

E. PAYMENT SYSTEMS



1. PAYMENT SYSTEMS IN THE SLOVAK REPUBLIC

One of basic tasks of the National Bank of Slovakia is to control and coordinate the payment system and to ensure its smooth, efficient and economic performance. The responsibilities and rights of the central bank are stipulated in the National Bank of Slovakia Act No. 566/1992 Zb. as amended. In order to direct and ensure a standardised payment and settlement system and clearing of data from the payment and settlement system between banks and selected legal persons, the National Bank of Slovakia stipulates through generally binding regulations:

- a) principles of the payment and settlement system and clearing of data from the payment system,
- b) details for the issue, management, and use of individual payment instruments, and of requirements for technical properties and safety features for individual payment instruments, including limits and other technical limitations of transactions performed by individual payment instruments.

The principles of payment systems between bank and client are laid in the General Commercial Conditions, Stipulating the Principles for Maintaining Accounts of Clients at Banks and the Principles of Payment Systems and Settlement for such Accounts. The General Commercial Conditions were drawn up by the National Bank of Slovakia in cooperation with commercial banks and issued in 1993. They stipulate the commercial terms and conditions for opening, keeping and closing a deposit account, individual forms of payments, payment and settlement transactions processing, paying interest on accounts, prices for payment systems services, reports and errors in settlement and individual payment instruments (bills of exchange, bank-cheques, bank payment cards and letters of credit). The General Commercial Conditions do not constitute a generally binding regulation but they are adhered to by banks and applied in

transactions with clients via their commercial conditions, or directly in account agreements.

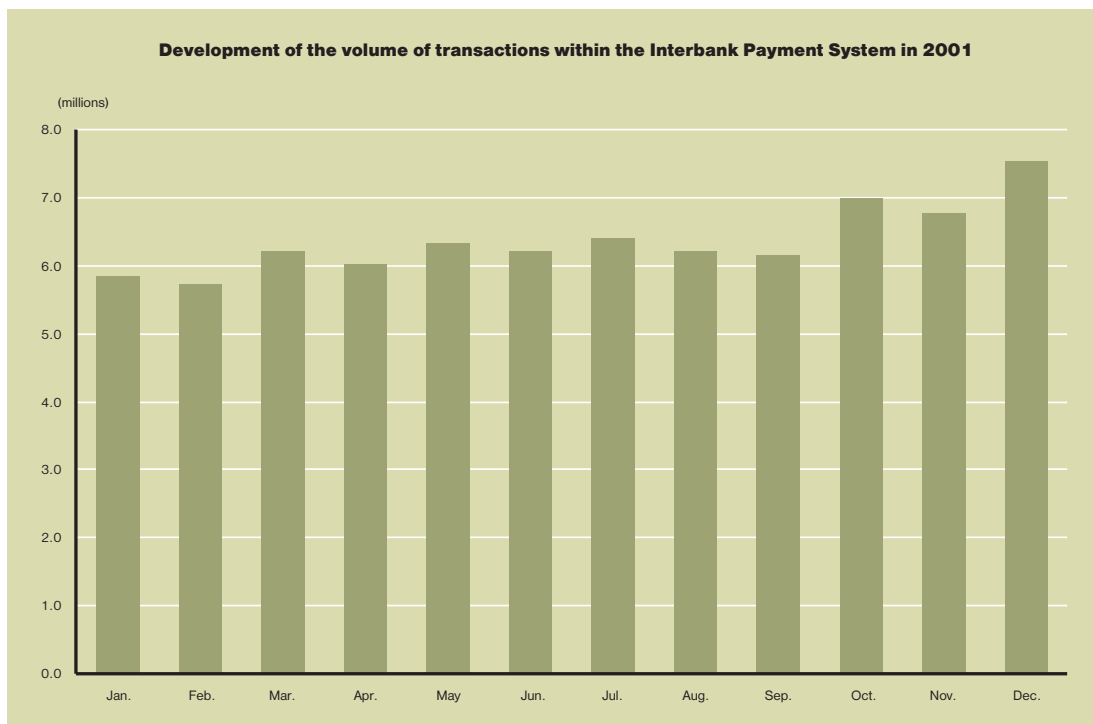
The National Bank of Slovakia, in addition to issuing generally binding regulations, monitors and analyses statistical data from payment transactions processing. It organises regular meetings with banking sector representatives at which it presents its strategic goals regarding the development of payment systems in the Slovak Republic.

