



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



# ACTIVITY REPORT OF THE FINANCIAL MARKET SUPERVISION UNIT OF NÁRODNÁ BANKA SLOVENSKA

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## CONTENTS

1. Introduction .....	5
2. Summary .....	6
3. Rulemaking and methodological activities .....	8
3.1 Banks and investment firms .....	8
3.2 Capital market .....	11
3.3 Insurance sector .....	13
3.4 Pension sector .....	16
4. Licensing activity and enforcement .....	19
4.1 Licensing activity .....	19
4.1.1 Banks and investment firms .....	19
4.1.2 Capital market .....	21
4.1.3 Insurance sector .....	25
4.1.4 Pension sector .....	28
4.1.5 Foreign exchange activities .....	29
4.1.6 Payment system .....	30
4.2 Penalties and remedial measures .....	30
4.2.1 Proceedings started in 2008 .....	31
4.2.2 Decisions issued in 2008 .....	31
4.2.3 Second-instance decisions of the Bank Board .....	32
4.3 Customer protection .....	32
5. Supervision activities .....	34
5.1 Banks and investment firms .....	35
5.2 Capital market .....	40
5.3 Insurance sector .....	43
5.4 Pension sector .....	45
5.5 Foreign exchange supervision .....	48
5.6 Preparedness for the euro cash changeover .....	48
6. Other activities .....	49
6.1 Cooperation with foreign supervisory authorities .....	49
6.1.1 Banks and investment firms .....	50
6.1.2 Insurance sector .....	50
6.1.3 Pension sector .....	51
6.2 Participation in working groups .....	51
6.2.1 Banks and investment firms .....	51
6.2.2 Capital market .....	54
6.2.3 Insurance sector .....	57
6.2.4 Pension sector .....	59
6.3 Cooperation with sectoral associations and other institutions .....	60
6.3.1 Banks and investment firms .....	60
6.3.2 Capital market .....	62
6.3.3 Insurance sector .....	63
6.3.4 Pension sector .....	63
6.4 Sectoral findings .....	64
6.5 Analytical activities .....	64
6.6 Organisational activities .....	66

6.6.1 Banks and investment firms .....	67
6.6.2 Pension sector.....	67
6.7 Other matters .....	67
7. Annexes.....	69

# 1. Introduction

The present Report on the Activities of the Financial Market Supervision Unit of Národná banka Slovenska (hereinafter referred to as 'Report') has been prepared to inform the professional public about the activities of the Financial Market Supervision Unit (hereinafter referred to as 'Supervision Unit') and to evaluate its rulemaking, licensing, supervisory, analytical and international activities, cooperation with other institutions, and other activities.

The general rules and procedures followed by Národná banka Slovenska in supervising the financial market in the areas of banking, insurance, retirement pension saving, and the capital market are laid down in Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws, as amended (hereinafter referred to as 'Financial Market Supervision Act'). This Act became effective on 1 January 2006, giving Národná banka Slovenska the powers of an integrated financial market regulator and supervisor. Until 31 December 2005, the said powers in relation to the insurance sector, pension sector and the capital market had been exercised by the Financial Market Authority.

Under the Financial Market Supervision Act, the Supervision Unit exercises on-site and off-site supervision, conducts proceedings, decides in the first instance, and prepares drafts of generally binding legal regulations on behalf of Národná banka Slovenska for the regulation and supervision of the financial market, especially drafts of prudential regulations, operational security rules, and other requirements for the business activities of entities under supervision.

The Supervision Unit is within the competence of a deputy governor of Národná banka Slovenska. The list of laws pertaining to financial market supervision, the list of entities under supervision, and the organisational chart of the Supervision Unit for 2008 are available in the Annex.

When exercising supervision, the Supervision Unit acts on its own, independently and impartially, in accordance with the Financial Market Supervision Act, related laws, and other generally binding legal regulations. In acting and deciding in the first instance, the Supervision Unit is bound by the second-instance decisions of the Bank Board of NBS and by any rulings of a competent court issued under judicial review of NBS decisions in accordance with administrative law. Appeals against decisions made by the Supervision Unit in the first instance are settled by the Bank Board of NBS.

