during risk management. This decree specifies the tasks of risk managers and thus increases the protection of mutual fund shareholders. The FMS Unit also prepared a decree setting out the criteria, limits, and restrictions that are to be met by short-term money market funds and money market funds[18]. Thus, a directive issued by the European supervisory authority for securities and securities markets was implemented in regard to this market for the first time. Within the scope of its methodological activity, the FMS Unit also released[19] a document designed to help entities notify the market of cross-border sales of securities by foreign UCITS funds in Slovakia[20]. A methodological guideline was also started to be prepared – a manual containing key information for investors (KIID), which, under the new collective investment law, will replace the previously used simplified sales prospectus.

12 Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of insurance and reinsurance.

13 Act No. 186/2009 Coll. on financial intermediation and financial counselling and on amendments to certain laws as amended.

14 http://www.nbs.sk/en/financial-market-supervision/financial-mediation-and-financial-advisory-supervision

15 Act No. 43/2004 Coll. on retirement pension savings and on amendments to certain laws as amended.

16 Act No. 203/2011 Coll. on collective investment.

17 Decree No. 11/2011 of Národná banka Slovenska of 27 September 2011 on risks and risk management systems, risk measurement, and the calculation of overall risk and counterparty risk.

18 Decree No. 10/2011 of Národná banka Slovenska of 13 September 2011 setting out the criteria, limits, and restrictions that are to be met by short-term money market funds and money market fund.

19 http://www.nbs.sk/en/financial-market-supervision/securities-market-supervision/collective-investment/notifications

20 Information concerning laws and other generally binding legal regulations applicable to the distribution of securities of European funds in the Slovak Republic, disclosed in accordance with § 145 of Act no. 203/2011 Coll. on collective investment (according to Article 91 (3) of Directive 2009/65/EC.

3.2 THE BANKING, PAYMENT SERVICES, AND FOREIGN EXCHANGE SECTORS

Licensing activity and proceedings before NBS

In 2011, a total of 87 administrative decisions were issued in regard to the ***banking sector***. Most proceedings (54 decisions) were conducted in connection with the granting of prior approval to replace a member or members of the board of directors or supervisory board, managerial employees or general proxies. The most important decisions were the following:

- a decision made on February 2011 to grant prior approval to PENTA INVESTMENTS LIMITED, Limassol, Cyprus, to acquire a qualifying holding of 88.7% in Dexia banka Slovensko a.s.[21], Žilina, as a result of which the bank became its subsidiary, and
- a decision made on December 2011 to grant prior approval to Sberbank of Russia, Moskau, Russian Federation, to acquire a qualifying holding in VOLKSBANK Slovensko, a.s., in order to obtain an indirect stake in the bank. Sberbank of Russia also acquired a 100% share of the Austrian Volksbank International AG, which owned 93.38% of the share capital of VOLKSBANK Slovensko, a.s.

In 2011, three branches of foreign banks started to operate in Slovakia, namely: BKS Bank AG, pobočka zahraničnej banky; Komerční banka, a.s., pobočka zahraničnej banky; and AKCENTA, spořitelní a úvěrní družstvo, Košice branch.

NBS recorded 17 credit institutions that notified their intention to provide cross-border banking services in the territory of Slovakia.

In the area of ***payment services***, authorisation to provide payment services was granted to four entities in 2011, i.e. to Diners Club CS, s.r.o.; Home Credit Slovakia, a.s.; EXPRESS SERVICE, s.r.o.; and CETELEM SLOVENSKO, a.s.

Diners Club CS, s.r.o., also notified NBS of its intention to provide payment services in another Member State; on the basis of this notification the payment institution provides services via a branch office in the Czech Republic (as from April 2011).

In 2011, NBS recorded 46 foreign payment institutions that notified their intention to provide payment services in Slovakia without establishing a branch office, as well as 12 agents of foreign payment institutions providing cross-border payment services in Slovakia.

In the ***foreign exchange sector***, NBS granted 21 foreign exchange licences for currency exchange activities, on the basis of legal and factual assessment of applications and enclosed documents.

As at 31 December 2011, the FMS Unit recorded 162 active creditors (including banks and branches of foreign banks) which were included in the *Register of Creditors Providing Consumer Credits*.

Regarding the ***banking sector***, one first-instance proceeding to impose a penalty was initiated in 2011. Within the scope of ongoing first-instance proceedings, one decision to impose a penalty entered into force in 2011.

As for the ***foreign exchange sector***, one first-instance proceeding to impose a penalty came to an end with the issuance of a final first-instance decision, and one proceeding to impose an ad-

Table 8 Number of first-instance proceedings in the banking, payment services, and foreign exchange sectors (licensing and sanction proceedings in total)

Sector	Proceedings carried over from 2010 to 2011	Proceedings brought in 2011	Decisions issued in 2011	Decisions that entered into force in 2011
Banking sector	5	84	89	89
Payment services	3	18	19	19
Foreign exchange	3	21	23	23
Total	**11**	**123**	**131**	**131**

Source: NBS.

21 As from 1 January 2012, Prima banka Slovensko, a. s.

ministrative penalty was initiated. Within the scope of first-instance proceedings, one proceeding brought in 2010 came to an end in 2011 with the issuance of a final decision to impose a penalty, which came into force in the same year.

An overview of first-instance proceedings in the banking, payment services, and foreign exchange sectors is given in Table 8. The overview covers both licensing and sanction proceedings.

Supervisory activities

Supervision over banks and branches of foreign banks in 2011 was exercised on the basis of the annual supervision programme, the evaluated risk profiles of the entities under supervision, as well as on the impact of the financial and economic crisis on the banking sector and the main risks posed to the sector. The key priority for 2011 was the monitoring of banks' credit and market risks, capital adequacy and liquidity.

Off-site supervision in 2011 focused on analysing the financial indicators of banks and branches of foreign banks on a regular basis and on monitoring the liquidity of banks and intra-group transactions. Supervisory activities also included tasks related to methodology improvement. An overview of on-site inspections conducted in the area of banking is available in Table 9.

In 2011, the FMS Unit carried out monthly analyses on the basis of statements and reports supplied regularly by banks and branches of foreign banks, semi-annual analyses of the individual banks, and annual reports on banks, including a detailed evaluation of their financial indicators, including capital adequacy. For the purpose of an 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 based in another EU country. Within the scope of methodology improvement, a comprehensive methodology was prepared for assessing the capital adequacy of banks, as part of the overall annual assessment of banks under Section 6(2) of the Banking Act[22].

In 2011, eleven thematic on-site inspections were commenced in the banking sector: ten inspections were conducted in banks and one in a branch of a foreign bank. Of these inspections, seven were formally completed in 2011. In addition, a comprehensive annual assessment was also made for each bank, as well as two assessments of banks' internal models used for capital requirement calculation. The primary focus of on-site inspections in banks was on verifying the functionality of the risk management system, mainly in relation to credit risk, liquidity risk, market risk and operational risk, and the reporting of capital requirements for the individual risks. In addition, the inspections also centred on the creation of provisions, credit claims, the provision of investment services, and the prevention of money laundering.

The supervision process also includes assessments of banks' own internal models used for credit, market or operational risk assessment (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 for 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 bank and its subsidiaries. The home and host supervisors come to a joint decision on whether the use of an internal model is eligi-

Table 9 Number of on-site inspections conducted in the banking sector in 2011

Entities	Comprehensive inspections	Thematic inspections	Follow-up inspections	Inspections in total
Banks	-	10	-	10
Branches of foreign banks	-	1	-	1
Total	-	**11**	-	**11**

Source: NBS.

22 Act No. 483/2001 Coll. on banks and on amendments to certain laws as amended.

ble and, if so, on the conditions under which it may be used. In 2011, a total of four applications for prior approval to modify an internal model for capital requirement calculation were filed. During the year, numerous applications were filed for approval for modifications to models for capital requirement calculation for which prior approval was not required, since they were based on the conditions stipulated in the prior approval granted for the use of an internal model.

3.3 THE INSURANCE, PENSION SAVING, FINANCIAL INTERMEDIATION, AND SECURITIES MARKET SECTORS

Licensing activity and proceedings before NBS

The insurance, pension saving, and financial intermediation sectors

As at 31 December 2011, there were 20 insurance companies, 6 pension asset management companies, and 5 supplementary pension asset management companies operating in the Slovak insurance and pension saving market. At the same date, a total of 44,236 entities were recorded in the *Register of Financial Agents and Financial Advisors* kept by NBS.

Decisions issued in 2011 concerned mainly changes arising from the activities of entities under supervision, e.g. the granting of prior approval for the appointment of a person as member of the board of directors or for a change in the firm's licence to operate. Eight persons were included in the list of actuaries in 2011. The most important decisions issued in the area of insurance, pension saving and financial intermediation were the following:

- NBS granted prior approval to Poštová banka, a.s., to acquire a 100% holding in the share capital and voting rights of ČSOB d.s.s., a.s., a pension funds management company, in a single direct operation. The company's business name was subsequently changed to Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a.s.
- NBS granted prior approval to AEGON, d.d.s., a.s., to cancel two supplementary pension funds, namely 'Príspevkový d.d.f., AEGON, d.d.s., a.s.' (a contributory fund) and 'Výplatný d.d.f., AEGON, d.d.f., a.s.' (a payment fund).
- NBS granted prior approval to STABILITA, d.d.s., a.s., to establish a new supplementary pension fund under the name 'Stabilita akciový príspevkový d.d.f., STABILITA, d.d.s., a.s.' (a contributory equity fund).

A total of 304 proceedings concerning the imposition of a sanction were conducted in the insurance, pension saving and financial intermediation sectors in 2011 (301 of these proceedings were brought in 2011). In regard to these sectors, the FMS Unit issued 171 first-instance decisions in 2011, including 147 decisions to impose a sanction (mostly licence withdrawal, including 6 decisions to impose a penalty) and 21 decisions to bring a proceeding to a close. In three cases, the Unit brought a proceeding to a close on the basis of its own decision. A total of 164 first-instance proceedings entered into force in 2011.

Table 10 provides an overview of the number of first-instance proceedings (licensing and sanction proceedings in total) conducted in the insurance, pension saving and financial intermediation sectors.

Table 10 Number of first-instance proceedings in the insurance, pension saving, and financial intermediation sectors (licensing and sanction proceedings in total)

Sector	Proceedings carried over from 2010 to 2011	Proceedings brought in 2011	Decisions issued in 2011	Decisions that entered into force in 2011
Insurance	6	27	31	33
Pension saving	0	65	59	59
Financial intermediation	28	514	384	167
Total	**34**	**606**	**474**	**259**

Source: NBS.

The securities market sector

Regarding the activities of investment firms, nine various decisions were issued in 2011 and 219 notifications received from foreign investment firms.

During 2011, a total of 42 securities prospectuses were approved under Section 125(2) of the Securities Act and 81 notifications regarding the approval of securities prospectuses, or supplements to securities prospectuses, received from the supervisory authorities of other EU countries. In 2011, two investment prospectuses were approved for two entities making a public offering and two supplements to investment prospectuses under Section 127(2) and (4) of the Securities Act. A total of 11 notifications of public offerings were assessed by NBS pursuant to Section 129 of the Securities Act, seven of which were not allowed to be released.

Within the scope of licensing activities in regard to other regulated market entities, the following proceedings were conducted in 2011:

- five proceedings before NBS in regard to the Bratislava Stock Exchange, a.s. (BSSE);
- four proceedings before NBS in regard to the activities of the Central Securities Depository of the SR, a.s.;
- one proceeding before NBS in regard to the Investment Guarantee Fund.

Within the scope of its licensing activity, NBS issued seven decisions in 2011 in take-over bid proceedings concerning the activities of issuers of shares traded on the regulated Bratislava Stock Exchange market. No approval was granted in 2011 for the exercise of a squeeze-out right.

In 2011, there were eight ***asset management companies*** operating in the Slovak market. They established three new open-end mutual funds and one special public mutual fund. One funds management company was authorised to manage a special professional investment fund, while two asset management companies notified their intention to return their licence to establish a mutual fund. At the same time, five open-end mutual funds of Allianz Asset Management, správ. spol., a.s., were placed under the management of IAD Investments, správ. spol., a.s. Subsequently, NBS granted prior approval for the merger of Allianz Asset Management, správ. spol., a.s., with IAD Investments, správ. spol., a.s. The merger took place on 30 December 2011.

NBS, as the competent body to issue authorisations in relation to rating agencies under Section 132(o)(1) of the Securities Act, examined an application filed for the registration of a company before 7 September 2010. The registration proceeding, however, was not completed in 2011 with the issuance of a final decision.

In regard to the securities market, nine sanction proceedings were conducted in 2011, one of which was commenced in 2011. In this sector, the FMS Unit issued eight first-instance decisions concerning the imposition of a sanction (the sanction in one case was licence withdrawal).

Table 11 provides an overview of the number of first-instance proceedings (licensing and sanction proceedings in total) concerning the securities market, collective investment, and rating agencies.

Table 11 Number of first-instance proceedings concerning the securities market, collective investment, and rating agencies (licensing and sanction proceedings in total)

Sector	Proceedings carried over from 2010 to 2011	Proceedings brought in 2011	Decisions issued in 2011	Decisions that entered into force in 2011
Securities market	11	87	89	85
Collective investment	2	79	81	81
Rating agencies	1	0	1	0
Total	**14**	**166**	**171**	**166**

Source NBS.

Supervisory activities

On-site inspections in 2011 were conducted first and foremost in companies in which such inspections had not yet been carried out, and in companies having a significant position in the sector.

An overview of on-site inspections conducted in the insurance, pension saving, financial intermediation, and securities market sectors is provided in Table 12.

The aim of off-site supervision is to monitor and evaluate the financial situation and risk profile of entities that are subject to supervision, on the basis of information reported on a regular basis, information obtained during on-site inspections, and publicly available information. Such information is obtained mainly from statements delivered to NBS through the STATUS DFT information software, from semi-annual financial reports, and from the websites of companies containing certain obligatory data and information. The subsequent analysis of this information provides source data for the needs of off-site supervision, which is conducted on a quarterly basis.

In the ***insurance sector***, off-site supervision verified the regular statements and reports of insurance companies and of the Slovak Bureau of Insurers for 2010 (audited data) and for each quarter of 2011 (unaudited data), as well as statements made on an ad-hoc basis. Reports on the activities of branches of insurers from other Member States in the territory of Slovakia were also submitted to NBS in 2011. The quarterly financial statements of insurance companies are analysed in the FINAN system and the results are displayed via its graphical interface. On-site inspections focused on compliance with the relevant provisions of the Insurance Act[23], related laws, generally binding implementing regulations, and the terms and conditions laid down in the licence issued under the Insurance Act. In 2011, three comprehensive and two combined (thematic / follow-up) on-site inspections were conducted among insurance companies, as well as four follow-up inspections.

In 2011, off-site supervision of the ***retirement pension sector*** covered six pension asset management companies (managing a total of 18 pension funds) and four banking institutions performing depository activities under the Retirement Pension Savings Act. In this sector, a comprehensive on-site inspection was started and completed in 2011 in one pension funds management company only. In 2011, off-site supervision of the ***supplementary pension sector*** covered five supplementary pension asset management companies (managing a total of 15 supplementary pension funds) and four banks performing depository activities under the Supplementary Pension Savings Act[24]. In this sector, a comprehensive on-site inspection was carried out in one supplementary pension funds management company in the second half of 2011.

Table 12 Number of on-site inspections conducted in the insurance, pension saving, financial intermediation, and securities market sectors in 2011

	Comprehensive inspection	Thematic inspection	Follow-up inspection	Inspections in total
Pension asset management and supplementary pension asset management companies	2	0	0	2
Insurance companies	3	2	6[1)]	11
Independent financial agents	5	1	-	6
Investment firms licensed under the Securities Act	5	0	0	5
Domestic asset management companies	3	0	1	4
Total	**18**	**3**	**7[1)]**	**28**

Source: NBS.
1) Two on-site inspections were both thematic and follow-up inspections.

23 Act No. 8/2008 Coll. on insurance and on amendments to certain laws as amended.
24 Act No. 650/2004 Coll. on supplementary pension savings and on amendments to certain laws as amended.

Off-site supervision in the area of ***financial intermediation and financial counselling*** in 2011 focused primarily on verifying the entities under supervision for compliance with the obligation to harmonise their activities with the relevant provisions of the law on financial intermediation and financial counselling. Entities are required to bring their activities into line with this law, as well as the activities of their subsidiaries, and to report their compliance with this requirement to NBS via the internet. In 2011, one thematic, one follow-up, and four comprehensive on-line inspections were conducted among the entities under supervision. One on-site inspection was not formally completed by 31 December 2011.

In the ***securities market sector – among investment firms (non-bank entities)***, subject to off-site supervision were 16 domestic and 7 foreign investment firms performing activities under the Securities Act. In 2011, four comprehensive on-site inspections were commenced among investment firms. Two of them were completed by the end of the year, in addition to one on-site inspection started in 2010.

In the ***securities market – collective investment sector***, off-site supervision in 2011 covered eight domestic asset management companies (managing a total of 80 mutual funds) and five banks performing depository activities under the Collective Investment Act. Three comprehensive on-site inspections were commenced among asset management companies in 2011. In one funds management company, a follow-up inspection started in 2010 was completed in 2011.

In the ***securities market sector – among securities issuers and companies making public offerings***, NBS exercised off-site supervision in 2011 over issuers whose securities were admitted to trading on a regulated market of the Bratislava Stock Exchange and over companies making public offerings, in each case focusing on their compliance with the disclosure requirement laid down in the relevant law. The number of issuers whose securities were admitted to trading on a regulated market and which were subject to the disclosure requirement under the Stock Exchange Act[25] was 92 as at 31 December 2011. In 2011, NBS verified annual reports, semi-annual reports, preliminary statements, and other documents presented in line with the disclosure requirement. NBS also exercised off-site supervision among bond issuers, by verifying their compliance with the requirement to make their issuing conditions available to the public.

