

E. PAYMENT SYSTEMS



1. PAYMENT SYSTEMS IN THE SLOVAK REPUBLIC

The primary objective of the National Bank of Slovakia is to maintain price stability. To this end, the National Bank of Slovakia controls, coordinates and ensures payment systems and settlement of payment transactions within the scope of Act of the National Council of the Slovak Republic No. 566/1992 Zb. on the National Bank of Slovakia as amended. In order to direct and ensure a standardized 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 may issue generally binding regulations.

In addition to the above, the National Bank of Slovakia monitors developments and trends in the payment systems, analyses statistical data from payment transactions processing, and organises regular meetings with banking sector representatives to deal with current problems in order to ensure consistent and uninterrupted payment processing. The National Bank of Slovakia also informs about its intentions to influence the development of payment systems in the Slovak Republic.

In 2002, the National Bank of Slovakia completed a demanding stage in the preparation of a draft Act on the Payment System, which was approved by the National Council of the Slovak Republic on 19 August 2002.

The aim of Act No. 510/2002 Z.z. on the Payment System and on Amendments and Supplements to certain Laws (Act on the Payment System) was to enact previously non-existent comprehensive legislation governing the payment systems and to bring the Slovak law into line with payment legislation in the European Union. The Act on the Payment System was drawn up in accordance with the process of approximation and harmonisation of the Slovak law with that of the European Union. The Act on

the Payment System transposes Directive 97/5/EC on cross-border credit transfers, Directive 98/26/EC on settlement finality in payment and securities settlement systems, part of Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions (institutions issuing electronic money), Article 8 of Directive 97/7/EC on the protection of consumers in respect of distance contracts, and Recommendation 97/489/EC concerning transactions carried out by electronic payment instruments, in particular the relationship between the issuer and the holder of payment instruments. The Act on the Payment System, in fact, goes beyond the scope of relevant European Union legislation to stipulate other issues related to the payment systems.

Until recently, the Slovak legal system contained no comprehensive regulation of the payment systems as provided for in the new Act on the Payment System. As far as payments were concerned, there was no legal protection for the client as a consumer in relation to banking entities, or legal provisions safeguarding payment systems against risks ensuing from potential insolvency of participants in the payment system involved in its operation.

The Act on the Payment System includes provisions on complaints and resolution of disputes, which enable prompt out-of-court resolution of payment disputes by a permanent court of arbitration.

2. INTERBANK PAYMENT SYSTEM

The participants in the Slovak Interbank Payment System (SIPS) include all banks, branches of foreign banks, the National Bank of Slovakia, Eximbanka and so-called third parties, namely the Slovak Authorisation Centre (Autorizačné centrum Slovenska, a.s.) and the Bratislava Stock Exchange (Burza cenných papierov Bratislava, a.s.).

The SIPS interbank payment system is currently the only payment system in the Slovak Republic intended for processing and settlement of domestic payments. SIPS does not differentiate between large-value and small value payments. The basic types of payments handled by the interbank payments system are credit transfers and direct debits. The system is operated by the Slovak National Clearing Centre (SNCC). The National Bank of Slovakia acts as the settlement agent, i.e. settles the net positions (results of processing) on the reserve accounts. Payment processing and clearing is fully automated and the transfer of data between the SNCC and participants in the SIPS interbank payments system is processed electronically.

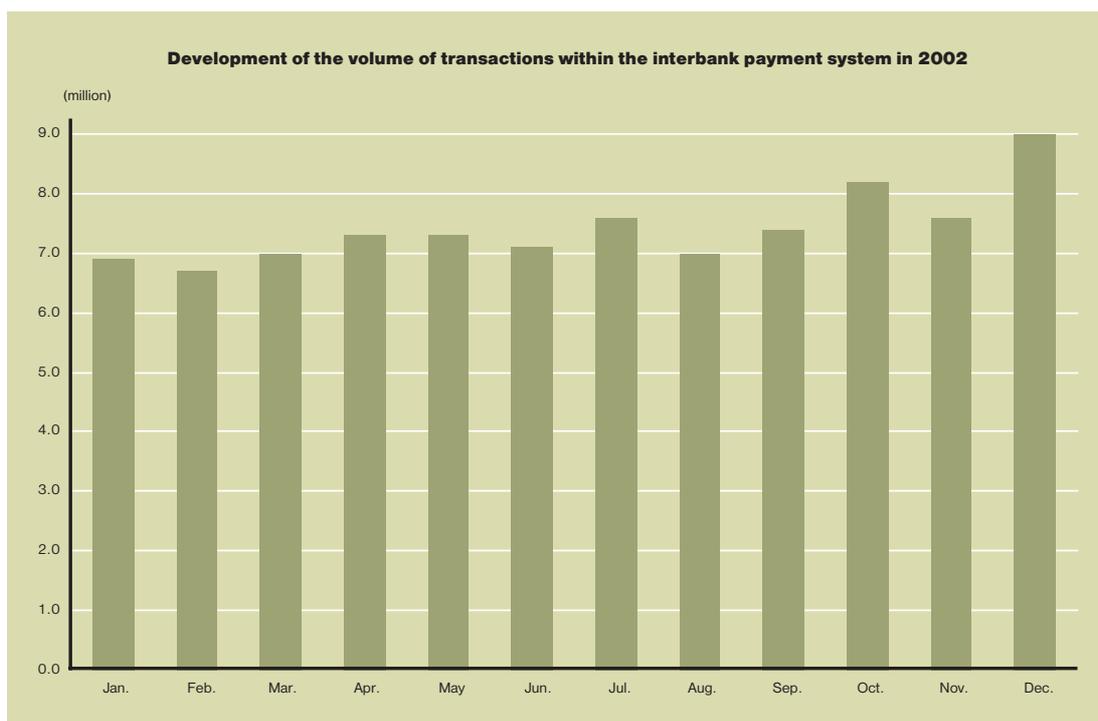
In 2002, there were 24 participants in the system, processing 89.1 million transactions, i.e. 13% more than a year ago. The total transaction value amounted to Sk 22,395,667 million, equal to an increase of 41% over a year ago.