As part of the integration process of the Slovak Republic with the European Union, the National Bank of Slovakia has participated in the transposition of EU legislation on payment systems in the Slovak law. In this respect, it has begun to draft a new Act on payment systems, which will resolve the issue of payment systems in a comprehensive manner. The Act will regulate the performance of domestic and cross-border transfers of funds, the issue and use of electronic means of payment, the establishment and operation of payment systems, the supervision of payment systems, claims and the settlement of disputes related to payment systems. The aim is for the Act to come into force on 1 January 2003.

2. INTERBANK PAYMENT SYSTEMS

The National Bank of Slovakia has enacted Decree No. 275/1994 Z.z. on the principles of payment systems between banks ensuring a uniform payment and settlement system between banks in the Slovak Republic.

Pursuant to valid legislation, all payments between banks – regardless of whether they involve large-value or small-value payments – are implemented by means of the Slovak Interbank Payment System - SIPS. The system is operated by the Bankové zúčtovacie centrum Slovenska, a.s. (Slovak National Clearing Centre). Its shareholders include the commercial banks, the Ministry of Finance of the SR and the National

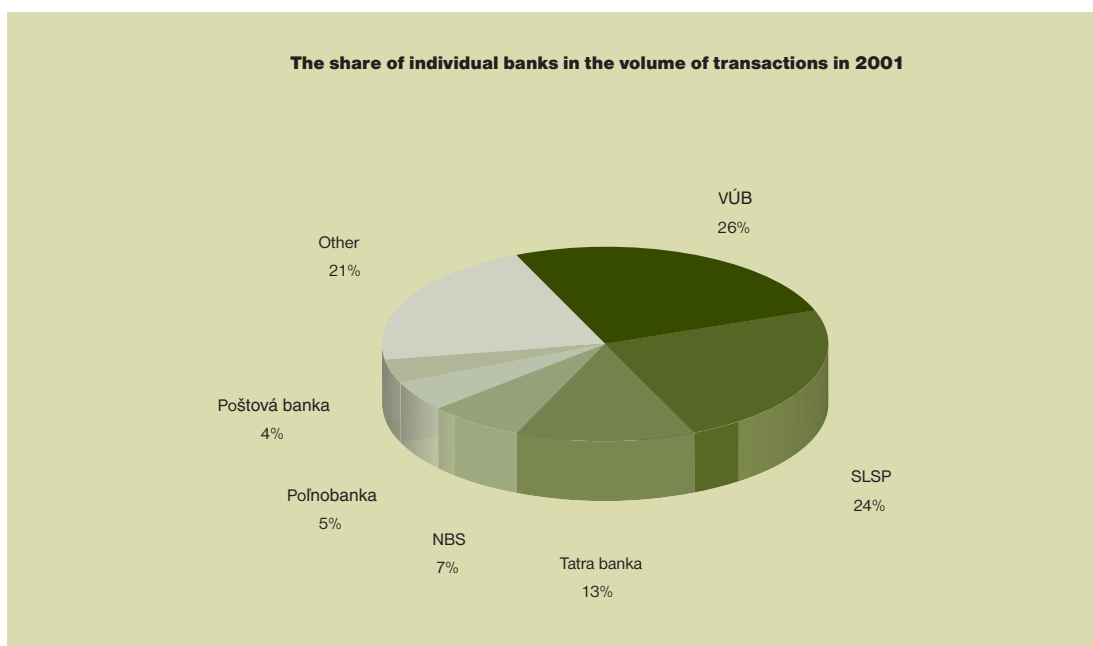


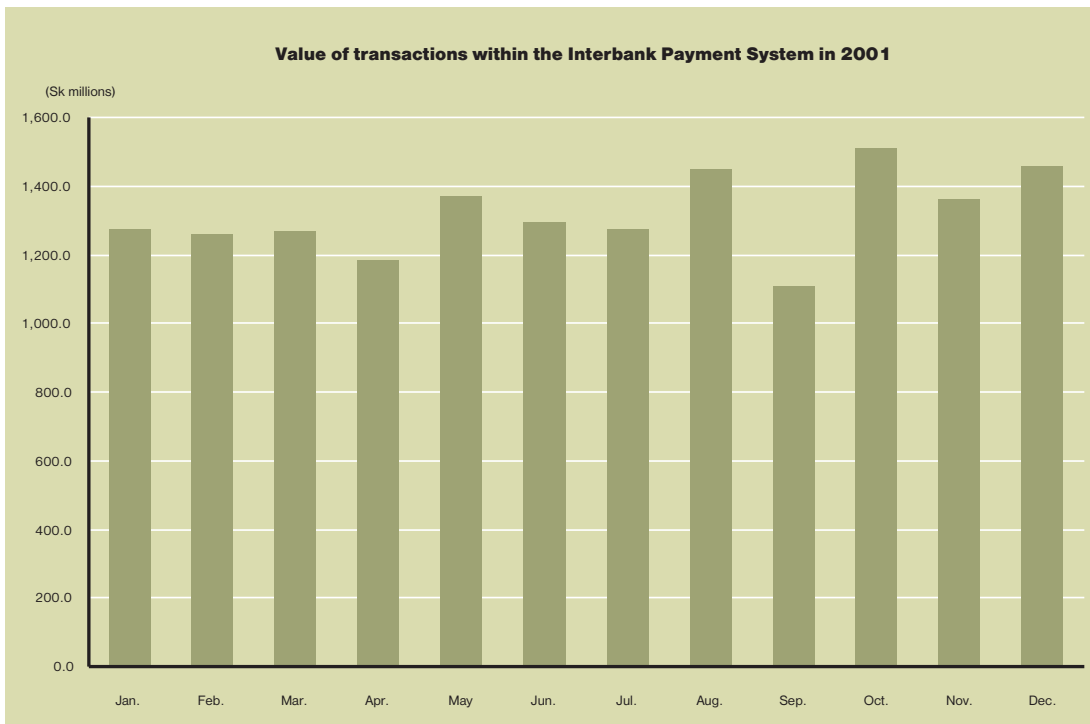
Bank of Slovakia, which owns the majority of the equity capital.

Participants in the system include all the banks, branches of foreign banks with a valid license for the conduct of payment transactions, the National Bank of Slovakia, and so-called third parties. The latter are non-banking entities with a license from the National Bank of Slovakia, and which provide

the final settlement of securities transactions and payment card transactions. There are currently two such entities - Autorizačné centrum Slovenska, a.s. (Authorisation Centre of Slovakia), and Burza cenných papierov Bratislava, a.s. (Bratislava Stock Exchange).

The SIPS processes credit transfers and collections. For every transaction it checks