3.4 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.

In 2011, the FMS Unit received a total of 669 complaints from natural and legal persons about the practices of financial service providers. The most frequent subject matter of complaints in the area of banking (189 complaints) was changes in the amount of bank charges. In the area of insurance (where the highest number of complaints were made, i.e. 377), the complaints concerned mostly compulsory third-party motor insurance claims for compensation for damaged windscreens. In the securities market sector (25 submissions), the vast majority of complaints concerned fees charged for the cancellation of securities accounts. In the area of supplementary pension saving (14 submissions), the most frequent subject matter of complaints was the amount of the withdrawal fee. The method, range, and quality of information provision were the most frequent subject matter in the area of financial intermediation (28 complaints). In general, submissions received from the clients of entities under supervision represent an important source of information about the activities of these entities. The information so obtained is taken into account by NBS when conducting on-site inspections.

Within the scope of its activities, the Financial Clients Protection Section (hereinafter 'the FCP Section') initiated numerous legislative changes in 2011, for example amendments to Section 11(1) of the Consumer Credit Act and to Section 93(a)(7) of the Banking Act. The FCP Section also initiated the issuance of a methodological guideline for banks providing mortgage loans[26] in order to establish a uniform procedure for assessing the incomes of young applicants for mortgage loans with a government bonus. This guideline was is-

25 Act No. 429/2002 Coll. on the stock exchange as amended.
26 Methodological guideline for mortgage banks recommending a uniform procedure for assessing the incomes of young applicants for mortgage loans with a government bonus.

sued by the Ministry of Finance of the SR. NBS identified a shortcoming in the determination of the authority allowing exemptions from the restrictive measures imposed by the European Union against Iran. This shortcoming was eliminated with the help of NBS. Another contribution of the FCP Section was the solution of a conflict between NBS and the Slovak Trade Inspection in the matter of competence in the area of supervision over the provision of consumer credits.

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

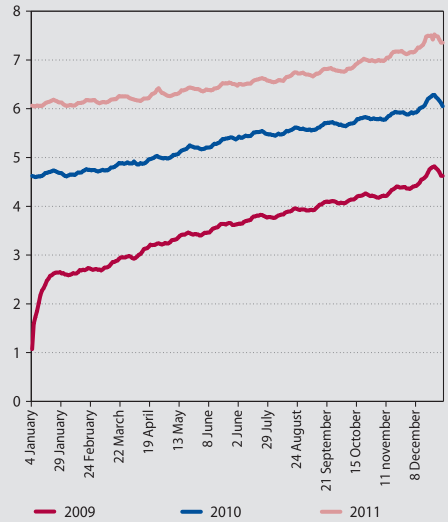
The cumulative net issuance ("CNI")[27] of euro cash in Slovakia amounted to €7.36 billion as at 31 December 2011 (Table 13), which represented a year-on-year increase of 21.6% (following a rise of 30.8% in 2010). The value of the item *currency in circulation*, corresponding to the allocated share of NBS in the Eurosystem's production of euro banknotes, represented €8.1 billion as at 31 December 2011.[28]

The daily CNI development in 2011 followed almost the same pattern as in 2010, ending the year around €1.5 billion higher than at its beginning (Chart 20). As usual, the daily CNI peaked during the pre-Christmas period, reaching €7.5 billion on 23 December.

Euro banknotes accounted for almost the entire value of the CNI (98.4 %), but only for 20.46% as regards the CNI volume. Circulation coins constituted 79.50% of the total and collector coins the remaining part.

For the period from the euro adoption date (1 January 2009) to the end of 2011, the cumulative net issuance stood at 108 million euro banknotes and almost 420 million euro coins, including commemorative coins (see Table 13). The banknote issued in the largest number was the €50 note, which made up more than 29% of the total number of banknotes issued. The net issuance value of €500 banknotes in 2011 recorded the highest year-on-year increase of any denomination, amid very strong demand for this note (especially during the second half of the year) not only in Slovakia but across the euro area. The banknote that recorded the largest increase in volume was the €20 note. Among euro coin denominations, the lowest-value coins (1 and 2 eurocent) were issued in the highest number in 2011 (as they have been in every year since the euro was adopted), and together they accounted for more than a half (52%) of the total number of coins issued.

Chart 20 Cumulative net issuance of euro cash on a daily basis (EUR billions)



Source: NBS.

According to the central bank's CNI figures over the longer-term, Slovakia is not yet a "negative issuer"[29] of any denomination of euro banknotes or euro coins, although the net monthly issuance of €200 banknotes has been negative[30] since mid-2010.

The average value of the currency mark[31], calculated on the basis of the net-issued euro cash (including collector coins), stood at €14. For euro banknotes, the average value of the currency mark was €67, and for euro coins it was €0.28. As at 31 December 2011, the volume and value of euro banknotes per head of population in Slovakia32[6] represented, respectively, 20 and around €1,332, and the corresponding figures for euro coins were 77 and €21. The overall value of the cumulative net issuance per capita was €1,353. The most numerous denomination of euro banknotes was the €50 note, of which there were almost six per capita. As for euro coins, the most numerous denominations were the lowest-value coins (1 cent and 2 cent), which on average numbered 20 per capita.

4.1.2 Slovak koruna banknotes and coins

The number of Slovak koruna banknotes still not returned from circulation as at 31 December

27 Since euro banknotes and euro coins in circulation in Slovakia include banknotes and coins issued in other euro area countries, Národná banka Slovenska does not record the actual value and volume of currency in circulation, but only the euro banknotes and euro coins which NBS issues and withdraws from circulation. The cumulative net issuance as at a given date represents the difference between the value (volume) of euro banknotes and coins issued and returned from circulation between 1 January 2009 and that date.
28 As at 31 December 2011, the value of currency in circulation in the euro area stood at €888.6 billion, and Slovakia's share of that value represented 0.9115%.
29 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
30 In other words, the number of these banknotes that NBS put into circulation in the given month was lower than the number returned from banks and the public.
31 Average value of the currency mark = cumulative net issuance by nominal value / cumulative net issuance by number of banknotes and coins.
32 The population of Slovakia as at 31 March 2011 was 5.437 million, according to the Statistical Office of the Slovak Republic.

Table 13 Breakdown of the cumulative net issuance of euro banknotes and coins

Denomination	Cumulative net issuance				Share in %	
	CNI as at 31 December 2011		Difference versus 31 December 2010		Share as at 31 December2011	
	units	EUR	units	EUR	units	EUR
€ 500	5,483,612	2,741,806,000.00	1,253,428	626,714,000.00,	1.04	37.27
€ 200	829,310	165,862,000.00	-131,126	-26,225,200.00,	0.16	2.25
€ 100	20,356,841	2,035,684,100.00	2,940,441	294,044,100.00,	3.85	27.67
€ 50	32,014,579	1,600,728,950.00	4,776,745	238,837,250.00,	6.06	21.76
€ 20	24,410,982	488,219,640.00	5,945,914	118,918,280.00,	4.62	6.64
€ 10	16,722,531	167,225,310.00	3,858,302	38,583,020.00,	3.17	2.27
€ 5	8,239,817	41,199,085.00	543,188	2,715,940.00,	1.56	0.56
Total banknotes	**108,057,672**	**7,240,725,085.00**	**19,186,892**	**1,293,587,390.00**	**20.46**	**98.42**
€ 2	30,826,707	61,653,414.00	4,089,272	8,178,544.00	5.84	0.84
€ 1	21,473,053	21,473,053.00	197,506	197,506.00	4.07	0.29
50 cents	24,778,480	12,389,240.00	1,211,686	605,843.00	4.69	0.17
20 cents	33,123,966	6,624,793.20	1,065,356	213,071.20	6.27	0.09
10 cents	41,043,449	4,104,344.90	3,415,435	341,543.50	7.77	0.06
5 cents	50,264,732	2,513,236.60	6,029,005	301,450.25	9.52	0.03
2 cents	107,250,989	2,145,019.78	17,031,547	340,630.94	20.31	0.03
1 cent	111,104,109	1,111,041.09	23,226,387	232,263.87	21.04	0.02
Total coins	**419,865,485**	**112,014,142.57**	**56,266,194**	**10,410,852.76**	**79.50**	**1.53**
Collector coins	**187,036**	**3,590,460.00**	**73,756**	**1,484,780.00**	**0.04**	**0.05**
Total cash	**528,110,193**	**7,356,329,687.57**	**75,526,842**	**1,305,483,022.76**	**100.00**	**100.00**

Source: NBS.

2011 stood at 19.6 million (of which 10.3 million were 20 koruna notes) and the number of coins at around 393 million (of which 170 million were 50 halier coins and more than 102.6 million 1 koruna coins). The total face value of still circulating Slovak banknotes and coins was around SKK 4.04 billion, or just 2.6% of the overall value of the koruna cash issued. Commemorative koruna coins accounted for 700 million of that total, and they are not expected to be returned in any significant quantities.

In per capita terms, the volume and value of koruna banknotes not returned from circulation amounted to around 3 and SKK 480, respectively, and the corresponding figures for koruna circulation coins were 72 and SKK 133. The overall value of circulating koruna cash including Slovak commemorative coins was SKK 743 per capita. The most numerous of the unreturned koruna banknotes and coins as at 31 December 2011 were the 20 koruna banknote, at 2 per capita, and the 50 halier coin, at 31 per capita.

4.2 DELIEVERIES OF EURO BANKNOTES AND THE PRODUCTION OF EURO COINS

In 2011, Národná banka Slovenska commissioned the printing of 74.46 million euro banknotes – of which 37.86 million were €5 notes and 36.60 million were €20 notes – and supplied them to the Eurosystem. The notes were produced by printing works in France (Oberthur Technologies Fiduciaire) and the Netherlands (Joh. Enschedé Banknotes B.V.).

The central bank also commissioned the production and supply of 20.4 million 1 eurocent,

Table 14 Collector coins issued by Národná banka Slovenska in 2011

Denomination	Subject of commemoration	Number of coins issued		NBS Notification of coin issuance
		Total	of which proof	
€10[1)]	The Zobor Deeds – 900th anniversary	16 250	8 950	13/2011 Coll.
€10[1)]	Memorandum of the Slovak Nation – 150th anniversary of its adoption	18 600	9 100	78/2011 Coll.
€10[1)]	Ján Cikker – 100th anniversary of his birth	16 800	8 900	147/2011 Coll.
€20[1)]	Historical Preservation Area of Trnava	18 100	9 950	234/2011 Coll.
€100[2)]	Prince Pribina – 1150th anniversary of his death	6 800	6 800	339/2011 Coll.

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

15 million 2 eurocents, 5 million €2 coins, and, towards the end of the year, 1 million €2 commemorative coins marking the introduction of euro cash (these coins were jointly issued by all euro area countries in January 2012). All the coins commissioned by NBS are produced by the Mincovňa Kremnica, š. p. The coins minted in 2011 also included 55,000 euro coins of each denomination that were used in annual collector sets of Slovak euro coins.

In addition to circulation and commemorative euro coins, Národná banka Slovenska issued four silver collector coins and one gold collector coin in 2011 (Table 14). Further information about the themes of these collector coins may be found on the NBS website.[33] NBS arranges the sale of commemorative and collector euro coins through contractual partners in Slovakia and abroad.

4.3 PROCESSING OF EURO BANKNOTES AND EURO COINS

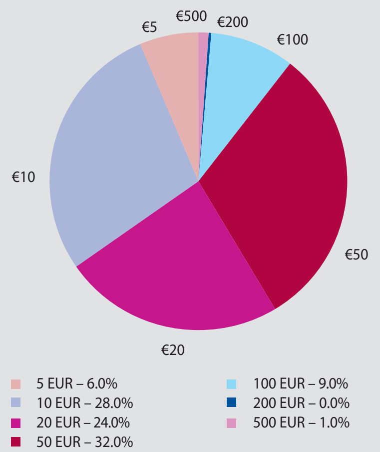
In 2011, Národná banka Slovenska put more than 316 million euro banknotes into circulation and received 297 million euro banknotes from circulation, mainly from banks and to a lesser extent from the public.

During the year NBS processed over 296 million euro banknotes in accordance with the Eurosystem-wide procedures laid down by the ECB.

The total number of euro banknotes returned to NBS was approximately three times higher than the average number of banknotes issued by NBS.[34] This means that, on average, each euro banknote issued by NBS was checked for authenticity and fitness roughly once every four months. In line with its task of maintaining public confidence in euro banknotes, the central bank must ensure the fitness of euro banknotes in circulation and be alert to identifying and recovering counterfeit banknotes. The most frequently processed euro banknote in 2011 was the €50 note (Chart 21), which is also the most used banknote in circulation.

In 2011, almost 47 million banknotes were sorted to unfit. The average unfit rate of euro banknotes

Chart 21 Breakdown of euro banknotes processed in 2011



Source: NBS.

33 www.nbs.sk/en/banknotes-and-coins/euro-coins/collector-coins
34 *This ratio, termed the return frequency, is not the same for all denominations; in 2011, for example, the return frequency of the €500 banknote stood at 0.6, for the €10 banknote at 6, and for the €20 and €50 banknotes at around 3.*

was 16%, which is one of the lowest rates among euro area countries.

In 2011, a total of 307 million euro coins were put into circulation and more than 251 million euro coins were returned from circulation. Since coins have a longer lifespan than banknotes, only around 29,000 euro coins (from almost 250 million) were sorted to unfit. The unfit rate for euro coins did not vary significantly between denominations.

4.4 COUNTERFEIT BANKNOTES AND COINS RECOVERED IN SLOVAKIA

A total of 7,967 counterfeit banknotes and coins were recovered from circulation in Slovakia during 2011 (see Table 15), which in comparison with 2010 represents an increase of 272%. The counterfeits recovered included 6,339 banknotes and 1,628 coins, the vast majority (99%) of which were euro counterfeits. More than 61% all the counterfeits were seized by the police.

Neither the higher number of counterfeits recovered in 2011, nor the technical level of their production posed a serious risk to the integrity and smooth operation of cash circulation in Slovakia.

Euro counterfeits

A total of 6,260 counterfeit euro banknotes and coins, with an overall face value of €1,005,205, were recovered in Slovakia in 2011. In comparison with the previous year, the total number was more than four times higher. The largest number of counterfeits, 5,214, were seized by the police. Of that number, 4,898 were recovered before their use, and, therefore, the euro cash circulation was not endangered. The largest seizure of counterfeits took place towards the end of the year, when police recovered 3,745 counterfeit €100 banknotes and 1001 counterfeit €500 banknotes.

In 2010 the counterfeiters focussed mainly on the €20 and €50 banknotes, but in 2011 there was a marked rise in forgeries of higher-value denominations. This rise was a result of the above-mentioned police operation, since counterfeit €100 and €500 banknotes accounted for more than 80% of the total number of euro counterfeits seized.

The number of counterfeit euro coins seized in 2011 increased year-on-year by 15.5%, to 1,628, the majority of which were counterfeit €2 coins. Since most of these coins are barely distinguishable from genuine coins in terms of their magnetic properties, conductivity and design, it is relatively difficult for the public to detect them (especially if they do not look closely at the coins they receive).

The counterfeit euro banknotes and coins recovered in Slovakia represented 0.96% of the total number of such counterfeits recovered in the euro area as a whole in 2011. This very low share

Table 15 Number of counterfeit banknotes and coins recovered in Slovakia

	EUR	USD	SKK	Other	Total
2009	2,903	141	297	126	3,467
2010	2,837	50	14	33	2,934
2011	7,888	38	15	26	7,967

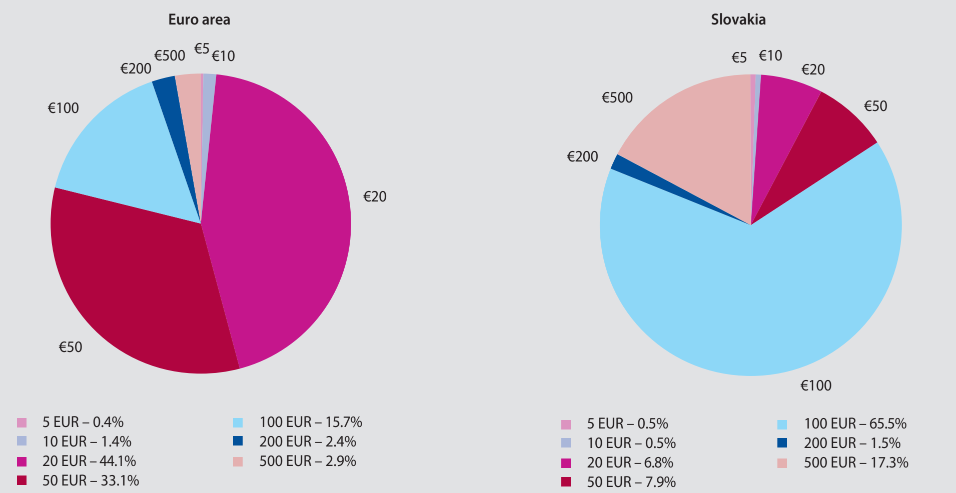
Source: NBS.

Table 16 Number of euro counterfeits recovered in Slovakia

	50 cent	€1	€2	€5	€10	€20	€50	€100	€200	€500	*p* [1)]	Total
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
2011	348	239	1,041	29	31	425	495	4,103	91	1,086	0	7,888

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

Chart 22 Euro counterfeits recovered in the euro area and in Slovakia in 2011 – comparison of their distribution by denomination



Source: NBS.

means that the probability of randomly receiving a counterfeit euro banknote or coin in Slovakia is very small.

