



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM

CHAPTER 3

SUPERVISION OF THE FINANCIAL MARKET



3 SUPERVISION OF THE FINANCIAL MARKET⁴

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

3.1 FINANCIAL MARKET REGULATION IN THE SLOVAK REPUBLIC

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

BANKING SECTOR

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

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

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

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

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

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



INSURANCE SECTOR

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

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

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

FINANCIAL INTERMEDIATION SECTOR

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

the purposes of the Act on Financial Intermediation and Financial Advisory Services.

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

PENSION SAVINGS SECTOR

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

SECURITIES MARKET SECTOR

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

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



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

ALL AREAS OF THE FINANCIAL SECTOR

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

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

LICENSING ACTIVITY AND ENFORCEMENT

Within the scope of its activities as a department of the FMS Unit, the Banking and Payment Serv-

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

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

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

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

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

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

Source: NBS.



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

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

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

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

SUPERVISORY ACTIVITIES

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

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

A total of eight thematic inspections and two follow-up inspections were conducted in 2010, and seven of them were formally completed by the end of the year. The focus of the thematic

inspections was: the credit risk management system; loan-loss provisioning; the market risk management system; liquidity risk; the provision of investment services; and information systems security and the prevention of money laundering. The follow-up inspections centred on compliance with conditions for using an internal ratings-based approach for the calculation of capital requirements and on the implementation of measures to improve recommendation in regard to market risk and liquidity management.

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

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

3.3 INSURANCE, PENSION SAVING AND FINANCIAL INTERMEDIATION SECTOR

LICENSING ACTIVITY AND ENFORCEMENT

The Securities Market, Insurance and Pension Savings Department is responsible for off-site supervision, on-site supervision, and licensing of supervised entities in the insurance, pension saving, financial intermediation and securities mar-



ket sectors, and for the conduct of proceedings involving such entities.

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

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

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

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

In 2010 there were 13 proceedings concerning the imposition of a sanction or other obligation on entities in the insurance, pension saving and financial intermediation sectors, and four of the proceedings commenced in 2010. The FMS Unit issued 13 first-instance decisions in these sanction proceedings, ten of which entered into force in the

same year. In the other three cases, the Bank Board of NBS issued a second-instance decision in 2010 that brought the proceedings to a close.

SUPERVISORY ACTIVITIES

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

Insurance sector

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

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

Pension saving sector

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

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

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

Source: NBS.



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

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

Financial intermediation and financial advisory sector

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

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

3.4 SECURITIES MARKET SECTOR

LICENSING AND ENFORCEMENT

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

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

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

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

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

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

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

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

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

Source: NBS.



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

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

1) As at 31 December 2009, the following branches of foreign credit institutions had not commenced banking activities – AXA Bank Europe, a branch of a foreign bank, and UNIBON, a savings and credit cooperative that is an organisational unit of a foreign entity.

2) As at 31 December 2010, the following branches of foreign credit institutions had not commenced banking activities – BKS Bank AG, a branch of a foreign bank in Slovakia, and AKCENTA, a savings and credit cooperative (Košice-based branch).

3) As of 1 January 2010, Act No. 186/2009 Coll. On financial intermediation and financial advisory services and on amendments to certain laws entered into force and introduced a new regulatory system for financial intermediation and financial advisory services throughout the financial sector. Consequently, individual entities cannot be stated as at 31 December 2009 in the structure applicable as at 31 December 2010.

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

SUPERVISORY ACTIVITIES

The purpose of off-site supervision is to monitor and evaluate the financial position and risk profile of supervised entities on the basis of periodically submitted information, information acquired from on-site inspections, and publicly available

information. The main information sources in this regard are statements sent to Národná banka Slovenska, half-yearly management reports and mandatory disclosures that companies make on their websites. It is on the basis of follow-up analyses of such information that quarterly off-site analysis outputs are produced.

The on-site inspections conducted in the securities market sector in 2010 comprised four comprehensive inspections of investment firms, one



thematic inspection of an investment firm and three comprehensive inspections of management companies.

Investment firms – non-banking entities

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

Collective investment

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

Securities issuers and companies making a public offering

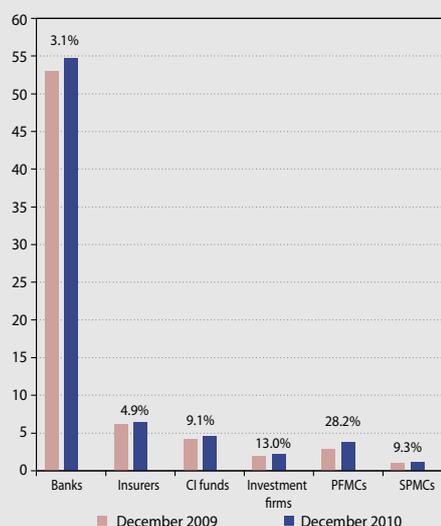
In 2010, Národná banka Slovenska exercised off-site supervision over issuers whose securities are admitted to trading on a regulated stock exchange and over companies making public offerings, in each case focusing on their compliance with the disclosure requirements laid down in the Stock Exchange Act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

submitted issue conditions in the Commercial Bulletin in accordance with Section 3(5) of the Bonds Act. A total of 75 bond issues were made by 28 issuers during the course of 2010, and all the issuers met the above-mentioned disclosure requirement. NBS supervision of bond issuers also included monitoring of their websites.

3.5 CONSUMER PROTECTION

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

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



Source: NBS.