In 2002, major changes took place in the interbank payment system. At the general meeting of SNCC shareholders in January 2002

it was decided that the SNCC should cease as the interbank payment system operator on 31 December 2002, and, at the same time, a plan was approved for a new interbank payment system drawn up by the National Bank of Slovakia, to be put into operation on 1 January 2003.

The project for the implementation of the new SIPS interbank payment system unfolded over several stages ending with parallel operation from October to December 2002. During parallel operation all interbank payment system data was processed both by the SNCC and by the National Bank of Slovakia. The SIPS interbank payment system was implemented together with a BIPS communication system and a UNIVERZAL-NET data network.

Parallel operation ended in December 2002, all steps having been taken for the NBS-run SIPS interbank payment system to begin operating on 1 January 2003.



3. PAYMENT INSTRUMENTS

The most frequently used non-cash payment media are bank transfers and electronic payment instruments. Of electronic payment instruments, remote-access payment instruments are the most frequently used option, in particular bank payment cards and, last but not least, electronic banking applications, such as internet banking, home banking or telephone applications.

Bank payment cards

As of 31 December 2002, 2.46 million bank payment cards were in circulation, of which 96.2% (2.36 million) were debit cards, 3.5% (86,000) credit cards and 0.3% (8,000) charge cards. In comparison with 2001, the number of issued bank payment cards increased by 25% which, if measured per capita, means that every other person holds a bank payment card.

Almost 80% of the total number of bank payment cards in circulation are international

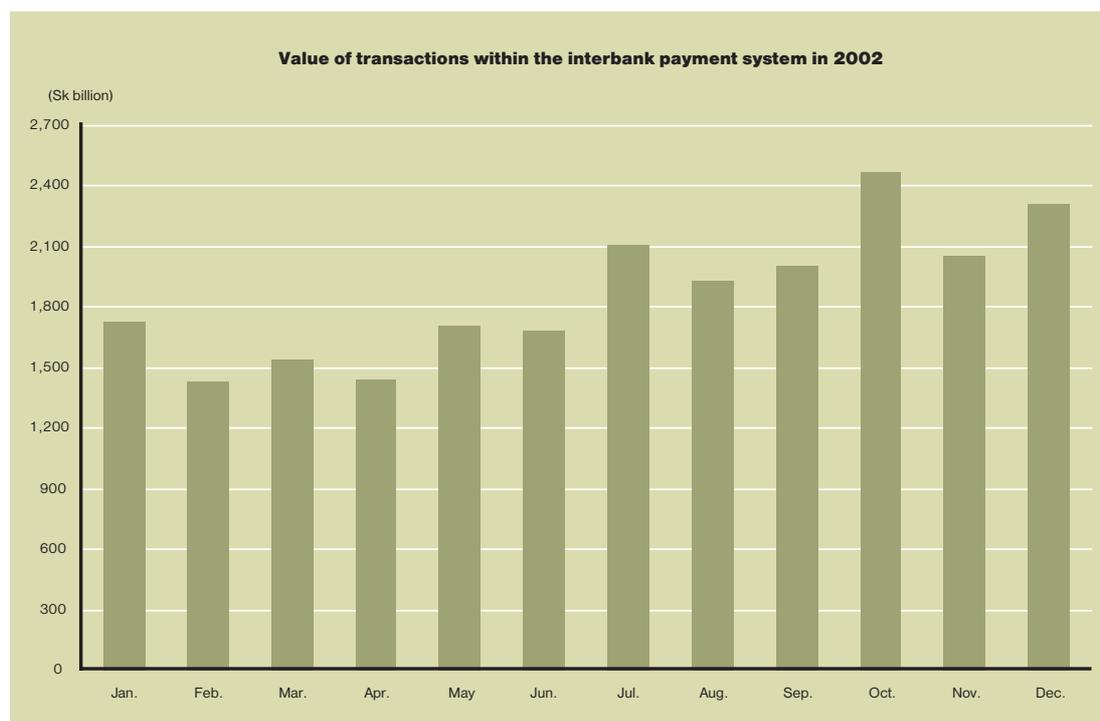
bank payment cards and 20% are domestic bank payment cards. Banks issue bank payment cards of the card associations VISA (VISA and VISA Electron) and MasterCard Europe (MasterCard and Maestro), American Express, Diners Club and domestic payment cards ZBK.