Slovak koruna counterfeits

Following the introduction of the euro, the number of Slovak koruna counterfeits fell sharply. The number of Slovak koruna counterfeits seized in 2011 was 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 US dollar counterfeits and other foreign currencies were registered in 2011. As for the US dollar, the number of banknotes seized declined by 24%. As in 2010, counterfeits of the100 dollar banknote were the most common, constituting 95% of all the recovered dollar counterfeits. The number of counterfeits of other foreign currencies dropped by 21%. Most of them were British pounds (21) and Czech korunas (4).

CHAPTER 5

PAYMENT SERVICES AND PAYMENT SYSTEMS

5

5 Payment services and payment systems

5.1 Payment services

Národná banka Slovenska has an indispensable role in the functioning of payment systems and securities settlement systems. As well as operating and participating in payment systems, NBS contributes to the adoption and implementation of rules and standards for them.

Together with the Ministry of Finance of the Slovak Republic, the central bank also submits legislative drafts to the Government on matters concerning payment systems and the provision of payment services.

The statutory law governing payment services and payment systems is laid down mainly in Act No 492/2009 Coll. on payment services and on amendments to certain laws (hereinafter "the Payment Services Act"), which transposes into Slovak law Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market.[35]

In 2011 the Payment Services Act was amended by a law that transposed 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. This amendment defined the concept of "interoperability between payment systems".

Slovak law in the area of payment services includes Decree No 8/2009 of Národná banka Slovenska (laying down the structure of a domestic bank account number, 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 2011 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.

5.2 Payment systems of the Slovak Republic

5.2.1 TARGET2 and TARGET2-SK

On the date that it joined the euro area, 1 January 2009, Slovakia also became connected to the TARGET2 payment system and Národná banka Slovenska started operating its component of this system, the TARGET2-SK system. In its third year of operation, the TARGET2-SK system continued to function successfully and smoothly. Neither the system's operator, Národná banka Slovenska, nor its participants, recorded any serious incidents such that would pose a risk to 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 advice 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 releases for the Single Shared Platform (SSP) that forms the technical basis of the TARGET2 system. Each new software release brings improved functionalities and modifications to the SSP (all of which are approved by the Eurosystem in response to the requirements of the system's users), and they also rectify any deficiencies identified in the previous version.

During 2011 Národná banka Slovenska continued to organise periodic working meetings with representatives of the TARGET2-SK

35 Act No 429/2009 Coll. repealed Act No 510/2002 Coll. on the payment system as amended.

system's participants. These meetings are opportunities to discuss proposed and planned changes to the TARGET2 system, to coordinate testing of new SSP software releases with participants, to evaluate the day-to-day operation of the system, and for NBS to inform the system's participants about any other relevant information.

In November 2011 Národná banka Slovenska issued Decision No 7/2011 amending NBS Decision No 3/2010 on conditions for participation in TARGET2-SK. Thus the implementation in Slovakia of Guideline No ECB/2011/15 of the European Central Bank was duly completed.

5.2.2 Payments executed via TARGET2-SK

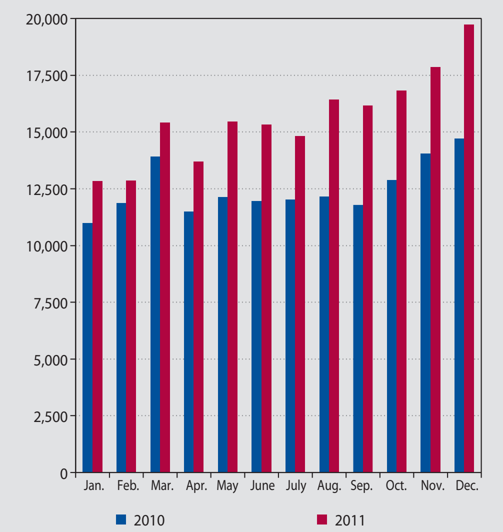
By the end of 2011 TARGET2-SK had 35 participants, comprising 32 direct participants (including Národná banka Slovenska) and three ancillary systems – the EURO SIPS system, the Central Securities Depository of the Slovak Republic (CDCP), and the joint-stock company First Data Slovakia). The number of direct participants increased by two in 2011.

In 2011 the TARGET2-SK system processed 187 thousand transactions with a total value of more than €705.9 billion. Compared to the previous year, the number of transactions increased by 25% (or 37 thousand) and the value of transactions rose by almost 3.46% (€23.6 billion). Charts 23 and 24 show, respectively, the volume and value of transactions processed in the TARGET2-SK system in each month of 2011, and they compare this traffic with traffic in the previous year.

The TARGET2-SK system had 257 operating days in 2011. The total number of transactions averaged 729 per day and their total value averaged €2,746 million per day. Looking at the payment traffic in 2011 broken down into customer and interbank transactions, customer payments have the higher share by number (59:41) while interbank payments have the overwhelmingly larger share by value (4:96).

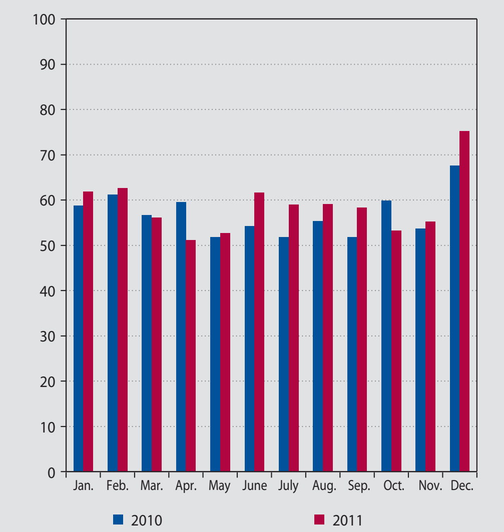
At present 24 central banks of the European Union and their respective user communities are connected to TARGET2. The most recent addition was the Romanian central bank, Banca Naţională a României, with its banking community, which became connected in July 2011. Looking at the total volume of payments made by TARGET2-SK participants in 2011, 34% of them were domestic transactions and 66% were cross-border transactions. In terms of value, however, domestic payments account for the highest share (62:38). Chart 25 shows the breakdown of payments made by TARGET2–SK participants.

Chart 23 Number of transactions processed in TARGET2-SK



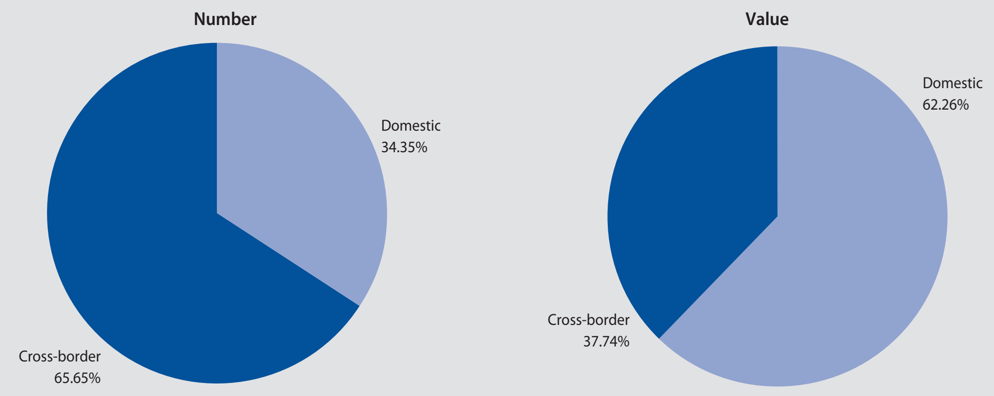
Source: NBS.

Chart 24 Value of transactions processed in TARGET2-SK in 2010 and 2011 (EUR billions)



Source: NBS.

Chart 25 Strcuture of payments made by TARGET2-SK participants in 2011



Source: NBS.

5.2.3 The EURO SIPS payment system

EURO SIPS is a retail payment system for the processing and clearing of customer payments in euro. Cash payments in this ancillary system are processed in clearing cycles, and the results are settled in TARGET2-SK.

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

In connection with the implementation of SEPA payment instruments in Slovakia, the EURO SIPS system will be made compatible with the Single European Payment Area (SEPA). The modification of EURO SIPS will be carried out in accordance with a strategy approved by the NBS Bank Board, being a part of the SEPA implementation plan.

5.2.4 Payments executed via EURO SIPS

The number of participants in the EURO SIPS system increased from 30 at the beginning of 2011 to 32 by the end of the year. A total of 171,070 thousand transactions were processed in EURO SIPS in 2011, which represented an annual increase of 5.08% (in line with the upward trend of recent years). The overall value of these transactions also maintained its growth curve, rising by 7.38% year-on-year to €176,738 million.

Charts 26 and 27 show the number and value of transactions processed in the EURO SIPS system in each month of 2011 and in comparison with 2010.

5.2.5 Payment cards

The number of bank payment cards in circulation increased by almost 7% in 2011, to 5.35 million, of which debit cards accounted for 4.52 million, credit cards for 0.82 million, and prepaid cards for the rest (less than 10,000).

By the end of 2011, the number of ATMs terminals had increased by 1.7% to 2,404 and that of POS terminals by 1.4% to 37,978 in comparison with the previous year.

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

Assessment of CDCP as a securities settlement system

In December 2008 the ECB Governing Council approved a report involving the assessment of the Central Securities Depository of the Slovak Republic (CDCP) against the Eurosystem's *Standards for the use of EU securities settlement systems in ESCB credit operations.* CDCP was judged to be "compliant" with the Standards and was included in the list of security settlement systems (SSSs) eligible for use in the collateralisation of Eurosystem credit operations. This assessment was conducted separately from assessments of other SSSs, following the adoption of the euro in Slovakia.

Chart 26 Number of transactions executed in EURO SIPS in 2010 and 2011 (millions)

Source: NBS.

Chart 27 Value of transactions executed in EUR SIPS in 2010 and 2011 (EUR billions)

Source: NBS.

A second comprehensive assessment of SSSs (including CDCP) used in Eurosystem operations was launched in 2011. Such assessments, which are carried out at approximately two-year intervals, cover all SSSs and their links in the euro area. In this process, Národná banka Slovenska acts both as the coordinator, and as the first assessor of CDCP (as the domestic SSS). Banca d´Italia has been appointed as the second assessor of CDCP. Under the requirements for pure review, NBS itself is the second assessor for the Maltese SSS, MaltaClear. In 2012 the final report will be completed, recommendations will be issued, and the implementation of these recommendations will be monitored.

An ad hoc assessment of newly-established links and SSSs was launched towards the end of 2011. In this assessment, NBS has the role of the second assessor for one direct link and two relayed links. The final assessment report and recommendation are due to be submitted to the ECB Governing Council in mid-2012, and the implementation of the recommendations to be monitored during the second half of the year.

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

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. Within the SEPA area, it will be possible to make non-cash euro payments from one country to a beneficiary in another country using a single bank account and a single set of payment instruments, just as easily and securely as domestic payments are made today.

In 2011 the ECB began publishing statistical data on the new Europe-wide non-cash payment instruments. By the end of the year, according to this information, SEPA credit transfers accounted for 22.66% of total credit transfers in the euro area and SEPA direct debits for 0.16% of total direct debits.

At its plenary meeting in September 2011, the European Payments Council approved new releases of SEPA Direct Debit Rulebooks, namely the SEPA Core Direct Debit Scheme Rulebook (version 6.0) and the SEPA Business-to-Business (B2B) Direct Debit Scheme Rulebook (version 4.0), which were subsequently published on the internet. A new version (6.0) of the SEPA Credit Transfer Scheme Rulebook was also published. These new rulebooks will enter into force on 17 November 2012. The SEPA Cards Framework was last updated at the end of December 2009 with the release of version 2.1. As for the SEPA Cards Standardisation Volume – Book of Requirements, a new version (5.5) was published by the EPC in May 2011.

The most pressing issue addressed in 2011 in relation to the SEPA project was the setting of end-dates for migration from the existing domestic payment instrument schemes to the new SEPA direct debits (SDD) and credit transfers (SCT). A proposal for an EU regulation[36] was published on 16 December 2011, and the regulation is due to be approved and published in the Official Journal of the EU in the first half of 2012. The new regulation establishes 1 February 2014 as an end-date for migration to SEPA credit transfers and direct debits.

The Eurosystem, TARGET2-Securities

Work on the TARGET2-Securities (T2S) project continued in 2011. In this regard, the ECB Governing Council took decisions concerning the overall management and control of the T2S programme, contractual issues, and the future operation of T2S.

In April 2011 the Governing Council approved a decision on the selection process for T2S Network Providers, and in July it noted the rescheduling of the T2S project.

In November, the Governing Council endorsed the T2S Framework Agreement[37], which is now available at the ECB website and will be conveyed to central securities depositories (CSDs) for signing in 2012. At the same time, it adopted financial incentives for early signatories (CSD joining in April 2012 or in June 2012). Before signing the Framework Agreement, a central securities depository must meet the eligibility criteria for access to T2S, the details of which are laid down in an ECB Decision approved by the Governing Council in November 2011.

The Governing Council took note of a new plan, the adoption of which is expected at the beginning of 2012. The Governing Council also approved a new version of the User Requirements Document (5.01) as well as the use of CoreNet as provider of the dedicated link solution.

The selection process for network providers continued in 2011, managed by Banca d'Italia on behalf of the Eurosystem. The process is scheduled to be finalized in January 2012 by signing of Licence Agreements with two network providers.

Further discussions were held with representatives of non-euro central banks that are interested in allowing their currency to be settled in T2S. New versions of the T2S documentation were published on the ECB website[38], mostly concerning user requirements, functional specifications and descriptions of business processes. Further details about the T2S project are available at the ECB website.

36 Regulation of the European Parliament and of the Council establishing technical and business requirements for credit transfers and direct debits in euros and amending Regulation (EC) No 924/2009.

37 http://www.ecb.int/paym/t2s/pdf/csd_FA/T2S_Framework_Agreement_Schedules.pdf?49d67c562e82f8a2e34b3991000e5f20

38 http://www.ecb.int/paym/t2s/about/keydocs/html/index.en.html

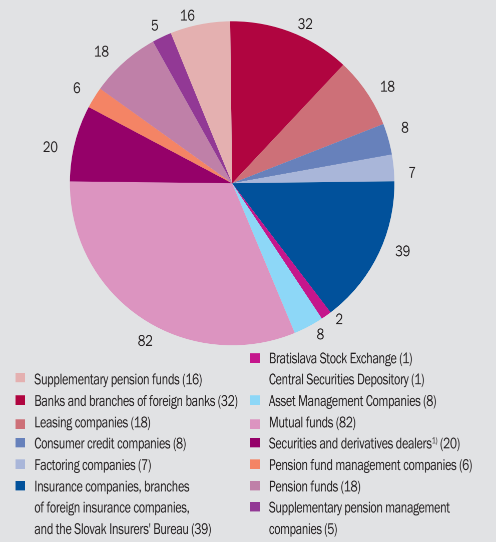
NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

STATISTICS

6 Statistics

Národná banka Slovenska develops, collects, compiles and disseminates various types of statistics, primarily to support the implementation of the single monetary policy, the maintenance of financial stability, and various other activities of the ESCB. NBS provides monetary and financial statistics, quarterly financial accounts, statistics for the insurance, capital market and pension fund sectors, and balance of payments statistics in accordance with the requirements of the ECB/ESCB, Eurostat, the Bank for International Settlements (BIS), and other international institutions. There was increasing interaction with the ECB in 2011, especially in the coordination of new requirements for statistics on financial institutions and for statistics used in financial stability analysis. The compiled data were also used by financial market participants, the general public and the media; they are published on the NBS website.[39]

Chart 28 Reporting agents in the financial market broken down by category (number of agents as at 31 December 2011)



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.
Note: NBS granted prior approval for the dissolution of supplementary pension funds to AEGON, d.d.s., a.s., a supplementary pension fund management company, with the decision entering into force as of 24 June 2011. Agreements with participants in the respective supplementary pension funds were terminated and rescinded as of 30 September 2011.

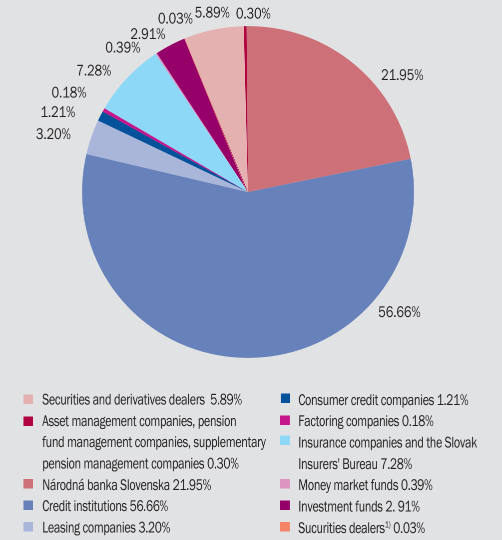
6.1 Monetary and financial statistics

In 2011 NBS regularly published statistical data both in a national format and in a structure compatible with the ECB data. These data included banking sector statistics, monetary statistics of MFIs, the national contribution to euro area monetary aggregates and M3 counterparts, interest rates statistics of credit institutions, investment funds statistics, securities statistics, and data on other financial intermediaries (leasing companies, factoring companies and consumer credit companies).