For its supervisory activities, Národná banka Slovenska receives statutory annual contributions from the supervised entities, as well as fees for acts performed or for proceedings conducted by Národná banka Slovenska during supervision. The rates of annual contributions are set by the Bank Board of NBS; the fees are fixed in NBS Decree No. 8/2008 concerning fees for acts of Národná banka Slovenska.

The Report is divided into five parts. The first part is devoted to the rulemaking activities of the Supervision Unit, and to legislative changes concerning the financial sector. The second part describes the licensing activity of the Supervision Unit, enforcement, and customer protection. The third part of the Report focuses on the details of supervision in the financial sector. This part provides information about on-site inspections and off-site supervision. The fourth part of the Report is devoted to cooperation with foreign supervisory authorities, participation in international institutions, cooperation with sectoral associations, various findings, and other activities. The fifth part contains four annexes.

## 2. Summary

The activities of the Financial Market Supervision Unit were influenced by several important events over the course of 2008. The adoption of the single European currency, the deepening financial crisis, and other events significantly affected the rulemaking process. The negative financial market developments and the approaching euro changeover also affected the conduct of supervisory and analytical activities.

During 2008, the Financial Market Supervision Unit was actively involved in the ongoing discussions about changes in financial market regulation and supervision in the EU. The Unit's primary concern was to have sufficient supervisory powers in order to be able to contribute to the maintenance of financial stability in Slovakia.

One of the main tasks of laws and regulations enacted in 2008 was to create legal conditions for a smooth transition to the euro, which became legal tender on 1 January 2009. To this end, the Financial Market Supervision Unit set up a working group charged with the task of drafting regulations for all regulated entities of the financial market in connection with the euro changeover.

In regard to the deepening financial crisis, the most significant regulation adopted in 2008 was NBS Decree No. 18/2008, which was designed to ensure sufficient liquidity for banks and branches of foreign banks in the Slovak banking sector through asset and liquidity management.

In 2008, the most important legal regulation for the banking sector and the investment services sector was Act No. 552/2008 Coll., which amended the law on securities. As a consequence of the financial crisis, some provisions of the Banking Act were also amended, mainly those governing the imposition of penalties and preventive measures by NBS.

Most changes made in the area of insurance sector regulation in 2008 were attributable to the coming into effect of Act No. 8/2008 Coll. on insurance. During 2008, two amendments were made to this law and several decrees adopted for its implementation.

In the area of pension saving, Act No. 43/2004 Coll. on retirement pension saving was amended several times in connection with the opening of Pillar II. Act No. 449/2008 Coll., amending the Social Insurance Act, has changed the regulatory framework for investing assets in pension funds and supplementary pension funds.

In the area of licensing, the Financial Market Supervision Unit issued 987 decisions in 2008: most of them concerned the capital market (488) and banks and investment firms (203). Regarding the insurance sector, 159 decisions were issued, 103 of them related to retirement pension saving. Besides issuing decisions, the Supervision Unit received numerous notifications from supervised entities from all sectors of the financial market, approved securities prospectuses, evaluated take-over bids, and issued 34 decisions concerning foreign exchange activities in 2008. From the banking sector, 64 credit institutions and 318 investment firms announced their intention to provide cross-border banking and investment services in Slovakia.

The Supervision Unit of NBS is also charged, under the National Bank of Slovakia Act and the Financial Market Supervision Act, with the task of protecting the clients of financial market entities by handling petitions from the clients of financial institutions that are under NBS supervision. In 2008, the Supervision Unit received 871 petitions from the clients of financial market institutions (both natural and legal persons) who were dissatisfied with the practices of financial service providers. Of the total number, 830 petitions were settled over the course of 2008, representing a 95.29% success factor in processing petitions. The majority of petitions (561) related to the insurance sector. Petitions from the clients of supervised entities are an

important source of information about the activities of entities under supervision, and this information is utilised by the Supervision Unit when conducting on-site inspections at individual companies.