In the Slovak Republic cardholders have at their disposal a network of 1,366 ATMs and 15,931 POS terminals, of which 12,265 are EFT POS terminals and 3,666 sales outlets with imprinters.

Out of the 1,366 ATMs cardholders can use all ATMs for withdrawing cash and checking their account balance, 20 ATMs for depositing cash, 830 ATMs for domestic credit transfers and 910 ATMs for mobile phone top-ups.

Payment terminals are used primarily for payments and to a lesser extent also for withdrawing cash, in particular at exchange offices and bank branches.

A discernible trend in acceptance of bank payment cards is more dynamic growth in the number of EFT POS terminals in comparison with



the growth in the number of ATMs, which in a year-on-year comparison, indicates an increase in the number of EFT POS terminals by 28% and ATMs by 15%. Cash withdrawals from ATMs (79% of the total number of transactions) continue to dominate over payments (21%). The value of cash withdrawals from ATMs represented 87% of the total value of transactions and the value of payments 13%. In comparison with the previous year this is a 2% increase in the number and value of cash withdrawals from ATMs, showing that cardholders continue to prefer paying by cash rather than by non-cash means.

Electronic banking payment applications

Electronic banking payment applications enable clients to withdraw funds from their bank accounts electronically.

Among the most popular electronic banking payment applications are computer and telephone-based applications such as home banking, internet banking and mobile banking, enabling the clients to perform transfer of funds.

Other services and products

Banks currently provide their clients with various types of services related to non-cash payment instruments:

- a) cardholders can carry out domestic credit transfers as well as mobile phone top-ups via ATMs,
- b) holders of virtual payment cards or bank credit cards can make purchases on-line via the internet,
- c) internet systems enable small value payments (micropayments) for services provided over the internet.

4. CO-OPERATION WITH INTERNATIONAL INSTITUTIONS

In connection with the Slovak Republic's preparations for accession to the European Union, and later to the Economic and Monetary Union, the National Bank of Slovakia has been working with the European Central Bank, which accords considerable importance to payment systems and regularly organises meetings with the accession countries to discuss its objectives, strategies and current problems. Bilateral discussion and consultation on future strategy in the field of the international development of payment systems is also considered important.

The National Bank of Slovakia also co-operates with other international institutions, such as the International Monetary Fund and the Bank for International Settlements.

In 2002, the National Bank of Slovakia participated in an assessment programme organised by the European Central Bank, as well as in an assessment of Slovakia's financial system (FSAP, Financial Sector Assessment Program) co-ordinated by the International Monetary Fund and the World Bank. The assessment included the current payment system infrastructure in the Slovak Republic.

The assessment undertaken by the European Central Bank focused on the infrastructure of payment systems, securities settlement systems and the oversight of these systems. At the final stage of assessment, the European Central Bank presented a comprehensive assessment report on the condition and preparedness of the infrastructure of payment systems and securities settlement systems of each candidate country to join the European Union and later the Economic and Monetary Union. The National Bank of Slovakia received the official assessment report in September 2002. The report concludes that the infrastructure of payment and securities settlement systems in the Slovak Republic will be, after incorporating the recommendations

made by the European Central Bank, fully prepared for accession and for smooth integration into European structures.

In complying with one of those recommendations, in November 2002, a Memorandum of Understanding was signed between the National Bank of Slovakia and the Financial Market Authority governing co-operation in banking supervision, payments systems oversight and foreign exchange operations, as well as in supervision of the financial market as regards the capital market and insurance.

5. PAYMENTS SYSTEM OF THE NATIONAL BANK OF SLOVAKIA

The National Bank of Slovakia maintains client accounts, executes payments and provides other payment-related services using the ABO payment and accounting system.

Clients holding accounts with the National Bank of Slovakia are specified in Act No. 566/1992 Zb. on the National Bank of Slovakia, Act No. 303/1995 Z.z. on budgetary rules, and Act No. 291/2002 Z.z. on the State Treasury, amending certain other laws. The National Bank of Slovakia maintains accounts in particular for banks, organisations managing state budget funds, organisations managing budget funds of higher territorial units, public universities, and its employees.