NBS also began publishing a quarterly Statistical Bulletin, dedicated to monetary and financial statistics.[40]

For the purposes of monetary and financial statistics, mutual funds are further broken down to money market funds and investment funds (bond, equity, real-estate, mixed and other funds). The number of reporting agents in the MFI sector (NBS, credit institutions and money market funds)

Chart 29 Reporting agents in the financial market broken down by share in total financial market assets as at 31 December 2011 (preliminary data)



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.

39 http://www.nbs.sk/en/statistics
40 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/statistical-bulletin

decreased in comparison with the previous year by two, with the addition of three branches of foreign banks and by deduction of five money market funds, which were reclassified to bond investment funds falling into the sector of other financial intermediaries, due to legislation changes. The structure of reporting agents in the sector of other financial intermediaries (investment funds, leasing, factoring and consumer credit companies) did not change significantly during the last year. The increase in the number of bond funds was compensated by funds mergers in other categories.

Two new NBS decrees implemented in 2011 followed the latest requirements laid down by ECB regulations in the area of monetary and financial statistics. Under NBS Decree No 17/2011 on the submission of statements by banks, branches of foreign banks, securities dealers and by branches of foreign securities dealers for statistical purposes and NBS Decree No 18/2011 on the submission of statements by asset management companies for common mutual funds or sub-funds for statistical purposes, the structure of statistical reports were modified to bring them in line with the ECB's harmonised statistical concept (for the collection of input statements and the compilation of output data sets) and to ensure that the statements are used effectively by internal and external users.

6.2 QUARTERLY FINANCIAL ACCOUNT STATISTICS

Under ECB requirements, NBS is responsible for the production of Quarterly Financial Accounts (QFAs) for Slovakia. The main purpose of QFAs is to record all financial flows in the economy, i.e. how and to what extent funds are provided or claimed by households, non-financial and financial corporations, and the Government. The financial accounts also 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.

In producing QFAs, NBS cooperates closely with the Statistical Office of the Slovak Republic (SO SR), which is responsible for the general government sector data and also for the annual financial accounts for the economy as a whole. In 2011 NBS worked intensively with the SO SR on the harmonisation of methodology and data for the general government sector, particularly data relating to financial transactions conducted by general government entities with financial market institutions.

In accordance with the requirements of the ECB and users of QFA data, analyses and consultations were carried out in 2011 in regard to underlying data on the different ways in which non-financial corporations provide financing to each other and obtain financing in domestic and foreign financial markets. The main aim of these analyses was to increase the quality of source data on non-financial corporations and to extend the range of data on their financing methods. NBS also continued work on improving the quality of data on non-transaction financial operations, particularly in regard to the methodology and compilation of data on the amounts of revaluations, reclassifications, and exchange-rate adjustments.

6.3 STATISTICS ON THE INSURANCE SECTOR, CAPITAL MARKET, AND PENSION FUND SECTOR

Data from participants in the insurance sector, capital market, and pension fund sector were used for supervision purposes and for statistical purposes for national and supranational institutions; the quality of the data was ensured in terms of their timeliness, accuracy and mutual comparability. At the yearedn, a total of 196 reporting agents were registered with NBS: 39 from the insurance sector, 112 from the capital market, and 45 from the pension sector.

In 2011 the field of insurance statistics was affected by the next stage of preparations for the introduction of the Solvency II project, which involves harmonising data release conditions and ensuring the transparency and consistency of data within the European Union; the project should be implemented in 2013.

As for capital market statistics, a key event was the adoption of Act No 203/2011 on collective investment, implementing Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities, particularly since the Directive increases the harmonisation of legislation on standard funds in EU

Member States. The Directive is aimed mainly at increasing flexibility in the organisation and management of mutual funds, at bringing economies of scale to asset management, and removing barriers in the EU collective investment market.

The area of pension fund statistics was affected by the adoption of Act No 334/2011 amending Act No 43/2004 Coll. on retirement pension saving (including amendments to certain laws) as amended and amending Act No 461/2003 Coll. on social insurance as amended. This law introduces substantial changes in certain parameters of the retirement pension system, such as the establishment and cancellation of participation in the retirement pension system, the removal of distortions in the statutory regulation of pension – risk limitation and risk spreading, investment strategy, comparison of pension funds' performance, and the participation of savers in particular funds.

Given the complexity of the financial markets and the interconnection between financial transactions of insurance companies and pension funds (including supplementary pension funds) and other financial market participants, the focus was on the need to harmonise the date of these entities. Thus there was a substantial review of the statistical data sets of financial assets and liabilities (broken down by sector) that are transmitted to the European Central Bank – insurance corporation and pension fund (ICPF) statistics.

Based on the reviewed data, the ECB in June 2011 began the regular release of ICPF statistics, within the scope of euro area annual indicators as at 31 December 2010 as well as indicators for each Member State separately. Towards the end of 2011 NBS began to publish ICPF statistics on its website.

6.4 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 reporting obligation in this area is laid down in Article 8 of Act No 202/1995 Coll. – the Foreign Exchange Act – including amendments to Act of the Slovak National Council No 372/1990 Coll. on misdemeanours as amended. The composition, scope, content and structure of the reports and the times, form, procedure and place of their submission are stipulated in NBS Decree 467/2010. The reports are collected on a monthly, quarterly and annual basis. Reports on quoted shares and portfolio investments are submitted whenever a change is recorded. For processing the data, NBS uses the IS DEVOHP information system.

The harmonisation of statistics on non-banking entities continued in 2011 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.

New requirements of the OECD and other international institutions in regard to foreign directive investment statistics were also implemented during 2011.

In addition, preparations began on implementing the requirements of the new Sixth Edition of the IMF Balance of Payments Manual.

6.5 STATISTICAL INFORMATION SYSTEM AND TECHNICAL SUPPORT

As regards information systems dedicated to statistics, intensive preparations for a tender for a new Statistics Collection Portal (SCP) were made during 2011. The SCP portal is expected to enhance communication with reporting agents, to accelerate the processing of data at NBS, and to result in a central data warehouse for data from all reporting agents (banks, non-bank financial institutions, entities subject to a foreign-exchange reporting obligation). The SCP project was launched towards the end of the year when the tender was announced.

For information systems currently used in the statistics field, technological projects designed to update the functionalities of the STATUS and STATUS DFT systems were carried out in 2011. At the same time, the usability and functionality of the Statistics Department server was refined, with the addition of a securities databases and a registry of organisations, as well as application logic outside these databases.

CHAPTER 7

ECONOMIC RESEARCH

7

7 Economic research

Most of the economic research conducted at Národná banka Slovenska is in the area of applied research. Its purpose is to improve understanding of the causes and conditions of particular economic and financial phenomena. The findings are a valuable source of information for monetary-policy decisions and for economic policy formation in general, and they provide answers to topical professional questions concerning economic, monetary and financial developments. The research is focused mainly on those economic and financial issues that tend to require unconventional and more comprehensive solutions. Most of the research studies are published.

The Research Department is responsible for the economic research conducted at NBS, and it accomplishes many tasks in this area with co-researchers from Slovakia and abroad. The most notable results and findings of 2011 were all published. The more extensive outputs are published as peer-reviewed working papers (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). The Research Department also produces the NBS Financial Stability Report, a key biannual report that assesses the financial stability situation in Slovakia.

NBS economic research work focuses on six core areas: monetary policy and inflation; fiscal policy; financial stability; the labour market and real economy; economic modellings; and the euro and convergence. To ensure that its research reflects current trends in regard to the topics addressed and methods used, the Research Department engages in international cooperation at various levels. A special research committee comprising experts from Slovakia and abroad guarantees the quality and professionalism of the research outputs of individual researchers by regularly monitoring and approving their research targets. In order to help ensure that its own research work is in line with that of other euro area national central banks, NBS is represented at meetings of the research department directors of the other NCBs.

In 2011 NBS published a total of ten research papers intended for the public, including six peer-reviewed working papers. In addition to producing these papers, which are published on the NBS website,[41] staff members of the Research Department cooperated with members of other NBS departments in producing two Financial Stability Reports.[42]

The Financial Stability Report for the first half of 2011 evaluated the most important factors affecting financial stability in Slovakia during the period under review. There was a moderate deterioration in financial stability conditions, particularly in regard to the escalation of external risks. Favourable developments in the domestic economy were reflected in lower costs of non-performing loans and in a year-on-year rise in the banking sector's net profit. Considering the extent of accumulated macroeconomic imbalances in the euro area, conditions for sectors of the domestic economy are expected to remain difficult. The domestic banking sector must reckon on an increase in losses from credit and market risks. According to stress testing results, the banking sector is strongly resilient to relatively large losses on non-performing loans to enterprises and households and on the revaluation of its securities holdings. The Report also included two annexes on specialist topics: the first looked at stress indicators for the financial system, including their methodology, construction and the ways they may be applied; the second analysed the financial position of non-financial corporations in Slovakia.

The published papers helped further our knowledge about the Slovak economy and its interrelations with other European countries. The research shows that the convergence of the Slovak economy and the other three V4 countries' economies towards the euro area economy has been gradually improving, from an original low. The economic level of the V4 countries moved closer to the euro area level during the eco-

41 *http://www.nbs.sk/en/publications-issued-by-the-nbs/working-papers*
42 *http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications/financial-stability-report*

nomic crisis. With modern economic models, it is possible to quantify not only the impacts of fiscal policy adjustments, but also the effects of changes in other areas on the Slovak economy. The results of a new cost-benefit analysis of Slovakia's entry into the euro area, based on a DSGE model, indicated that the benefits outweighed the costs.

A periodic analysis of the convergence of EU economies confirms that the process of real catching-up is picking up, except in countries hardest hit by the debt crisis. In the years ahead, however, the majority of countries under review will report an excessive deficit or an inflation rate above the reference value.

New research in the area of fiscal policy is addressing fiscal consolidation efforts and the critical debt threshold in EU countries. Different governments are responding to mounting debt in different ways. Some did not take advantage of strong economic growth to consolidate public finances and have reached a critical debt threshold. An analysis of tax rate changes and harmonisation in the euro area indicate that such steps will have an effect on macroeconomic indicators in the countries under review. Potential tax harmonisation may increase the euro area's ability to face common shocks, or it may weaken its resilience to shocks originating outside the euro area.

New findings concerning wage flexibility and wage cost adjustments indicate that base wages in Slovakia are less flexible than those in other EU countries. On the other hand, firms are making increasing use of other components of employee compensation, especially those firms where there are base wage rigidities. It is clear that wage flexibility is closely related to the skill level of employees and to the effect of trade unions.

NBS contributes to expert discussions by organising seminars and scientific conferences at which research staff can exchange their knowledge and expertise. The results of their work are also presented to students of universities and secondary schools through thematic lectures. In 2011 NBS hosted more than thirty research seminars, which play a key role in the exchange of knowledge. The attendees – more than half from foreign institutions – presented the results of their work, including several findings that had yet to be published. The most eminent of the guests in 2011 was Professor Andrew K. Rose of the University of California, Berkeley, who gave a lecture entitled "Causes and Consequences of the 2008 Crisis: An Update".

NBS continued to cooperate with international research teams in 2011 and it was represented in three ESCB expert groups that performed research-related activities. NBS was also represented at initial meetings that are expected to result in the establishment of a research network focused on the highly topical issues of EU countries' and firms' competitiveness.

The first expert group of which NBS is a member is the Household Finance and Consumption Network (HFCN), whose main task is to examine the financial situation and consumption expenditure of households. Following an extensive survey of European households, the processing of their responses was carried out in 2011. Since some respondents declined to answer certain sensitive questions, special attention was paid to the estimation and imputing of missing data. NBS was among the first three national central banks that completed the processing of the survey results and will soon be able to begin analysing them. Analysis of the collected data will help to further understanding of how macroeconomic shocks and monetary-policy or institutions changes affect different household groups. The research is expected to contribute in particular to explaining the principles of savings accumulation and household debt growth.

Another topical issue is financial stability and its interconnection with the real economy. The Macro-prudential Research Network (MaRs) is engaged in research in the following areas: macro-financial models linking financial stability and the performance of the economy; early warning systems and systemic risk indicators; and assessing contagion risks. In its cooperation with the MaRs, NBS is mainly involved in research in early warning systems and systemic risk indicators. A first proposal for a monthly and quarterly stress indicator for Slovakia was produced during 2011.

The third research-related expert group is the Working Group on Econometric Modelling (WGEM). This research is divided into three core areas: first, the modelling of potential output within DSGE models; second, the benefits and costs of fiscal consolidation, and, third, macro-financial links. Experts from the NBS are actively engaged in research in the third of these areas, focusing in particular on the transmission of shocks from the financial sector to the real economy and potential negative feedback loops on the financial sector.

Box 1

PAPERS PUBLISHED IN 2011

Michal Benčík
Business cycle synchronisation between the V4 countries and the euro area
In assessing the overall costs and benefits of the single European currency, an important factor is the extent of business cycle synchronisation between the V4 countires and euro area. This paper addresses the issue of business cycle synchronisation of the V4 countries by directly calculating cross correlations, by calculating cross correlations from primary impulses, and finally by calculating output gap component correlations from common and country-specific shocks. In regard to the output gap, the results of all three methods are approximately the same: before 2001, the business cycles of the V4 countries were not synchronised with the euro area (low or negative correlations); between 2001 and 2007, the correlations entered positive territory as the V4 countries joined the EU and trade between the V4 countries and the euro area increased; and during the economic crisis of 2008–2009, synchronisation increased still further.

Tibor Lalinský
Analysis of the Slovak economy's convergence in 2011
The real convergence of the Slovak economy picked up in 2010. In terms of productivity growth and per capita GDP growth, Slovakia was again among the best performing EU countries. Several euro area countries are, however, only slowly recovering from the repercussions of the financial and economic crisis. In May 2011 only Finland would have fulfilled the Maastricht criteria for the adoption of the euro. The process of nominal convergence is expected to recover again in 2012. Slovakia, however, like most EU Member States and EU candidate and potential candidate countries, will in the next two years probably report an excessive deficit or an inflation rate above the reference value. Among the non-euro area EU countries, only Sweden is likely to meet both of these criteria at the same time. As for the EU candidate countries, only Montenegro is recording stable nominal indicators. Those countries hardest hit by the debt crisis are expected to show the weakest nominal convergence and a deterioration in several real convergence indicators.

František Hajnovič, Juraj Zeman, Ján Žilinský
The fiscal consolidation measures and the critical debt threshold in the EU and Slovakia
The aim of this paper is to estimate the response of EU governments to their debt ratios and to determine the critical debt threshold on the basis of data for the years 1995 to 2009. The emphasis is on a methodological approach and on the interpretation of results. The paper draws heavily on an IMF working paper in which it is assumed that the government response (i.e. the primary deficit) can be expressed as a cubic polynomial of the past debt ratio. The authors expressed the government response as a fourth degree polynomial and they interpreted the response dynamics as a model with an error-correcting element. The work was supplemented with debt ratio analyses for selected countries. An empirical panel

estimation with fixed effects and analysis demonstrated that individual countries responded differently to the debt ratio. Certain EU countries did not take advantage of the period of strong economic growth to consolidate public finances and they had reached the critical debt threshold by the end of 2009. The paper looks in more detail at debt ratio of Slovakia and its outlook.

Matúš Senaj , Milan Výškrabka
European taxes in a laboratory
Labour tax rates are considerably heterogeneous across European countries. This paper investigates the effects of a policy experiment in which the tax rates levied on labour are harmonised in euro area countries. Using a four-country DSGE model, the authors find that shifts in domestic tax rates are the main driver of the total outcome of the policy change while spillover effects are rather limited in the long run. Countries that decrease their total tax wedge boost their economies while countries that increase their tax wedge lose a proportion of output. The adjustment process is rather complicated: a country which gains in the long run may temporarily go through a period of dampened economic activity. In terms of volatility, the euro area with its homogenous labour tax system may be better prepared to face common area-wide shocks. On the other hand, shocks originating outside the euro area may increase the volatility of euro area output under the homogenous tax regime.

Marianna Červená
Base wage rigidities
Using data from a survey of Slovak firms, this paper examines the extent to which Slovak wages are rigid and the determinants for both nominal and real wage rigidity.

It takes account of two distinct definitions of wage rigidity, where nominal rigidity is related to the freezing of wages and real rigidity to wage indexing. Compared with the other countries that took part in the survey, Slovakia has a nominal base wage rigidity that is one of the highest and a real base wage rigidity that is also relatively high. The author runs multinomial logit regressions to capture the relationship between real wage rigidity, nominal wage rigidity, flexible wages and a number of firm-specific and institutional characteristics. The regression results suggest that the skill-level of the workforce matters: firms with mainly low-skilled workers face lower probabilities of wage rigidities. Collective bargaining coverage is also a significant determinant. Firms that are subject to a collective agreement with firm-level trade unions face increased probabilities of both types of wage rigidities compared to firms that are not subject to such agreements. On the other hand, firms dealing with trade unions at the sectoral level have more flexible wages than firms not subject to any collective bargaining.

Marianna Červená
Labour cost adjustment
This paper analyses the results of a survey on how Slovak firms adjust wages and prices. The author focuses on the reduction of labour costs in two forms: base wage cuts and alternative margins for labour cost reduction. Anecdotal evidence suggests that wage-cutting by firms occurs more frequently in Slovakia than in any other country and that the use of alternative margins for labour cost reduction is also quite prevalent in Slovakia. Regression results support the strong relationship between the use of alternative margins and wage rigidities. The use of any alternative margin is on average 30% more likely in firms facing nominal wage rigidity that in firms with flexible wages.