An important role of the Financial Market Supervision Unit of Národná banka Slovenska is to supervise the activities of financial market entities, through on-site inspections and off-site supervision. In 2008, the Supervision Unit carried out 65 on-site inspections, largely in the banking sector (22 inspections). Of the total number of on-site inspections, 34 were comprehensive, 28 thematic, and 3 follow-up inspections. On-site inspections were conducted in line with the Supervision Unit's annual plan, specifying the schedule and main focus of the inspections. In conducting inspections, NBS ascertains important facts about the supervised entities and their activities, especially shortcomings, their causes and consequences, and the persons responsible for them. In 2008, the Supervision Unit also verified the preparedness of the entities under supervision for the euro changeover, mainly their compliance with the dual price display requirement laid down in Act No. 659/2007 Coll. on the introduction of the euro in Slovakia. All entities of the financial market were verified. Besides processing statements from the supervised entities and providing support for on-site inspections in the phase of preparation and execution, off-site supervision analysed the individual financial market entities, mainly in connection with the financial market turbulences.

The Supervision Unit's focused a significant part of its analytical activity on risk quantification in the financial sector, owing to the situation in the financial markets, and in the domestic and external economies. The aim of this analytical activity was to identify medium- and long-term risks in particular, and the links to regulatory changes. In connection with the negative financial market developments in 2008, analyses were carried out to assess the impact of the crisis on the banking sector and on Pillar II of the pension system in the first phase of the mortgage crisis. The analyses carefully examined the sensitivity of security portfolios to declines in the values of financial assets in selected categories. In assessing the impact of the crisis, attention was also paid to systemic risk assessment, the exposure of institutions operating in the Slovak financial market to counterparties whose risks had increased in this crisis, and the monitoring of various market indicators. Special attention was paid to improvement in the system of risk assessment and the models applied, with the main focus on stress testing. In view of the forthcoming euro adoption, the impacts of euro changeover on the financial sector were also analysed in 2008.

With regard to the ongoing crisis, increased attention was paid to crisis management. At international level, the Supervision Unit was primarily involved in the preparation of a joint analytical instrument for crisis situations and organised several meetings with central bank representatives from neighbouring countries to discuss this matter.

In 2008, the Supervision Unit also worked closely with foreign regulators, mainly in connection with the supervision of banking and insurance groups, and participation in the working groups and committees of international institutions. Besides collaborating with international institutions, the Supervision Unit also cooperates with sectoral associations and various governmental institutions.

### 3. Rulemaking and methodological activities

Under Article 56(1) of the Constitution of the Slovak Republic, Národná banka Slovenska (hereinafter referred to as 'NBS') has the authority to issue generally binding legal regulations within the limits prescribed by a separate law. The generally binding legal regulations of NBS are promulgated and published in the Collection of Laws of the SR.

In its official journal (NBS Journal), Národná banka Slovenska publishes its decrees and measures implementing the NBS Act and related laws promulgated in the Collection of Laws, enforceable decisions or justifications for NBS decisions, methodological guidelines and recommendations explaining the implementation of the NBS Act, related laws and other legally binding legal regulations applying to the supervised entities or to their activities, and other documents intended for publication in the Journal under the NBS Act or a separate law.

NBS closely cooperates with numerous ministries, in particular with the Ministry of Finance of the SR and the Ministry of Labour, Social Affairs and Family of the SR in the preparation of draft laws and other generally binding legal regulations governing the financial market, mainly legislative changes resulting from the implementation of EU laws and changes arising from their application.

#### 3.1 Banks and investment firms

One of the main tasks of laws and regulations adopted in 2008 was to provide a legal framework for smooth and successful euro changeover in Slovakia. In addition, a new requirement arose in the banking sector in connection with the mortgage loan crisis spreading gradually to the financial sector, i.e. the requirement to ensure sufficient liquidity for banks. This was connected with the permanent requirement to improve the prudential criteria for banks and investment firms.