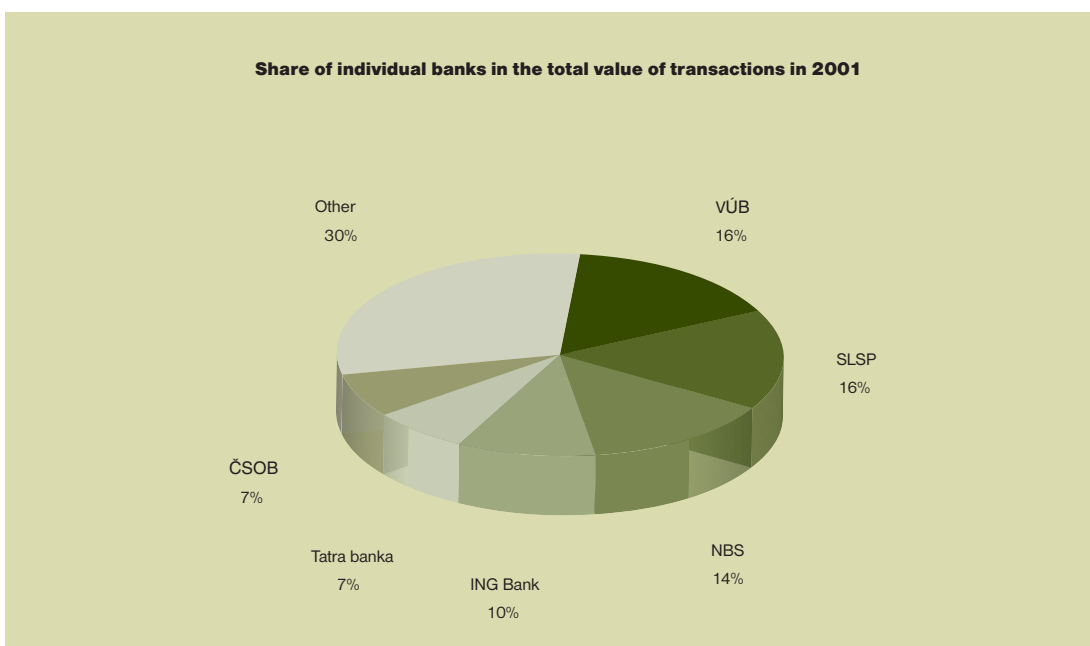




whether there is sufficient coverage. In the event of insufficient coverage, it retains the transaction until the participant has sufficient liquidity for its settlement. If the participant still does not have sufficient liquidity by the end of the relevant accounting day, the system returns the transaction to the participant. The system allows the participants to monitor actual positions during the day.

The National Bank of Slovakia does not provide intraday credit; settlement is conducted using funds deposited by commercial banks at the central bank.

In 2001, there were 25 participants in the system. An average of 315,575 transactions a day are processed in the value of SKK 63 billion. For 2001 as a whole, 78.8 mil. transactions



were processed, which represents a 12% increase compared to the previous year.

The total value of transactions was Sk 15,841,715 million, which represented an increase of 23% over the previous year. The average value of transaction processed was Sk 200,000.

During 2001, the National Bank of Slovakia began working on replacing the existing communication system by which data is currently transmitted between the banks and the clearing centre. The reason for introducing the new system, known as BIPS (Basic Interface for Payment System), is to further improve the security and quality of data transmission. BIPS is expected to be in operation by 1 January 2003 at the latest.

As a consequence of the planned accession of the Slovak Republic to the European Union and the resulting necessity of a gradual harmonisation of the infrastructure of the domestic payment system, the National Bank of Slovakia has begun work on the preparation of a payment system based on the principle of clearing item by item in real time. The basic objective is the maximum reduction of risk, particularly with regard to large value payments. In July 2001, this strategy was presented to banking sector representatives. The planned implementation date was set as the reference date of accession to the European Union, i.e. 1 January 2004.

3. PAYMENT INSTRUMENTS

The most frequently used instruments for non-cash payment are credit transfer and payment cards. In 2001, 90.7% of the total volume of non-cash payment transactions was carried out by credit transfer.

The use of payment cards is increasing year by year. At 31 December 2001, there were approximately 1.97 million payment cards in use. They

were issued by banks, which are members of the Združenie pre bankové karty Slovenskej republiky (Banking Card Association of the Slovak Republic). The number of payment cards has increased to such an extent that currently every third inhabitant is a cardholder. International payment cards that can be used abroad as well as in Slovakia, comprise 80% of the overall number of payment cards issued. The remaining 20% are domestic payment cards. Banks issue various types of payment card products: Maestro, Eurocard/Mastercard, Master Card Electronic, VISA and Electron. Some banks also issue American Express cards, and Diners Club cards. One bank currently issues debit chip cards (EMV-standard) and several banks issue credit cards and virtual payment cards (both debit and credit).