Juraj Zeman
Costs and benefits of Slovakia entering the euro area: A quantitative evaluation.
Entering monetary union brings both drawbacks and benefits. The loss of an independent monetary policy, including the loss of exchange rate policy, constrains the ability to

stabilise domestic economy in the event of asymmetric shocks. This leads to more volatile business cycles and hence lower utility of risk-averse agents in the economy. On the other hand, the common currency reduces transaction costs, thus increasing trade and growth. The objective of this article is to quantitatively evaluate these costs and benefits, using an estimated DSGE model for two countries: Slovakia and the euro area.

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 supreme 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. In 2011 the NBS Governor attended 22 meetings of the Governing Council and four meetings of the General Council.

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 2011 more than 70 NBS employees participated directly in the work of these committees and their working groups. The participation of NBS specialist departments in Eurosystem tasks represents a significant part of the central bank's activities.

The European Union

The NBS Governor attended informal meetings of the Council of Ministers for Economic Affairs and Finance (ECOFIN) in 2011, which were held in Gödöllő, Hungary in April and Wroclaw, Poland in September (the meetings are held in the country that holds the rotating EU Presidency). A number of NBS employees were involved in activities of committees, sub-committees and working groups of the European Commission and European Council.

8.2 NBS cooperation with international institutions

International Monetary Fund (IMF) and the World Bank

For the Bretton Woods institutions, the main events in 2011 were the IMF/WB Spring and Annual meetings in April and September, which were attended by the NBS Governor in his capacity as Governor of the IMF for Slovakia.

Slovakia's exposure to the IMF increased in 2011. As at 31 December 2011 Slovakia's commitment to the IMF amounted to SDR 115.4 million under the Financial Transactions Plan (FTP) and SDR 51.7 million under a bilateral loan agreement with the IMF.

A regular IMF mission visited Slovakia in March 2011 for economic policy consultations under Article IV of the IMF Agreement. In July the IMF undertook consultations on matters of euro area monetary policy and foreign-exchange policy common to all euro area countries. Slovakia was also involved in other regular IMF activities in 2011, for example, the updating of the Annual Report on Exchange Arrangements and Exchange Restrictions.

Slovakia's contribution to the International Development Association (IDA) in 2011 amounted to €670,000 and its contribution to the Multilateral Debt Relief Initiative (MDRI) represented €40,000. The contributions were made under the terms of Slovakia's participation in the 15th replenishment of IDA funds and in the financing of the MDRI. Slovakia also participated in the 16th IDA replenishment in 2011, under which it has committed €2.63 million in contributions for the period 2012–2014.

Organisation for Economic Co-operation and Development (OECD)

In 2011 Národná banka Slovenska participated in the OECD's questionnaire-based strategic assessment entitled "Competition and Market Efficiency". In the same year Slovakia supported the introduction of an OECD programme budget that includes the ex post evaluation of output results through implementation reports. The economic outlook for Slovakia assumes a slowdown in economic activity, stemming from an uncertain climate in the country's trading partners and from the impact of fiscal consolidation measures on domestic consumption.

European Bank for Reconstruction and Development (EBRD)

In May 2011 the Board of Governors of the EBRD held its 20th Annual Meeting in the Kazakh capital Astana, where it was agreed that the new version of our Constituency Agreement will be drafted. The new Agreement was signed in October 2011. The new Constituency Agreement governs among other matters the mechanism for ensuring the tasks of the constituency's office. In October 2011 Georgia become the newest member of this constituency.

Bank for International Settlements (BIS)

The Annual General Meeting of the BIS was held in June 2011, with NBS represented by the Governor and the Bank Board member responsible for financial market operations and payment services. Besides approving the distribution of BIS profits, the BIS Board assessed the territorial representation of the BIS member base, taking into account the economic and financial importance of each region and how it has changed since the previous BIS enlargement in 2003. The Board also decided to invite the central banks of Peru, Colombia, the United Arab Emirates, and Luxembourg to become BIS members, thereby increasing the number of BIS shareholders to 59.

The governors of BIS member central banks hold meetings on a bimonthly basis, and last year these focused on such issues as: inflation expectations in the wake of the recession; global liquidity; indebtedness; risks and economic growth; commodity financial products; and the role of central banks in the sovereign debt market during a crisis.

8.3 International activities of NBS in the field of supervision

Four institutions were established on 1 January 2011 as part of the new European-level supervisory architecture. One was the European Systemic Risk Board (ESRB), responsible for macro-prudential supervision of the EU financial system, and the other three were the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA), all responsible for micro-prudential supervision.[43] Národná banka Slovenska was involved in the activities of these bodies throughout 2011.

The ESRB is based in Frankfurt, and the ECB provides it with analytical, statistical, organisational, and administrative support. The highest decision-making body of the ESRB is the General Board, and its members include the NBS Governor and the Executive Director of the NBS Financial Market Supervision Unit. The main task of the ESRB is to monitor systemic risks, in particular. In 2011 the ESRB, on the basis of its own analyses, issued a number of warnings and recommendations[44] as well as opinions on macro-prudential aspects of EU legislation.

The EBA, based in London, replaced the Committee of European Banking Supervisors (CEBS). The EIOPA (Frankfurt) replaced the Committee of European Insurance and Occupational Pension Supervisors (CEIOPS). The ESMA (Paris) replaced the Committee of European Securities Regulators (CESR). NBS is represented on the Board of Supervisors (the highest decision making body) of each of these European micro-prudential supervision authorities by a senior staff member from its Financial Market Supervision Unit.

The tasks of the EBA, EIOPA and ESMA include: providing opinions to EU institutions; producing guidelines, recommendations and draft technical regulations of a regulatory and implementing nature; supporting the consistent application of legally-binding EU acts (mainly by preventing regulatory arbitrage, harmonising practices, mediating and settling disputes between competent authorities, and coordinating and adopting measures for crisis situations); and improving the quality of cooperation between supervisors, the delegations of tasks and the functioning of the colleges of supervisors. Each of the authorities has permanent committees to assist their decision-making, with the objective of improving financial market regulation and the limitation of systemic risks. Participating in the meetings and work of these committees (and many working groups) are staff members of the NBS Financial Market Supervision Unit.

The FMS Unit's activities in the international area in 2011 also included cooperation with supervisory authorities from other countries, in par-

43 They were established on the basis of Regulations of the European Parliament and of the Council No 1092/2010, No 1093/2010, No 1094/2010 and No 1095/2010 of 24 November 2010.

44 For example, recommendations on lending in foreign currencies, US dollar denominated funding of credit institutions, and the macro-prudential mandate of national authorities.

ticular with the supervisors of the parent banks and parent insurance undertakings of which subsidiaries of banks and insurance companies are established in the Slovak Republic. Last year's cooperation with supervisors took place at both bilateral and multilateral levels, mainly through the supervisory colleges for different banking and insurance groups.

8.4 FOREIGN TECHNICAL ASSISTANCE

Národná banka Slovenska was one of fourteen Eurosystem central banks that in 2011 joined the technical assistance programme "Crisis Response Package", which had been prepared the year before by the ECB in cooperation with the IMF and World Bank in response to the financial crisis. The programme was focused entirely on supporting financial market supervision in eight EU-candidate and potential EU-candidate countries; it had three components as follows: 1) a system of expert seminars; 2) bilateral cooperation in drafting measures to improve prudential supervision in individual countries; and 3) technical simulation exercises focusing on cross-border cooperation in supervision.

NBS was involved in the first two components; it organised a series of seminars on Pillar II of the pension system, ICAAP/SREP, and risk assessment and measurement, and it assisted the Central Bank of Montenegro in the drafting of measures on Pillar II regulation, bank licensing, and IAS/financial reporting. The programme was completed in December 2011.

NBS is also involved in the ESCB's system of technical assistance for the National Bank of Serbia, which was approved by the ECB Governing Council in December 2010 and started to be implemented in 2011. The cooperation between the Slovak and Serb central banks is focused on the preparation of manuals for supervision of the insurance corporations and pension funds sector and on the approximation of legislation.

NBS's long-standing provision of technical assistance to the National Bank of Ukraine was also maintained in 2011. In Bratislava, the Slovak central bank organised two expert seminars, one on "Financial stability" and another on "The organisation of internal control systems and risk management". In Kiev there was seminar on "Relations and communication between the central bank and general public".

NBS technical assistance to the National Bank of the Republic of Belarus also continued in 2011. In this regard, NBS organised two expert seminars for staff members from the Belarusian central bank, on "Foreign exchange management" and "The credit register". NBS staff members took part in two specialist training events in Belarus, on the topics of DSGE models and current issues in the banking sector.

CHAPTER 9

LEGISLATION

9

9 Legislation

In 2011, Národná banka Slovenska continued to exercise its authority to make and transpose legal regulations in the areas of currency, cash circulation, foreign reserves management, the banking sector, the capital market, the insurance sector, and the pension saving sector.

AMENDMENTS MADE IN 2011 TO LAWS ON MATTERS FALLING WITHIN THE COMPETENCE OF NÁRODNÁ BANKA SLOVENSKA

Act No 483/2001 Coll. on banks (including amendments to certain laws), as amended, was amended in 2011 by Act No 46/2011 Coll., Act No 130/2011 Coll., Act No 314/2011 Coll., Act No 394/2011 Coll., Act No 520/2011 Coll. and Act No 547/2011 Coll.

Act No 566/2001 Coll. on securities and investment services (including amendments to certain laws) (the Securities Act), as amended, was amended in 2011 by Act No 46/2011 Coll., Act No 130/2011 Coll., Act No 394/2011 Coll. and Act No 520/2011 Coll.

Act No 492/2009 Coll. on payment services (including amendments to certain laws) was amended in 2011 by Act No 130/2011 Coll., Act No 394/2011 Coll., Act No 520/2011 Coll. and Act No 547/2011 Coll.

Act No 747/2004 Coll. on supervision of the financial market (including amendments to certain laws), as amended, was amended in 2011 by Act No 203/2011 Coll., Act No 394/2011 Coll. and Act No 547/2011 Coll.

Act No 8/2008 Coll. on insurance (including amendments to certain laws), as amended, was amended in 2011 by Act No 130/2011 Coll., Act No 332/2011 Coll., Act No 520/2011 Coll. and Act No 547/2011 Coll.

Act No 203/2011 Coll. on collective investment was amended in 2011 by Act No 547/2011 Coll., which will enter into force as of 1 January 2013.

Act No 43/2004 Coll. on retirement pension saving (including amendments to certain laws), as amended, was amended in 2011 by Act No 334/2011 Coll., Act No 546/2011 Coll. and Act No 547/2011 Coll.

Act No 650/2004 Coll. on supplementary pension saving (including amendments to certain laws), as amended, was amended in 2011 by Act No 520/2011 Coll.

Act No 381/2001 Coll. on compulsory contractual motor vehicle third party liability insurance (including amendments to certain laws), as amended, was amended in 2011 by Act No 520/2011 Coll.

Act No 530/1990 Coll. on bonds, as amended, was amended in 2011 by Act No 200/2011 Coll.

Act No 429/2002 Coll. on stock exchanges, as amended, was amended in 2011 by Act No 520/2011 Coll. and Act No 547/2011 Coll.

SECONDARY LEGISLATION ISSUED BY NÁRODNÁ BANKA SLOVENSKA IN 2012 UNDER ITS AUTHORITY TO ISSUE IMPLEMENTING LEGISLATION OF GENERAL APPLICATION

Regulation No 11/2011 Coll. of Národná banka Slovenska 11/2011 amending Regulation No 607/2008 of Národná banka Slovenska on certain details of cash circulation (including amendments to certain regulations).

Decree No 1/2011 of Národná banka Slovenska of 15 March 2011 on the Register of Bank Loans and Guarantees (Notification No 77/2011 Coll.).

Decree No 2/2011 of Národná banka Slovenska of 22 March 2011 on the submission of statements by insurance undertakings and reinsurance undertakings that are subject to group supervision (Notification No 98/2011 Coll.).

Decree No 3/2011 of Národná banka Slovenska of 26 April 2011 amending Decree No 4/2007 of

Národná banka Slovenska on banks' own funds and banks' capital requirements and on investment firms' own funds and investment firms' capital requirements, as amended (Notification No 145/2011 Coll.).

Decree No 4/2011 of Národná banka Slovenska of 26 April 2011 amending Decree No 6/2009 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 purposes (including amendments to Decree No 26/2008 of Národná banka Slovenska on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes) (Notification No 146/2011 Coll.).

Decree No 5/2011 of Národná banka Slovenska of 26 July 2011 on details concerning information to be provided to unit-holders in respect of a merger of common funds (Notification No 264/2011 Coll.).

Decree No 6/2011 of Národná banka Slovenska of 26 July 2011 on the elements of applications for prior approval from Národná banka Slovenska made under the Act on Collective Investment (Notification No 265/2011 Coll.).

Decree No 7/2011 of Národná banka Slovenska of 26 July 2011 on the own funds of management companies (Notification No 266/2011 Coll.).

Decree No 8/2011 of Národná banka Slovenska of 26 July 2011 on the content of the agreement in respect of a master fund and feeder fund and on the content of the internal conduct of business rules of the management companies managing the master fund and feeder fund (Notification No 267/2011 Coll.).

Decree No 9/2011 of Národná banka Slovenska of 23 August 2011 on criteria for the definition of liquid financial assets and on details about transferable securities and money market instruments embedding derivatives and about index-replicating common funds (Notification No 284/2011 Coll.).

Decree No 10/2011 of Národná banka Slovenska of 13 September 2011 on criteria, limits and restrictions with which short-term money market funds and money market funds must comply (Notification No 302/2011 Coll.).

Decree No 11/2011 of Národná banka Slovenska of 27 September 2011 on risks and risk management, risk measurement, and the calculation of global exposure and counterparty risk (Notification No 317/2011 Coll.).

Decree No 12/2011 of Národná banka Slovenska of 8 November 2011 amending Decree No 1/2011 of Národná banka Slovenska on the Register of Bank Loans and Guarantees (Notification No 413/2011 Coll.).

Decree No 13/2011 of Národná banka Slovenska of 8 November 2011 on the method of determining the value of assets in a standard common fund and in a public special common fund and the method of calculating the value of the share of unit issues in common funds in which there is more than one unit issue (Notification No 428/2011 Coll.).

Decree No 14/2011 of Národná banka Slovenska of 15 November 2011 laying down certain details concerning the authorisation of payment institutions and electronic money institutions (Notification No 443/2011 Coll.).

Decree No 15/2011 of Národná banka Slovenska of 15 November 2011 on the submission of statements by payment institutions and electronic money institutions (Notification No 444/2011 Coll.).

Decree No 16/2011 of Národná banka Slovenska of 22 November 2011 on the elements of a banking licence application made by a bank or branch of a foreign bank and on how to prove compliance with the conditions for such licence (Notification No 454/2011 Coll.).

Decree No 17/2011 of Národná banka Slovenska of 22 November 2011 on the submission of statements by banks, branches of foreign banks, investment firms and branches of foreign investment firms for statistical purposes (Notification No 24/2012 Coll.).

Decree No 18/2011 of Národná banka Slovenska of 22 November 2011 on the submission of statements by management companies for common funds or sub-funds for statistical purposes (Notification No 23/2012 Coll.).

Decree No 19/2011 of Národná banka Slovenska of 29 November 2011 amending Decree No 15/2010 of Národná banka Slovenska on disclosures by banks and branches of foreign banks (Notification No 506/2011 Coll.).

Decree No 20/2011 of Národná banka Slovenska of 29 November 2011 amending NBS Decree No 16/2010 on disclosures by investment firms and branches of foreign investment firms (Notification No 507/2011 Coll.).

Decree No 21/2011 of Národná banka Slovenska of 6 December 2011 No on fee-related information provided to customers by banks or branches of foreign banks (Notification No 480/2011 Coll.).

CHAPTER 10

INSTITUTIONAL DEVELOPMENTS

10

10 INSTITUTIONAL DEVELOPMENTS

10.1 INSTITUTIONAL FRAMEWORK

Národná banka Slovenska (NBS) 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 Governing Council. They include the following:

- Accounting and Monetary Income Committee
- Banknote Committee
- Committee on Cost Methodology
- Eurosystem/ESCB Communications Committee
- Financial Stability Committee
- 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 the central bank:

- 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.

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, so as to maintain confidence in the financial market, protect customers, and ensure compliance with competition rules. Národná banka Slovenska is also the financial supervisory authority in Slovakia, meaning that it exercises supervision over banks, branches of foreign banks, investment firms, investment services intermediaries, stock exchanges, asset management companies, investment funds/collective investment undertakings, insurance companies, reinsurers, pension funds management companies, pension funds, supplementary pension management companies, and other financial market participants subject to regulatory supervision.

10.2 HUMAN RESOURCES

Národná banka Slovenska had 1,075 employees as at 31 December 2011. A total of 82 employees left the bank last year, including 42 due to organisational changes.

Staff exchanges between ESCB national central banks, the ECB and other international financial institutions serve to support staff mobility within the ESCB, the exchange of experience and know-how, and the development of human resources. In 2011, a total of ten NBS employees were on secondment either to the ECB or European Banking Authority.

The rules and principles of staff remuneration at the bank are laid down in internal NBS Work Regulation No 28/2008 on the remuneration of NBS employees as amended. The average monthly salary for 2011 was €1,711.27, which in comparison with 2010 represents an increase of €8.03 or 0.5%.

The employees who left the bank last year due to organisational reasons received all the payments owed to them under the Labour Code, NBS Collective Agreement, and internal work regulations. Severance payments were made to employees who retired or took early retirement. The number of NBS employees enrolled in the supplementary pension system stood at 827 as at 31 December 2011.

10.3 ORGANISATION AND MANAGEMENT

In line with decisions of the NBS Bank Board, two amendments to the NBS Organisational Rules were approved in 2011 and entered into force on 1 January 2012. The organisational changes made under these amendments included the closure of four NBS sub-branches, a change to the organisational structure of NBS, and modifications to the duties and competences of certain senior managers.