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



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

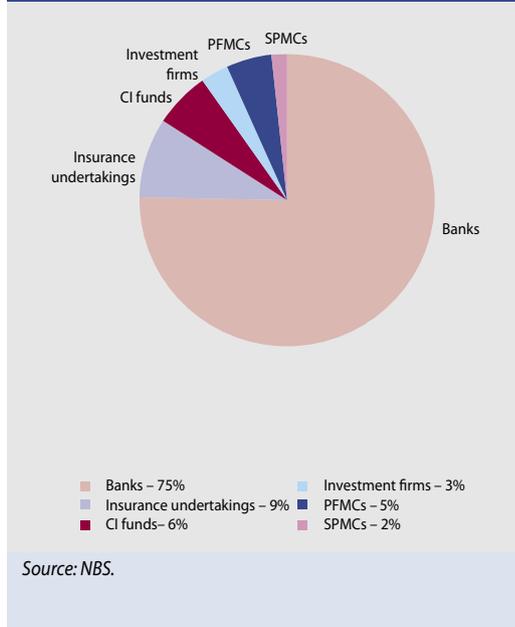
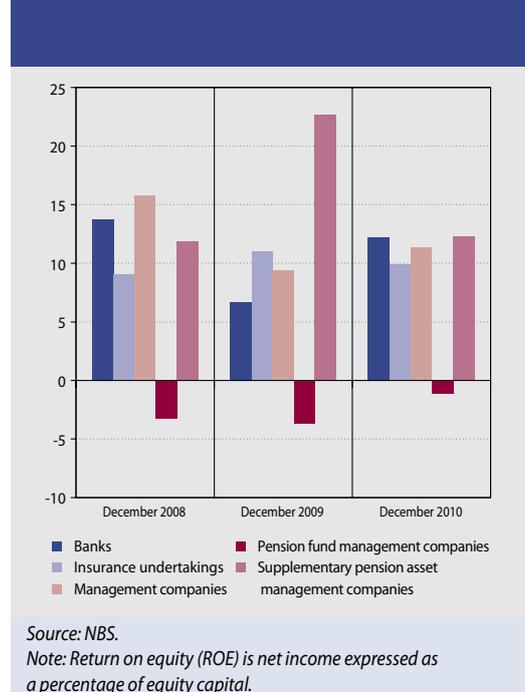


Chart 24 Average return on equity by financial market segment (%)



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

3.6 FINANCIAL MARKET DEVELOPMENTS⁷

Asset growth slowed slightly in the second half of 2010

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

pace of asset growth slowed slightly over the second half of 2010.

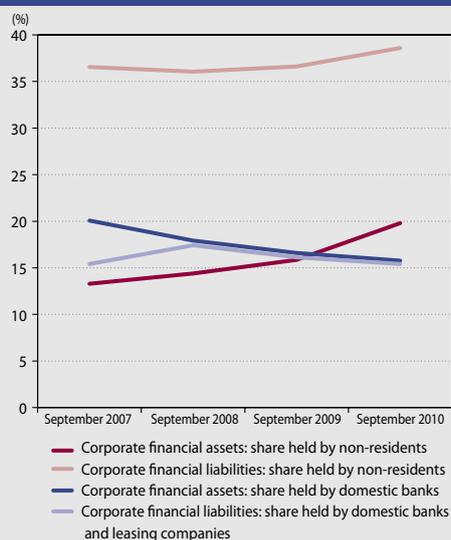
A number of trends seen in the first half of 2010 continued during the rest of the year. Asset growth was most pronounced in segments focused on the management of customers’ financial assets, as households continued to accumulate financial assets in pension funds and in collective investment funds; these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

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

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

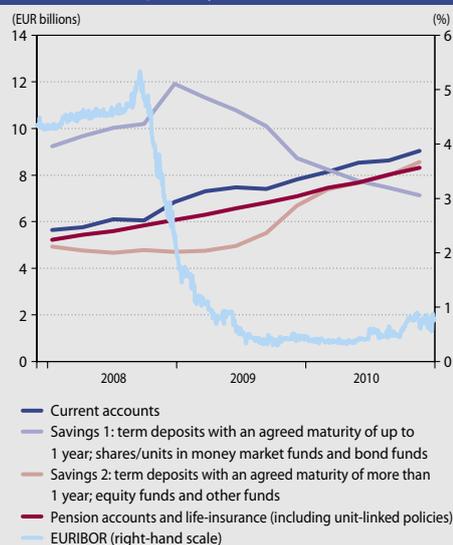
⁷ Preliminary data as at 31 December 2010.

Chart 25 Links between corporates and the domestic financial sector



Source: NBS.

Chart 26 Household financial assets from the view of liquidity



Source: NBS.

Unclear trends in financial sector profitability

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

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

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

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

Source: NBS.

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

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

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

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



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

Increasing importance of households to the financial sector

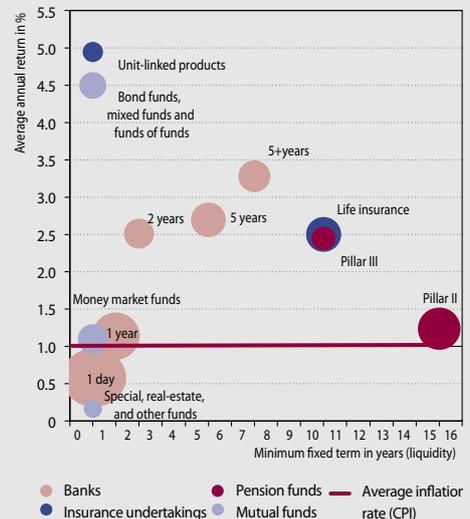
The situation in the household sector differs considerably. The basic difference is that households make negligible use of non-resident sources for the financing of their investments or the management of their financial assets. In the last two years in the domestic market, households have to a greater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

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

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

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

Chart 27 Household financial assets by maturity and gross performance



Source: NBS.

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

Mixed developments in returns on household financial assets

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

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

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