More debit cards are issued than credit cards. The majority of cards issued by banks in Slovakia are a „pay now” product, i.e. debit cards linked to current accounts held in Slovak crowns or in a foreign currency.

Cardholders in the Slovak Republic have at their disposal a network of 1,182 ATMs and 9,602 EFT POS terminals. ATMs are owned by the banks that use the services of the Autorizačné centrum Slovenska, a.s. (Authorisation Centre of Slovakia, joint stock company). In October 1997, the two networks were connected and the joint ATM network of Banking Card Association of the Slovak Republic was established.

The increase in ATM use started before the development of EFT POS terminals. This is why cash withdrawals (77% of the overall number of card transactions in Slovakia) prevail over card payments (23%) in Slovakia. The value of card payments was (as of 31 December 2001) approximately 15% of the aggregate value of card transactions in the Slovak Republic. Cash withdrawals comprise 85% of the total.

In 2001, the EFT POS terminal network grew faster than the ATM network. In the period from 31 December 2000 to 31 December 2001, the

following changes were recorded: the number of ATMs increased by 9%, (EFT POS – 52% increase), the number of ATM transactions increased by 2% (EFT POS – 63% increase) and the value of ATM transactions increased by 12%, (EFT POS - 58% increase).

Payment by cheque has only a marginal role, for historical reasons.

New banking products

As a part of the expansion of their services, commercial banks have begun to offer their clients new electronic banking services, based on the remote communication between the bank and the client: home banking, Internet banking and mobile banking are currently provided by all major banks.

Banks offer clients various types of payment services, e.g.:

- on-line bank transfer via internet banking or via GSM,
- secure on-line card payments over the Internet or VISA virtual credit cards,
- on-line Internet bank – the „Eliot“ project run by Tatra banka, a.s.

ATMs are commonly used, not only for cash withdrawals, but also for checking account balances, bank transfers from a customer's account to another account, cash deposits and pre-paid mobile phone top-ups.

4. PAYMENT SYSTEM OF THE NATIONAL BANK OF SLOVAKIA

The National Bank of Slovakia operates an independent payment system for automated banking transactions (ABO system), by which it maintains client accounts and carries out payment transactions on such accounts. In 2001, pursuant to the Act on the National Bank of Slovakia, the bank maintained accounts and

carried out payment transactions on these accounts mainly for the following clients:

a) *banks* – the National Bank of Slovakia, as settlement agent for interbank payment systems in the Slovak Republic, settled positions of banks resulting from the processing of orders from participants in the interbank payment system on the monetary reserve accounts of banks. It maintained additional independent accounts for banks for the purchase and settlement of cash, deposits of bank's surplus liquidity, etc.

b) *state bodies and organisations* – in 2001, the National Bank of Slovakia maintained their revenue and expense budget accounts and other current accounts in accordance with a special law. At 31 December 2001, the Bank maintained 24,068 such accounts for a total of 3,249 clients. The National Bank of Slovakia, within the terms of compliance with the regulation of non-provision of credit to the state by the central bank, also controlled the release of payments from revenue and expense accounts of the state budget up to the approved limit for such accounts, up to the level of the total credit balance. With regard to its role as the fiscal agent of the Ministry of Finance of the Slovak Republic on monetary and capital markets, the National Bank of Slovakia conducted activities related to the repayment of principal on bonds, including the payment of interest on bonds.

c) *employees of the National Bank of Slovakia* – for whom, in accordance with regulation the Bank maintains current, time and credit accounts and carries out payment transactions on such accounts.

In 2001, the National Bank of Slovakia carried out payment transactions for 4,823 clients on 29,706 accounts via the ABO system, an average of almost 800 thousand transactions were performed per month.