10.4 EDUCATION

As regards the professional development of NBS staff through training courses, the priority in 2011 continued to be participation in courses run by institutions within the ESCB and European System of Financial Supervisors. A total of 939 employees attended training courses in 2011.

These courses were organised by the Human Resources Management Department mainly in cooperation with the NBS 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,
- general training.

NBS spending on staff training and development in 2011 amounted to 4.5% of total wage costs.

A total of nine university students completed internships at NBS 2011. Students who do internships are usually preparing their diploma or dissertation thesis; they consult with the relevant NBS departments and have the opportunity to study specialist materials in the NBS Library.

CHAPTER 11

COMMUNICATION

11

11 Communication

As a standard part of its activities, NBS publishes information on monetary developments in the euro area, on key indicators for the Slovak and European economy, as well as on activities of banks and all other entities of the financial market. Information, reports and analyses submitted by NBS serve as a basis not only for decisions adopted by the Government and the National Council of the Slovak Republic, but also for activities of media and institutes involved in economic research and education. The central bank employs various communication tools in order to ensure that the information it provides is accessible and comprehensible to every target group, and thus creating conditions that support the core communication principles of openness and transparency.

One of the key pillars of the NBS communication policy is to participate in the Eurosystem's joint communications procedures, which primarily involve the regular provision of information about monetary developments in the euro area and the real-time communication of monetary-policy decisions[45].

In 2011 NBS complied with the principle of openness and transparency when providing information about decisions, concerning mainly 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 key macroeconomic indicators in Slovakia as well as to present analyses of developments in the Slovak financial sector.

During the year, NBS issued periodical specialist publications providing information and analysis in the central bank's main fields of activity. Among these publications were the Annual Report, Financial Stability Report, Analysis of the Slovak Financial Sector, NBS Monthly Bulletin, Medium-Term Forecast and Statistical Bulletin.[46] NBS also published other analyses and working papers concerning monetary developments, the financial market and the effects of the financial crisis on the Slovak economy. The BIATEC journal continued to play an important role in NBS communication activities, providing specialist articles in the area of banking, finance and economics. Through BIATEC, NBS connects with authors and readers from the banking and financial sector, academia, and the educational sector. Written in Slovak with English-language summaries, BIATEC is published ten times per year and is available on the NBS website.[47]

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.[48]

In 2011 NBS and the other euro area national central banks took part in the first annual running of the Generation €uro Students' Award, an ECB educational competition for secondary school students. The competition, which reaches its conclusion in mid-2012, aims to foster interest among secondary-school students in monetary policy issues and to raise their awareness of central banking activities.

Together with university students, NBS also entered last year a joint project resulting in an information film informing younger people about the central bank's various roles in a dedicated use of language and form.

ECB information materials on the 10th anniversary of euro banknotes and coins were made available on the NBS website at the end of 2011; they include a short film about the production and circulation of euro banknotes and coins, press kits, and a competition for children aged between 9 and 12 (Euro Run 2012).

NBS pays close attention to the content and development of its most used communication channel – the website. Last year, for example, the home page was redesigned. The most visited pages are those providing information on exchange rates and statistical data, while the number of pages viewed in the Education section increased sharply in 2011 (by more than 100%), due in large part to the introduction of two interactive games and the announcement of the Generation €uro competition. Page viewings in the Public Procurement section also increased markedly, after the online

45 See Box 2 in NBS Annual report 2010, p. 76.

46 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-publications

47 http://www.nbs.sk/en/publications-issued-by-the-nbs/journal-biatec

48 http://www.nbs.sk/sk/publikacie/publikacie-ecb publication of NBS contracts, orders and invoices became mandatory from 1 January 2011. The NBS website attracted an average of around 17,000 visitors per day in 2011, including an increased amount of traffic from mobile devices.

NBS also communicates directly with members of the public through e-mail. In 2011 NBS dealt with more than 3,000 questions, responses and suggestions from the public concerning specific matters dealt with by its specialist departments, including 80 requests for information under the Freedom of Information Act (No 211/2000 Coll.).

Exhibitions and lectures

More than 3,800 people went to see the exhibition "Monetary Ups and Downs" during 2011. This exhibition on the history of money in Slovakia and other countries of central and eastern Europe was held at Trebišov, Prešov, Spišská Nová Ves and Košice. The NBS exhibition on the introduction of the euro entitled "The Euro – Our Currency" was shown not only in Bratislava in 2011, but also in Trenčín, Banská Bystrica and Žilina. Alongside the opening of the exhibition in Žilina, the NBS Governor gave a lecture to students from Žilina University. At a showing of the exhibition in Budapest, representatives of NBS and the Hungarian central bank (Magyar Nemzeti Bank) took part in a discussion about the benefits and drawbacks of euro adoption.

During 2011 NBS hosted lectures that were attended by almost 2,000 people, mainly primary and second schoolchildren and university students, and it also organised an seminar for journalists.

NBS archive and library

The NBS Archive[49] is a specialised public institution that provides access to the general public (domestic and foreign) to archived heritage from the financial and banking sectors in Slovakia. As a member of the European Association for Banking and Financial History (EABH),[50] the NBS Archive last year took part in a survey of the history, structure and aims of banking archives in Europe.

Remarkable documents from the archival fonds and collections were presented at the Regional Library in Žilina as part of an exhibition focused on the history of central and commercial banking. A significant event in 2011 was the establishment of cooperation with the archive of the Austrian central bank in Vienna, including research

Opening of the exhibition "The Euro–Our Currency"

into the activities of the Hapsburg Empire central bank's branches and affiliates in Slovakia in the 19th and 20th centuries.

The NBS Library offers a full range of library services – documentary, retrieval, lending, consultation, and electronic services – to NBS staff and interns as well as the general public. The library's specialised collections[51] contain publications and information mainly in the areas of central and commercial banking, financial supervision, monetary and issuance policy, payment systems, and financial management.

In 2011 the Library catalogued and processed 3,900 documents, handled 3,720 search other requests for information, and answered 2,120 requests for consultation.

Work on the digitalisation of the NBS Archive and Library (Project of Digitalisation of the Mail Room, Registry, Archive and Central Library) continued in 2011 in accordance with plans for their further development. Also last year the Library and Archive took part in international cooperation with central libraries and archives within the ESCB and ECB.

NBS museum of coins and medals at Kremnica

NBS collections are open to the public at the NBS Museum of Coins and Medals (MCM) at Kremnica.[52] In 2011 the Museum's permanent and occasional exhibitions attracted more than 37,000

49 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-archive
50 http://www.eabh.info/
51 http://www.nbs.sk/en/publications-issued-by-the-nbs/nbs-central-library

Medals in the permanent exhibition "Two Faces of Money"

visitors from Slovakia and abroad. The permanent exhibitions include *"Two Faces of Money – Money and Medal-making in the History of Slovakia"*, the art-historical exhibition at the Town Castle, and *"Routes of Collecting in 15th to 18th Century Art"*, which has been running since 2007. The Museum's gallery rooms were reopened in April 2011 after undergoing renovation work in 2008-2010.

Last year the Museum held 11 occasional exhibitions on a variety of themes. In the refurbished gallery there were four exhibitions:

– *Slovak medals 2005–2010* – an exhibition marking the 20th anniversary of the Slovak Association of Medallists (ZMS);
– *Hommage à E.M.* – an exhibition of selected works by the Slovak sculptor, jeweller, and medallist Erna Masarovičová;
– *Caricaturists* – an international exhibition of caricaturists nominated for the International Award of the Golden Gander, as part of the 31st annual European festival of humour and satire entitled Kremnica Gags;
– *Symposia of Medals at Kremnica* – an exhibition of the medals produced at every Symposium of Medals held at Kremnica since 1983 including those produced at the latest 11th Symposium.

In the display room housing the exhibition "Two Faces of Money" were seven occasional exhibitions:

– *Cesty (Journeys)* – a solo exhibition of works by the academic painter Viliam Pirchala;
– *Sguardo Lanciato* – a solo exhibition of works by the academic sculptor Jozef Karol Höger;
– *The Kremnica engraver Ján Allerám and his lineage;*
– *Súbehy (Confluences)* – an exhibition of the works of three Kremnice artists, Mária Poldaufová, Pavel Károly and Ondrej Ďurian;
– *Extensive Narration* – an exhibtion of works from the Symposium of Jewellery Art at Kremnica;
– *Zakladatelia tradície umeleckého kováčstva na Slovensku (Founders of the artistic ironwork tradition in Slovakia)* – an exhibition of works by students of the Department of Artistic Ironwork and Locksmithery at the Private School of Applied Arts in Kremnica;
– *Koruna – Pengő – Forint* – a specialist numismatic exhibition.

In 2011 the MCM in Kremnica again took part in the international museum event *"Night of the Museums"*. Another event repeated from the previous year was the *"Summer Nights of the Muses"*, a series of evening tours of the Museum's exhibitions which ran through the summer months and included a varied programme. In the Museum gallery there was a programme for children entitled "Summer Creative Workshops", where children could produce creative gifts over a period of five afternoons. Throughout the year the MCM also organised various thematic educational programmes for schools and the general public.

The Museum organised several concerts in 2011, including a New Year concert of the Kremnica-based Essential Trio at the Church of St Catherine, an Easter concert of local young musicians Marek, Jakub and Jordán Žufka at the site of the exhibition *"Routes of Collecting in 15th to 18th Century Art"*, and a Christmas concert performed by Marián Varga and the Moyzes Quartet. In August, a festival entitled "Capalest in the region" was opened at the Church of St Catherine as part of the 9th annual Capalest European festival of poetry, theatre and music. At the concert *Mystical Cathedral* a group of French artists interpreted songs of John Dowland and sonnets of William Shakespeare. In September, a poetical concert entitled "The Edelsberger–Dilong Delicate Concert" was held in the courtyard of the numismatic-historical exhibition building, and featured the poetry of R. Dilong and musical works by T. Edelsberger, a composer originally from Kremnica.

52 *http://www.muzeumkremnica.sk/en/home*

NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

CHAPTER 12

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF NBS AS AT 31 DECEMBER 2011

12

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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 2011, 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, as amended ('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 2011 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

13 March 2012
Bratislava, Slovak Republic

Ernst & Young

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FINANCIAL STATEMENTS OF NÁRODNÁ BANKA SLOVENSKA AS AT 31 DECEMBER 2011

BALANCE SHEET of Národná banka Slovenska

		Note	31 Dec 2011 EUR '000	31 Dec 2010 EUR '000
	ASSETS			
A1	Gold and gold receivables	1	1,239,740	1,075,260
A2	Claims on non-euro area residents denominated in foreign currency	2	651,913	537,665
A3	Claims on euro area residents denominated in foreign currency	3	267,950	112,058
A4	Claims on non-euro area residents denominated in euro	4	3,089,605	2,910,931
A5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	5	1,264,000	1,005,000
A6	Other claims on euro area credit institutions denominated in euro	6	43,391	49,040
A7	Securities of euro area residents denominated in euro	7	12,547,350	11,038,843
A8	General government debt denominated in euro			
A9	Intra-Eurosystem claims	8	1,475,834	2,332,897
A10	Items in course of settlement		97	
A11	Other assets	9	6,530,992	5,905,237
A12	Loss for the year	34	76,734	515,173
	TOTAL ASSETS		**27,187,606**	**25,482,104**
	LIABILITIES			
L1	Banknotes in circulation	10	8,099,844	7,674,876
L2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	11	645,975	715,464
L3	Other liabilities to euro area credit institutions denominated in euro	12	328,816	1,050,059
L4	Debt certificates issued			
L5	Liabilities to other euro area residents denominated in euro	13	160,002	111,383
L6	Liabilities to non-euro area residents denominated in euro	14	1,493,748	278,324
L7	Liabilities to euro area residents denominated in foreign currency	15	90,497	86,118
L8	Liabilities to non-euro area residents denominated in foreign currency	16	65,368	62,457
L9	Counterpart of special drawing rights allocated by the IMF	17	404,046	394,002
L10	Intra-Eurosystem liabilities	18	13,600,041	13,305,868
L11	Items in course of settlement			
L12	Other liabilities	19	1,169,028	895,866
L13	Provisions	20	7,743	4,876
L14	Revaluation accounts	21	764,701	544,466
L15	Capital and reserves	22	357,797	358,345
L16	Profit for the year	34		
	TOTAL LIABILITIES		**27,187,606**	**25,482,104**

PROFIT AND LOSS ACCOUNT
of Národná banka Slovenska

	Note	31 Dec 2011 EUR '000	31 Dec 2010 EUR '000
1.1 Interest income		980,508	666,197
1.2 Interest expense		(673,405)	(623,006)
1 Net interest income	24	**307,103**	**43,191**
2.1 Realised gains arising from financial operations		115,700	158,269
2.2 Write-downs on financial assets and positions		(461,988)	(673,530)
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	**(346,288)**	**(515,261)**
3.1 Fees and commissions income		5,075	5,057
3.2 Fees and commissions expense		(1,371)	(1,250)
3 Net income / (expense) from fees and commissions	26	**3,704**	**3,807**
4 Income from equity shares and participating interests	27	**9,092**	**16,891**
5 Net result of pooling of monetary income	28	**15,596**	**5,541**
6 Other income	29	**8,778**	**6,936**
Total net income		**(2,015)**	**(438,895)**
7 Staff costs	30	**(33,971)**	**(34,365)**
8 Administrative expenses	31	**(17,038)**	**(16,205)**
9 Depreciation of tangible and intangible fixed assets	32	**(10,342)**	**(11,161)**
10 Banknote production services	33	**(3,070)**	**(9,498)**
11 Other expenses	29	**(10,298)**	**(5,049)**
12 Income tax and other government charges on income			
(Loss) / Profit	34	**(76,734)**	**(515,173)**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

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 17 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, five branches in Slovakia, and special-purpose organizational units. In accordance with the decision of the NBS Bank Board (subsequently the "Bank Board"), the branches in Humenné and Lučenec and in Bratislava and Trenčín ceased client services as at 30 September 2011 and as at 31 October 2011, respectively.

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 authorization 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 performance of tasks arising from such representation. Within its supervision of the financial market, the NBS also performs 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 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 organizational units when implementing the common European monetary policy;
- Determines the principles of conduct and the organization 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 reports on result 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 use;
- Determines the organizational structure of the NBS;

In 2011, 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 Láni Sedláková	1. 6. 2007 – 1. 6. 2012	Member	1. 6. 2007
Ing. Štefan Králik	1. 4. 2009 – 1. 4. 2014	Member	1. 4. 2009

The term of office of Ing. Slavomír Šťastný, PhD., MBA on the Bank Board came to an end on 1 January 2011.

- Sets the amount of annual contributions of supervised entities in the financial market;
- Determines the procedure to be followed by the NBS and its organizational units when issuing euro banknotes and euro coins, including commemorative euro coins and collector euro coins, in accordance with the separate 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;
- 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 not more than two consecutive terms of office and as Deputy Governor for not more than two consecutive terms of office. The Governor represents the NBS vis-à-vis third parties.

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 report on result 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 report provides 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 report as submitted.

B. ACCOUNTING PRINCIPLES AND ACCOUNTING METHODS APPLIED

(a) Basis for 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, as amended (subsequently the "ECB Guideline"). In recognizing 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 harmonized 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, 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, with the exception of 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 on 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.

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

Over the course of 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, with the exception of XDR. In the case of XDR, the ECB determines the exchange rate only on a quarterly basis. Over the course of any three-month period, assets and liabilities in XDR are valued at the market price. The difference between the reference exchange rate or the market price 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, any unrealized foreign exchange losses exceeding unrealized foreign exchange gains of the respective currency are recognized in the profit and loss account and any unrealized foreign exchange gains remain recognized on the revaluation accounts in equity.

Foreign exchange spot transactions and currency forwards 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 foreign exchange swaps, the 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 valuation of these off-balance sheet instruments, the same principle applies 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.

The foreign exchange rates of key foreign currencies against EUR 1 used to value the assets and liabilities as at 31 December 2011, were as follows:

Currency	31 Dec 2011	31 Dec 2010
GBP	0.83530	0.86075
USD	1.29390	1.33620
JPY	100.20000	108.65000
XDR	0.84267	0.86415
EUR/t oz*	1,216.864	1,055.418

* t oz (troy ounce) = 31.1034807 g

(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/t oz (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 (see Notes 12, 14 and 15). The gold used in such transactions remains in the Bank's total assets under the item "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 considered 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 single 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 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 Purchase 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. In the event of impairment, a provision is created at the last calendar day of the year, which is subsequently reassessed annually.

The impairment test for bonds acquired under the SMP is performed by the ECB on a centralized basis and is subject to approval of the ECB Governing Council. Under Article 32.4 of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank (subsequently the "Statute"), any losses arising from ownership of securities acquired under the SMP are shared by the Eurosystem central banks based on their share in the ECB's paid-up capital existing at the time of the initial impairment.

The impairment test for bonds acquired under the CBPP is coordinated by the ECB. By a decision of the Bank Board, the NBS accepts the results of the coordinated test.

Debt securities are disclosed with the amortized premium/discount. Coupons are reported under "Other assets".

(f) Derivatives

Currency swap transactions are recorded on the off-balance sheet accounts from the agreed trade date to the value date. On the settlement date of a spot / forward part of the transaction, the accounting entries on off-balance sheet accounts are reversed and the transactions are recorded on the balance sheet accounts. The difference between the spot and forward values of the transaction is considered as interest expense or interest income. Interest is accrued on a daily basis using the linear method from the date following the value date to the swap maturity date.