The most important legal regulation for the banking sector and that of investment services in 2008 was **Act No. 552/2008 Coll.** of 26 November 2008, amending Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws (the Securities Act) as amended, and on amendments to certain laws. In addition, Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007, amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC regarding procedural and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector, was transposed by the aforementioned Act. The Act contained several modifications resulting from its application in the supervision of financial market entities. In connection with the financial crisis, some provisions of the Banking Act were amended, especially those authorising NBS to impose penalties and remedial measures and strengthening the rights of mortgage bond owners. This was accompanied by corresponding changes in the law on bankruptcy and restructuring. This law also amended a number of laws pertaining to other sectors of the financial market. As for collective investment, this law amended Act No. 594/2004 Coll. on collective investment and on amendments to certain laws, as amended. The provisions concerning the granting of prior approval for the acquisition of a qualified share in an asset management company were redefined and some of the problems occurring during supervision eliminated. Also covered in this law were the activities of asset management companies arising from practice.

The most significant NBS regulation was **Decree No. 18/2008** on liquidity of banks and branch offices of foreign banks and on process of liquidity risk management of banks and branch offices of foreign banks and on amendment of Decree of Národná banka Slovenska No. 11/2007 on submission of statements, reports and other disclosures by banks, branches of foreign banks, securities dealers and branches of foreign securities dealers for supervision and statistical purposes. The main reason for the issue of this decree was to ensure asset and liability management at banks and branches of foreign banks in such a manner that the relation between liquid assets and volatile liabilities should correspond to the level of permanent liquidity in the horizon of one month, according to the circumstances and the expected economic indicators in the period starting from the date of euro changeover in Slovakia. Hence, the decree was planned to be adopted with effect from 1 January 2009, or in the first quarter of 2009. The permanent liquidity requirement has become vitally important because of the rapid spread of the financial crisis, which necessitated a change in the date of coming into effect of the said decree (15 November 2008).

Another important NBS regulation was **Decree No. 17/2008**, amending NBS Decree No. 4/2007 on the own funds of banks and capital requirements for banks and on the own funds of investment firms and capital requirements for investment firms, as amended by NBS Decree No. 10/2007. This decree was issued with the aim of amending the provisions of NBS Decree No. 4/2007 and to add several new provisions. The proposed changes resulted from application practice, the findings of NBS supervision, and numerous consultations with the representatives of the Slovak Banking Association and the Slovak Association of Investment Firms. Practice showed that some changes and corrections are required in the following areas: the definition of credit protection eligible for credit risk mitigation; the definition of the term ‘independent appraiser’; the use of internal references; the calculation of asset exposure; the calculation of risk-weighted exposure to other public authorities and legal entities, other than entrepreneurs.

In connection with the euro changeover in Slovakia, NBS issued a decree (**Decree No. 24/2008**) to amend certain NBS decrees in connection with the euro adoption, in accordance with Act No. 659/2007 Coll. on the introduction of the euro in the Slovak Republic. This decree was issued in order to ensure that all statements and reports submitted to NBS by the supervised entities for the purposes of supervision and statistics are adjusted with effect from 1 January 2009, so that the relevant information, values, and data contained therein reflect the changes made in connection with the euro adoption in Slovakia.

In connection with the process of euro changeover, NBS also issued a decree (**Decree No. 221/2008 Coll.**) laying down certain rules for the dual display of certain prices, payments and other amounts applicable to the financial market and services of financial institutions in the area of banking, capital market, insurance and pension saving.

### **Legislation enacted in 2008**

- Act No. 270/2008 Coll. of 18 June 2008, amending Act No. 510/2002 Coll. on the payment system and on amendments to certain laws, as amended, and on amendments to certain laws (effective since 1 August 2008) – **concerns several sectors of the financial market;**
- Act No. 552/2008 Coll. of 26 November 2008, amending Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws (the Securities Act), as amended, and on amendments to certain laws (effective since 1 January 2009) – **concerns several sectors of the financial market.**