In the case of interest rate swaps, the nominal value is recorded on the off-balance sheet from the trade date to the interest rate swap maturity date. The straight-line method is applied to interest accruals. The interest is recognized on a daily basis from the date following the value date or the interest maturity date to the next interest maturity or the swap maturity date.

Gold swap transactions are recognized as repurchase transactions with gold (see Section B, Notes d and h). In connection with long-term gold repo transactions concluded in 2005 and 2006, the Bank entered into four option contracts to sell gold and four option contracts to purchase gold which were terminated in 2011 (see Note 25).

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.

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

The Bank also deals in interest rate futures. Initial margins to interest rate futures are deposited in cash.

(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. The 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 on the basis of a court ruling on their non-recoverability or based on the Bank Board's decision. Any related provisions are released to expenses.

(h) Reverse Transactions

Transactions conducted under a repurchase agreement (repurchase transaction) are recognized as a collateralized inward deposit on the liabilities side of the balance sheet, while the item provided as collateral remains on the assets side of the balance sheet. Securities provided under a repurchase transaction remain part of the portfolio of the Bank.

Transactions conducted under a reverse repurchase agreement (reverse repurchase transactions) are recognized as a collateralized outward loan on the assets side of the balance sheet. Securities accepted under a reverse repurchase transaction are not accounted for.

If the collateral value deviates from the respective loan value, representing an increased counterparty credit risk, collateral is required in the form of a deposit. These deposits bear interest and are prolonged on a daily basis (see Notes 12 and 14).

Collateralized gold transactions are treated as repurchase agreements.

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

The Bank does not account for security lending transactions conducted under an automated security lending programme. Revenues from these transactions are recognized in the profit and loss account.

(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 L9 "Counterpart of special drawing rights allocated by the IMF".

(j) Intra-Eurosystem Claims and Liabilities

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

Within 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, share of the NBS in the ECB's total income from euro banknotes in circulation and the balance of NBS current accounts maintained with the euro area central banks and current accounts of the central banks maintained with the NBS, is recognized on a net basis in liabilities.

(k) Participating Interests

The Bank records a participating interest in the ECB. In accordance with the Statute, the amount of the total capital share of the 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 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 recognizes 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.

The latest adjustment to the participating interests of the central banks in the capital of the ECB was realized pursuant to Decision ECB/2010/26 and Decision ECB/2010/27 on the increase of the European Central Bank's capital with effect from 29 December 2010 (see Note 8). On 1 January 2011, the Eurosystem key adjustments were made for the national central banks following the entry of Estonia to the Eurosystem.

(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, as amended, monetary income represents net 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 the allocation of euro banknotes. The liability base

Participating interests of the 27 central banks of the European Union in the capital of the ECB as at 31 December 2011:

	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	220,583,718.02	3.4666
Eesti Pank	0.1790	19,261,567.80	16,278,234.47	0.2558
Deutsche Bundesbank	18.9373	2,037,777,027.43	1,722,155,360.77	27.0647
Central Bank and Financial Services Authority of Ireland	1.1107	119,518,566.24	101,006,899.58	1.5874
Bank of Greece	1.9649	211,436,059.06	178,687,725.72	2.8082
Banco de España	8.3040	893,564,575.51	755,164,575.51	11.8679
Banque de France	14.2212	1,530,293,899.48	1,293,273,899.48	20.3246
Banca d'Italia	12.4966	1,344,715,688.14	1,136,439,021.48	17.8598
Central Bank of Cyprus	0.1369	14,731,333.14	12,449,666.48	0.1957
Banque centrale du Luxembourg	0.1747	18,798,859.75	15,887,193.09	0.2497
Central Bank of Malta	0.0632	6,800,732.32	5,747,398.98	0.0903
De Nederlandsche Bank	3.9882	429,156,339.12	362,686,339.12	5.6998
Oesterreichische Nationalbank	1.9417	208,939,587.70	176,577,921.04	2.7750
Banco de Portugal	1.7504	188,354,459.65	159,181,126.31	2.5016
Banka Slovenije	0.3288	35,381,025.10	29,901,025.10	0.4699
Národná banka Slovenska	**0.6934**	**74,614,363.76**	**63,057,697.10**	**0.9910**
Suomen Pankki – Finlands Bank	1.2539	134,927,820.48	114,029,487.14	1.7920
*Total euro-area NCBs**	*69.9705*	*7,529,282,289.35*	*6,363,107,289.36*	*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	
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 Naţională 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**	*30.0295*	*3,231,370,113.23*	*121,176,379.25*	
Total*	**100.00**	**10,760,652,402.58**	**6,484,283,668.61**	

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

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 (0.9910%). 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 ECB 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/2010/29 on the issue of euro banknotes, euro banknotes are issued jointly by the national central banks within the Eurosystem and the ECB. The total amount of banknotes in circulation is allocated to individual central banks in the Eurosystem on the last working day of each month, according to the Banknote Allocation Key. The ECB's share 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 0.9115%. 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 item "Net Claims Related to Allocation of Euro Banknotes within the Eurosystem" (see Note 8).

Over a period of five years from the Bank's transition to euro as cash (1 January 2009), receivables or liabilities relating to the allocation of euro banknotes within the Eurosystem are adjusted in order to eliminate major changes in the yield position of the 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. For the NBS, the period of adjusting banknotes issue ends on 31 December 2014.

Interest income or interest expense from these receivables/liabilities is disclosed in the Bank's profit and loss account under the item "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 Eurosystem's individual central banks in the same financial year as accrued in the form of an interim distribution of the ECB's income.

The ECB 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 ECB 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 ECB's remaining net profit 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 net earned profit of the ECB are made first 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 within the Eurosystem in proportion to their paid-up shares in the capital of the ECB.

In the event of the ECB incurring a loss, the shortfall may be offset against the ECB's general reserve fund and, if necessary, following a decision by the ECB Governing Council, against the monetary income of the respective financial year in proportion and up to the amounts allocated to the national central banks within 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 listed under separate regulations (e.g. Act No. 206/2009 Coll. on Museums and Galleries and on the Protection of Cultural Valuables) are recognized on the balance sheet irrespective of their input price. The assets listed under separate regulations are recognized on the off-balance sheet and in records maintained for collection items at cost. Tangible and intangible fixed assets up to EUR 10,000 that were acquired and put in use prior to 1 January 2010 are depreciated as put in use until they are fully depreciated.

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, immovable historic landmarks, 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. Buildings 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 regarded as highly probable. These assets are not depreciated.

Assets classified as fixed assets available for sale are disclosed at whichever is 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.

The Bank creates a provision in relation to the impairment of securities acquired as part of the single monetary policy of the Eurosystem (see Section B, Note e).

(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 a registered VAT payer since 1 July 2004 pursuant to Act No. 222/2004 Coll., as amended.

The NBS is a payer of broadcasting fees pursuant to the full wording of Act No. 68/2008 Coll. on Payments for Public Services Provided by Slovak Television and Slovak Radio, and a payer of local taxes from real estate, motor vehicles as well as local taxes for accommodation, municipal waste and air pollution pursuant to Act No. 582/2004 on Local Taxes and Local Charges for Municipal and Minor Construction Waste, as amended.

(u) Off-Balance Sheet Instruments

Forward and spot purchases and sales are recognized on 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.

Futures are recognized by the Bank on the 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. NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ITEMS

1. Gold and Gold Receivables

EUR '000	31 Dec 2011	31 Dec 2010
Bars in standard form	1,237,826	1,073,599
Gold in other form	1,914	1,661
	1,239,740	**1,075,260**

As at 31 December 2011, gold comprises a total of 1,019 thousand t oz. of gold (1,019 thousand t oz. of gold as at 31 December 2010), of which 2 thousand t oz. of gold are deposited with the Bank, 132 thousand t oz. of gold are deposited in correspondent banks and 885 thousand t oz. of gold are used in repurchase transactions. The value of gold provided as collateral in gold repurchase transactions at 31 December 2011 amounted to EUR 1,076,809 thousand (EUR 756,588 thousand as at 31 December 2010).

The market value of gold as at 31 December 2011 was EUR 1,216.864 per t oz. (EUR 1,055.418 per t oz as at 31 December 2010). As at 31 December 2011, the balance of the gold revaluation accounts represented gains of EUR 606,583 thousand (EUR 442,116 thousand as at 31 December 2010).

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

EUR '000	31 Dec 2011	31 Dec 2010
Receivables from/payables to the IMF	604,565	501,345
Balance with banks and security investments, external loans and other external assets	47,384	36,320
	651,913	**537,665**

Receivables from / Payables to the International Monetary Fund

Receivables from the IMF consist of the quota of Slovakia in the IMF, nostro account in the IMF and bilateral loans granted. The last increase of the quota was of XDR 70 million, realized in March 2011, from XDR 358 million to XDR 428 million.

As at 31 December 2011, the Bank recognized a total reserve position against the IMF of XDR 133 million, equal to EUR 157,724 thousand (EUR 74,772 thousand as at 31 December 2010). This position is created by a part of the quota in foreign currency and the FTP reserve position, which represents a receivable from loans granted in respect of the Financial Transactions Plan (FTP). Under the FTP, as at 31 December 2011, funds of XDR 115 million were provided to third countries, amounting to EUR 136,957 thousand (EUR 74,772 thousand as at 31 December 2010).

The balance of the nostro account in the IMF in XDR, as at 31 December 2011, was XDR 325 mil-

Receivables from / Payables to the International Monetary Fund

	31 Dec 2011		31 Dec 2010	
	Equivalent in XDR mil.	EUR '000	Equivalent in XDR mil.	EUR '000
Receivables from IMF	**805**	**954,115**	**726**	**841,000**
1) Quota	428	507,274	358	414,427
– Quota in local currency	295	349, 550	293	339,655
– Quota in foreign currency	18	20,767		
– FTP reserve position	115	136,957	65	74,772
2) Nostro account in IMF	325	385,453	341	395,525
3) Bilateral lending	52	61,388	27	31,048
Liabilities to IMF	**295**	**349, 550**	**293**	**339,655**
1) IMF loro accounts	270	320,519	287	332,648
2) Currency Valuation Adjustment account	25	29,031	6	7,007
Total (net)		**604,565**		**501,345**

lion, equaling EUR 385,453 thousand (EUR 395,525 thousand as at 31 December 2010). In accordance with the agreement with the IMF, the Slovak Republic granted bilateral loans amounting to XDR 52 million to selected countries, equaling EUR 61,388 thousand (EUR 31,048 thousand as at 31 December 2010). 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 in IMF loro accounts with the NBS in the amount of EUR 320,519 thousand (EUR 332,648 thousand as at 31 December 2010). Liabilities in local currency change depending on the IMF representative exchange rate, which is recorded in the currency valuation adjustment account. A significant part of the liabilities consists of a note in the amount of EUR 317,293 thousand (EUR 315,943 thousand as at 31 December 2010).

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, External Loans and Other External Assets

EUR '000	31 Dec 2011	31 Dec 2010
Debt securities	33,374	31,347
Other	13,974	4,973
	47,348	**36,320**

Debt securities recognized as at 31 December 2011, categorized in this caption, are denominated in US dollars. As for the security issuers, they are financial intermediary securities.

As at 31 December 2011, "Other" mainly included cash in foreign currency in nostro accounts and term deposits of euro area non-residents.

3. Claims on Euro Area Residents Denominated in Foreign Currency

EUR '000	31 Dec 2011	31 Dec 2010
Receivables from reverse transactions	154,571	
Debt securities	108,155	111,752
Current accounts	5,224	306
	267,950	**112,058**

The item "Receivables from reverse transactions" represents transactions concluded with the purpose of providing the euro area credit institutions with short-term liquidity in USD. Under this programme, the Bank entered into a short-term swap transaction with the ECB, with the aim of securing USD (see Note 23). The euro part of the back-to-back swap is disclosed under the item "Intra-Eurosystem Liabilities" (see Note 18).

Debt securities categorized under this item are denominated in US dollars. As per security issuers, as at 31 December 2011 the Bank recorded securities of financial institutions and public authority.

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

As at 31 December 2011, within this category the Bank recognized debt securities of non-euro area residents of EUR 3,089,605 thousand (EUR 2,910,931 thousand as at 31 December 2010). As for the security issuers, 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 longer-term refinancing operations of EUR 1,264,000 thousand as at 31 December 2011 (EUR 1,005,000 thousand as at 31 December 2010, of which the volume of the main refinancing operations and longer-term refinancing operations represented EUR 815,000 thousand and EUR 190,000 thousand, respectively).

Longer-term refinancing operations are regular liquidity-providing reverse transactions of a longer period; as at 31 December 2011, transactions with a maturity of six months, one year and three years were recognized. These transactions are performed through standard tenders.

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

EUR '000	31 Dec 2011	31 Dec 2010
Redistribution loan	42,220	48,200
Current accounts	1,171	840
	43,391	**49,040**

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 2011, the redistribution loan bore interest of 0.50% p.a. (0.50% p.a. as at 31 December 2010).

As at 31 December 2011, the NBS recorded a state guarantee of EUR 44,237 thousand received for the redistribution loan on the off-balance sheet (EUR 50,589 thousand as at 31 December 2010). 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 2011	31 Dec 2010
Debt securities held for monetary policy purposes	2,416,086	1,394,282
Other securities	10,131,264	9,644,561
	12,547,350	**11,038,843**

Debt Securities Held for Monetary Policy Purposes

As at 31 December 2011, under the "Securities held for monetary policy purposes" caption, the Bank disclosed securities purchased under the SMP of EUR 1,863,689 thousand (EUR 840,426 thousand as at 31 December 2010) and securities purchased under the CBPP of EUR 552,397 thousand (EUR 553,856 thousand as at 31 December 2010). They were issued mainly by public authorities and monetary financial institutions of the euro area.

On the basis of the result of the impairment test for securities acquired under the SMP, conducted on 31 December 2011, and pursuant to a decision of the Governing Council, it is expected that all future cash flows related to these securities will be received. For this reason, the Bank did not create a provision for impairment (see Section B, Note e).

On the basis of the results of the impairment test for securities acquired under the CBPP, as coordinated by the ECB, the Bank Board decided that it was not necessary to create a provision for impairment losses (refer to Section B, Note e).

Other Securities

As at 31 December 2011, the Bank recognized trading securities issued by monetary financial institutions and public authorities of the euro area under this item.

As at 31 December 2011, under the item referred to above, the Bank recorded securities issued by the Government of the Slovak Republic of EUR 44,395 thousand (EUR 41,854 thousand as at 31 December 2010). 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 2011	31 Dec 2010
Participating interest in ECB	217,272	205,715
Claims equivalent to the transfer of foreign reserves	399,444	399,444
Net claims related to the allocation of euro banknotes within the Eurosystem	859,118	1,727,738
	1,475,834	**2,332,897**

Participating Interest in ECB

As at 31 December 2011, the Bank recorded a participating interest in the ECB's capital of EUR 63,058 thousand (EUR 51,501 thousand as at 31 December 2010). In accordance with Article 49(1) of the Statute and under Decisions ECB/2010/26 and ECB/2010/27 on the increase and the paying-up of the ECB's capital, with effect from 29 December 2010, the NBS's share in the ECB's capital was adjusted from EUR 39,944 thousand to EUR 74,614 thousand. On 28 December 2011 the NBS paid the second of three equal installments of EUR 11,557 thousand. Payment of the remaining portion of the share in the ECB's capital is to be made in December 2012.

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

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 2011, interest income from the claim equivalent to the transfer of foreign reserves amounted to EUR 4,301 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 859,118 thousand as at 31 December 2011 (EUR 1,727,738 thousand as at 31 December 2010). The claim bears interest at the interest rate for main refinancing operations (see Note 24).

9. Other Assets

EUR'000	31 Dec 2011	31 Dec 2010
Tangible and intangible fixed assets	154,779	162,701
Other financial assets	10,622	10,448
Off-balance-sheet instruments revaluation differences		127
Accruals and prepaid expenses	378,790	339,769
Accumulated losses from previous years	5,529,158	5,014,533
Sundry	457,643	377,659
	6,530,992	**5,905,237**

Tangible and Intangible Fixed Assets

This item comprises fixed assets of the NBS. The balance of tangible and intangible fixed assets as at 31 December 2011 was as follows:

As at 31 December 2011, the NBS recognized fixed assets held for sale of EUR 4,876 thousand.

Other Financial Assets

As at 31 December 2011 and 31 December 2010, 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.

As at 31 December 2011 and 31 December 2010, the Bank owned 2,858 BIS shares of EUR 19,722 thousand (EUR 19,232 thousand as at 31 December 2010), 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 7,004 thousand (EUR 6,830 thousand as at 31 December 2010). The liability from the outstanding shares of 75% of the face value of each share represents EUR 12,718 thousand (EUR 12,402 thousand as at 31 December 2010). The outstanding portion of the shares is due on demand.

As at 31 December 2011, 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 2010).

Accruals and Prepaid Expenses

This item mainly represents accrued bond coupons of EUR 235,827 thousand (EUR 237,554 thousand as at 31 December 2010) and interest accrued on derivatives of EUR 78,927 thou-

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 2011	**277,611**	**25,716**	**303,327**
Additions	3,239	2,371	5,610
Disposals	14,286	589	14,875
Acquisition cost as at 31 December 2011	**266,564**	**27,498**	**294,062**
Accumulated depreciation as at 1 January 2011	**122,751**	**17,875**	**140,626**
Additions	7,399	2,943	10,342
Disposals	6,772	37	6,809
Accumulated depreciation and provisions as at 31 December 2011	**123,378**	**20,781**	**144,159**
Carrying amount of TA and IA as at 1 January 2011	**154,860**	**7,841**	**162,701**
Carrying amount of TA and IA as at 31 December 2011	**143,186**	**6,717**	**149,903**

sand (EUR 67,811 thousand as at 31 December 2010).

Sundry

EUR '000	31 Dec 2011	31 Dec 2010
Deposits – collaterals to derivatives	421,900	306,000
Interest rate swaps	16,300	41,069
Options purchased		4,681
Interest rate futures	5,967	12,522
Investment and consumer loans granted to employees	10,726	10,950
Other	2,750	2,437
	457,643	**377,659**

The purpose of the deposits granted – collaterals to derivatives – is to secure counterparty credit risk in respect of a decrease in the value of the swap on the part of the NBS (see Section B, Note f).

10. Banknotes in Circulation

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 2011 amounted to EUR 8,099,844 thousand (EUR 7,674,876 thousand as at 31 December 2010). Euro banknotes actually issued by the NBS as at 31 December 2011 amounted to EUR 7,240,726 thousand (EUR 5,947,138 thousand as at 31 December 2010). As at 31 December 2011, 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 859,118 thousand (EUR 1,727,738 thousand as at 31 December 2010).

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

EUR '000	31 Dec 2011	31 Dec 2010
Current accounts covering the minimum reserve system	217,174	600,731
Deposit facility	428,801	89,733
Fixed-term deposits		25,000
	645,975	**715,464**

As at 31 December 2011, current accounts represented monetary reserves of credit institutions that are subject to the minimum reserve system (subsequently the "MRS") in accordance with the Statute. The MRS enables the average fulfillment of monetary reserves of credit institutions over the maintenance period set, as published by the ECB. The MRS holdings are remunerated at the average rate of the Eurosystem's main refinancing operations valid over the given maintenance period. Excess reserves bear no interest.

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 2011	31 Dec 2010
Liabilities from repo transactions	281,595	
Tri-party repo transactions		1,000,000
Liabilities from repo transactions with gold	44,659	49,951
Deposits received for repo transactions	2,144	
Interbank clearing in Slovakia (SIPS)	418	108
	328,816	**1,050,059**

13. Liabilities to Other Euro Area Residents Denominated in Euro

EUR '000	31 Dec 2011	31 Dec 2010
Public authority	620	115
Other liabilities	159,382	111,268
	160,002	**111,383**

Public authority

As at 31 December 2011, the NBS recognized the current accounts of the State treasury under this heading.

Other Liabilities

EUR '000	31 Dec 2011	31 Dec 2010
Client current accounts	11,234	11,187
Client term deposits	28,676	29,290
Current accounts of auxiliary financial institutions	267	215
Term deposits of auxiliary financial institutions	119,205	70,576
	159,382	**111,268**

As at 31 December 2011 and 31 December 2010, the NBS maintained current accounts and term deposit accounts of the following auxiliary financial institutions: the Deposit Protection Fund and the Investment Guarantee Fund.

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

EUR'000	31 Dec 2011	31 Dec 2010
Tri-party repo transactions	690,000	
Liabilities from repo transactions with gold	570,108	
Liabilities from repo transactions	226,058	275,029
Liabilities to international financial institutions	4,546	3,277
Client loro accounts		18
Deposits received for repo transactions	3,036	
	1,493,748	**278,324**

15. Liabilities to Euro Area Residents Denominated in Foreign Currency

EUR'000	31 Dec 2011	31 Dec 2010
Liabilities from repo transactions with gold	90,484	86,117
Current accounts of the State Treasury in foreign currency	13	1
	90,497	**86,118**

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

As at 31 December 2011, this heading included liabilities from long-term repo transactions with gold denominated in US dollars in the total amount of EUR 65,368 thousand (EUR 62,457 thousand as at 31 December 2010).

17. Counterpart of Special Drawing Rights Allocated by the IMF

As at 31 December 2011, the Bank recorded a liability to the IMF from the allocation of EUR 404,046 thousand (EUR 394,002 thousand as at 31 December 2010). 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

Under this caption, the major item represents the Bank's liability to TARGET2, which was EUR 13,622,088 thousand as at 31 December 2011 (EUR 13,311,469 thousand as at 31 December 2010) (see Section B, Note j). This position, except for the euro part of the back-to-back swap (see Note 3), bears interest for the main refinancing operations. Total interest paid was EUR 143,684 thousand as at 31 December 2011 (see Note 24).

19. Other Liabilities

EUR'000	31 Dec 2011	31 Dec 2010
Off-balance-sheet instruments revaluation differences	10,395	892
Accruals and income collected in advance	228,796	231,307
Sundry	929,837	663,667
	1,169,028	**895,866**

Off-Balance-Sheet Instruments Revaluation Differences

This item represented an exchange rate gain from off-balance sheet instruments valuation (see Note 23) of EUR 10,395 thousand (EUR 892 thousand as at 31 December 2010).

Accruals and Income Collected in Advance

As at 31 December 2011, the major part of accruals represented interest expense from interest rate swaps in euro of EUR 214,851 thousand (EUR 219,142 thousand as at 31 December 2010) and interest on TARGET2 remuneration of EUR 10,721 thousand (EUR 11,155 thousand as at 31 December 2010).

Sundry

EUR'000	31 Dec 2011	31 Dec 2010
Interest rate swaps	336,807	214,540
Deposits – collaterals to derivatives	338,220	9,900
Euro coins in circulation	115,605	103,709
SKK banknotes in circulation	86,902	93,539
SKK coins in circulation	47,221	47,395
Options sold		189,587
Other	5,082	4,997
	929,837	**663,667**

The purpose of deposits received – collaterals to derivatives – is to secure the NBS credit risk in respect of a decrease in the value of the swap on the part of the counterparty (see Section B, Note f).

20. Provisions

EUR '000	31 Dec 2011	31 Dec 2010
Provisions for payables to employees	3,668	3,479
Provisions for legal disputes	3,356	766
Provisions for unbilled supplies	719	631
	7,743	**4,876**

21. Revaluation Accounts

EUR '000	31 Dec 2011	31 Dec 2010
Revaluation accounts of: gold	606,583	442,116
securities	131,698	56,277
derivatives	16,300	41,069
foreign currency	10,120	5,004
	764,701	**544,466**

22. Capital and Reserves

EUR '000	31 Dec 2011	31 Dec 2010
Capital	16,041	16,041
Reserves	341,756	342,304
	357,797	**358,345**

Capital

This item includes the statutory fund representing the paid-up 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 the 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 2011, the NBS's general reserves amounted to EUR 340,874 thousand (EUR 340,874 thousand as at 31 December 2010). The general reserves consist of contributions from profits of EUR 337,412 thousand generated from previous years. 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 2011, the NBS's capital reserves amounted to EUR 882 thousand (EUR 1,430 thousand as at 31 December 2010). They mainly included real estate delimitation balances. On a decision of the Bank Board, a portion of the capital fund of EUR 548 thousand was transferred to the accumulated loss from previous years.

Summary of Changes in Equity and Accumulated Losses

	EUR '000	Statutory fund	Capital reserves	General reserves	Revaluation Accounts profit/(loss)	Accumulated (loss) from previous years	Profit/(loss) of current year
1.	**Balance as at 31 December 2010**	**16,041**	**1,430**	**340,874**	**544,466**	**(5,014,533)**	**(515,173)**
2.	Transfer of profit for 2010 to accumulated loss from previous years					(515,173)	515,173
3.	Transfer of part of capital reserves to accumulated loss from previous years		(548)			548	
4.	Transfer to statutory fund						
5.	Transfer to general reserves						
6.	Change in revaluation accounts of securities				75,421		
7.	Change in revaluation accounts of derivatives				(24,769)		
8.	Change in revaluation accounts of gold				164,467		
9.	Change in revaluation accounts of foreign currencies				5,116		
10.	(Loss)/profit for the current reporting period						(76,734)
11.	Remittances from profit						
12.	Change for the reporting period		(548)		220,235	(514,625)	438,439
13.	**Balance as at 31 December 2011**	**16,041**	**882**	**340,874**	**764,701**	**(5,529,158)**	**(76,734)**

23. Off-Balance Sheet Instruments

EUR '000	31 Dec 2011 Receivables	31 Dec 2011 Liabilities	31 Dec 2010 Receivables	31 Dec 2010 Liabilities
Currency swaps in EUR (forward leg)	278,310		69,114	
Currency swaps in USD (forward leg)		238,813		43,032
Currency swaps in JPY (forward leg)		27,385		16,972
Currency swaps in GBP (forward leg)		22,507		9,875
	278,310	**288,705**	**69,114**	**69,879**

EUR '000	31 Dec 2011 Receivables	31 Dec 2011 Liabilities	31 Dec 2010 Receivables	31 Dec 2010 Liabilities
Call options sold			273,278	422,396
Put options purchased			161,500	422,396
			434,778	**844,792**

EUR '000	31 Dec 2011 Receivables	31 Dec 2011 Liabilities	31 Dec 2010 Receivables	31 Dec 2010 Liabilities
Interest rate futures in EUR		68,200		245,400
Interest rate futures in USD		20,867		50,891
		89,067		**296,291**

The major part of the value of currency swaps in EUR and USD relates to reverse transactions of the monetary policy in USD in order to provide credit institutions with short-term liquidity (see Note 3).

24. Net Interest Income

EUR '000	31 Dec 2011	31 Dec 2010
Interest income	**980,508**	**666,197**
Interest income from bonds	629,631	417,293
Interest income from derivatives	337,814	221,338
Interest income from repo transactions	6,205	17,985
Interest income from claims equivalent to the transfer of foreign reserves	4,301	3,442
Interest from client loans and deposits	2,324	1,790
Net interest income from remuneration of euro banknotes		4,073
Interest from redistribution loan	219	252
Other	14	24
Interest expense	**(673,405)**	**(623,006)**
Interest expense from derivatives	(482,732)	(465,604)
Interest expense from TARGET2 remuneration	(143,684)	(141,974)
Interest expense from repo transactions	(32,440)	(6,306)
Interest expense from minimum reserve requirement	(8,884)	(6,951)
Interest on current accounts, deposits and loans	(3,582)	(2,165)
Net interest expense from remuneration of euro banknotes	(2,057)	
Other	(26)	(6)
	307,103	**43,191**

In 2011, the result of the remuneration of euro banknotes was recognized on a net basis. The 2010 comparatives were adjusted accordingly.

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

EUR '000	31 Dec 2011	31 Dec 2010
Gains realized from financial operations	**115,700**	**158,269**
Net gains from interest rate swaps	117,131	47,865
Net foreign exchange gains/(losses) from daily valuation	11,808	(725)
Net gains from sale of securities	11,647	111,137
Net foreign exchange (loss) from other operations	(12)	(8)
Net (losses) from options	(24,874)	
Write-downs on financial assets and positions	**(461,988)**	**(673,530)**
Losses from derivatives valuation	(233,329)	(226,745)
Losses from securities valuation	(221,795)	(440,520)
Losses from foreign currency valuation	(6,864)	(6,265)
	(346,288)	**(515,261)**

The net result of financial operations was mainly influenced by a loss from the valuation of interest rate swaps and securities using market price.

Net losses realized from options relate to an early termination of eight option contracts; they represent the difference between the market price of the options as at the date of the early termination and the option premiums adjusted for unrealized losses from valuation.

26. Net Income/(Expense) from Fees and Commissions

EUR '000	31 Dec 2011	31 Dec 2010
Fees and commissions income	**5,075**	**5,057**
Fees and commissions in operations with securities	2,445	2,516
Fees received from SIPS participants	1,900	1,788
Fees and commissions received from clients	297	334
Fees received from share of TARGET 2 pooled income	345	344
Fees received from exchange of euro coins	78	71
Other	10	4
Fees and commissions expense	**(1,371)**	**(1,250)**
Fees paid to banks	(1,160)	(954)
Fees paid to SWIFT	(101)	(111)
Fees related to interest rate futures	(65)	(154)
Fees for TARGET2	(38)	(37)
Other	(7)	6
	3,704	**3,807**

27. Income from Equity Shares and Participating Interests

EUR '000	31 Dec 2011	31 Dec 2010
Income on euro banknotes in circulation	6,461	
Participating interest in the ECB's net profit from previous year	1,697	14,565
Dividends from shares and participating interest	934	2,326
	9,092	**16,891**

By the Decision of the ECB Governing Council of 21 December 2011, the ECB's income from euro banknotes in circulation in the amount of EUR 652 million was partially redistributed among the national central banks of the Eurosystem.

In relation to the participating interest in BIS, as at 31 December 2011 the Bank recorded dividends received from BIS shares of EUR 934 thousand (EUR 2,326 thousand as at 31 December 2010).

28. Net Result of Pooling of Monetary Income

Monetary income pooled by the NBS for 2011 into the common pool of the monetary income of the Eurosystem was EUR 140,037 thousand. Monetary income corresponding to the 0.9910% share of the NBS in the common pool was EUR 155,445 thousand. The difference of EUR 15,408 thousand (EUR 6,192 thousand as at 31 December 2010) represents the net result arising from the pooling of monetary income.

The correction of the monetary income of the Eurosystem for 2009 and 2010 resulted in the NBS achieving a net income of EUR 188 thousand (costs of EUR 651 thousand as at 31 December 2010).

29. Other Income and Other Expenses

As at 31 December 2011, most of the Bank's other income represented income from fees and contributions from financial market entities of EUR 4,281 thousand (EUR 4,054 thousand as at 31 December 2010) and income from sales of commemorative coins and material from damaged

SKK coins of EUR 3,816 thousand (EUR 2,066 thousand as at 31 December 2010).

As at 31 December 2011, the Bank's other expenses mainly represented costs of the minting of collector coins of EUR 3,977 thousand (EUR 3,025 thousand as at 31 December 2010) and costs of minting euro coins of EUR 2,608 thousand (EUR 1,850 thousand as at 31 December 2010).

30. Staff Costs

EUR '000	31 Dec 2011	31 Dec 2010
Wages and salaries	(22,242)	(22,339)
Social security costs	(7,648)	(7,303)
Other employee costs	(4,081)	(4,723)
	(33,971)	**(34,365)**

As at 31 December 2011, the average FTE number of employees was 1,073 (1,082 as at 31 December 2010), of whom 99 were managers (102 as at 31 December 2010).

Wages and employee benefits of the Bank Board's members for 2011 amounted to EUR 812 thousand (EUR 1,463 thousand in 2010). As at 31 December 2011, the Bank recorded no outstanding loans to the members of the Bank Board (EUR 215 thousand as at 31 December 2010).

31. Administrative Expenses

As at 31 December 2011, this item mainly included costs of technical support and IS maintenance, repairs and maintenance, energy consumption and telecommunications costs totaling EUR 10,128 thousand (EUR 9,738 thousand as at 31 December 2010).

Costs of audit of the financial statements by the auditor represented EUR 71 thousand as at 31 December 2011 (EUR 70 thousand as at 31 December 2010). As at 31 December 2011, the Bank did not record any costs of assurance and audit services and tax consulting as per Article 18 (6) of the Act on Accounting.

32. Depreciation of Tangible and Intangible Fixed Assets

EUR '000	31 Dec 2011	31 Dec 2010
Depreciation of tangible fixed assets	(7,399)	(7,899)
Depreciation of intangible fixed assets	(2,943)	(3,262)
	(10,342)	**(11,161)**

33. Banknote Production Services

As at 31 December 2011, the cost of printing euro banknotes amounted to EUR 3,070 thousand (EUR 9,498 thousand as at 31 December 2010).

34. (Loss)/Profit for the Year

The result of the Bank's operations as at 31 December 2011 was a loss of EUR 76,734 thousand (loss of EUR 515,173 thousand as at 31 December 2010). The Bank Board decided that the loss would be allocated to the accumulated loss from previous years. The reported loss was largely affected by unrealized losses from the valuation of financial instruments to market value of EUR 461,988 thousand (see Note 25) which, in accordance with the ECB 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).

D. POST-BALANCE SHEET EVENTS

In accordance with Article 33 of the Statute, at its meeting on 8 March 2012, the ECB Governing Council decided to distribute the ECB's net profit for 2011 to individual central banks based on the key on the ECB's paid-up capital. The NBS income of EUR 755 thousand from the distribution of profit is included in the 2012 reporting period.

No significant events occurred subsequent to 31 December 2011 that would require any adjustments to the 2011 financial statements.

Bratislava, 13 March 2012

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 Coll., § 23 par. 5

To the Bank Board of the National Bank of Slovakia:

I. We have audited the financial statements of National Bank of Slovakia ('the Bank') as at 31 December 2011 presented in the annual report on pages 75 - 97. We issued the following audit report dated 13 March 2012 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 2011, 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, as amended ('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.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011 and of its financial performance for the year then ended in accordance with the ECB Guideline and the Act on Accounting.

13 March 2012
Bratislava, Slovak Republic

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

Ing. Dalimil Draganovský
SKAU Licence No.893"

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 2011. 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 2011 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.

24 April 2012
Bratislava, Slovak Republic

Ernst & Young
Ernst & Young Slovakia, spol. s r.o.
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Ing. Dalimil Draganovský
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NÁRODNÁ BANKA SLOVENSKA
EUROSYSTÉM

ANNEXES

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Abbreviations

BIS	Bank for International Settlement
ECB	European Central Bank
ESCB	European System of Central Banks
EU	European Union
EUR	euro
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
NBS	Národná banka Slovenska
NCB	national central bank
OECD	Organisation for Economic Co-operation and Development
p. a.	per annum
p. p.	percentage point
SKK	Slovak koruna
SR	Slovak Republic
SU SR	Statistical Office of the Slovak Republic
TARGET	Trans-European Automated Real-time Gross Settlement Express Transfer