### **NBS decrees enacted in 2008**

- Decree No. 8/2008 of 6 January 2008 on fees for acts performed by Národná banka Slovenska (effective since 1 June 2008) – **concerns several sectors of the financial market;**
- Decree No. 12/2008 of 20 May 2008, laying down the method of demonstrating compliance with the terms and conditions of authorisation to provide investment services (effective since 1 July 2008);
- Decree No. 15/2008 of 7 July 2008, specifying the due form of application for prior approval pursuant to Article 70(1) of the Securities Act (effective since 15 August 2008);
- Decree No. 16/2008 of 9 September 2008, specifying the due form of application for authorisation to issue electronic means of payment under Article 21d(1) of Act No. 510/2002 Coll. on the payment system and on amendments to certain laws (effective since 1 October 2008);
- Decree No. 17/2008 of 21 October 2008, amending NBS Decree No. 4/2007 on the own funds of banks and capital requirements for banks and on the own funds of investment firms and capital requirements for investment firms, as amended by NBS Decree No. 10/2007 (effective since 15 November 2008);
- Decree No. 18/2008 of 28 October 2008 on liquidity of banks and branch offices of foreign banks and on process of liquidity risk management of banks and branch offices of foreign banks and on amendment of Decree of Národná banka Slovenska No. 11/2007 on submission of statements, reports and other disclosures by banks, branches of foreign banks, securities dealers and branches of foreign securities dealers for supervision and statistical purposes (effective since 15 November 2008);
- Decree No. 24/2008 of 25 November 2008, amending certain decrees of NBS in connection with the euro changeover in Slovakia (effective since 1 January 2009) – **concerns several sectors of financial market;**
- Decree No. 221/2008 Coll. of 10 June 2008, laying down certain rules for the dual display of certain prices, payments and other amounts applicable to the financial market and services of financial institutions in the area of banking, capital market, insurance and pension saving (effective since 1 July 2008) – **concerns several sectors of the financial market;**
- Decree No. 240/2008 Coll. of 24 June 2008, laying down the number of decimal places of certain types of securities for the purpose of rounding by redenomination of their nominal value from the Slovak currency to the euro (effective since 8 July 2008) – **concerns several sectors of the financial market.**

### **Methodological guidelines and recommendations adopted in 2008**

- Methodological Guideline No. 3/2008 of 7 July 2008, issued by the Financial Market Supervision Unit of NBS, on the reporting obligations of financial institutions during changeover to the euro under the provisions of Act No. 483/2001 Coll. on banks and on amendments to certain laws as amended, Act No. 594/2003 Coll. on collective investment and on amendments to certain laws as amended, Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws as amended, Act No. 650/2004 Coll. on supplementary pension saving and on amendments to certain laws as amended, and Act No. 8/2008 Coll. on insurance and on amendments to certain laws – **concerns several sectors of the financial market;**

- Methodological Guideline No. 7/2008 of 19 December 2008, issued by the Financial Market Supervision Unit of NBS, on the prevention of money laundering and terrorism financing at banks and branches of foreign banks.

## 3.2 Capital market

During 2008, Národná banka Slovenska issued numerous decrees pertaining to the capital market.

In February 2008, the Bank Board of NBS approved Decree **No. 64/2008 Coll.**, laying down equal requirements for issuers with a registered office in a non-member country, whose securities are admitted to trading on a regulated market. In this decree, NBS defined the term 'equal requirements'. The decree was designed to ensure the full implementation of Commission Directive 2007/14/EC laying down detailed rules for the implementation of certain provisions of Directive 2004/109/EC on the harmonisation of transparency requirements in respect of information on issuers whose securities are admitted to trading on a regulated market, through the transposition of provisions concerning equal requirements for non-member countries.

In May 2008, the Bank Board of NBS approved Decree **No. 9/2008** on the submission of statements by entities providing for distribution of securities of foreign collective investment undertakings for supervision purposes. This decree abrogated Decree No. 3/2007 of 23 January 2007 on the submission of statements by entities providing for distribution of securities issued by foreign management companies and foreign investment companies on the basis of a public offering to investors in the territory of the Slovak Republic for statistical purposes. The issuance of this decree was justified by the experience of NBS in this area and the need to simplify the submission of reports and to relieve entities of the burden of submitting data that can be obtained in another way.

In April 2008, the Bank Board of NBS approved Decree **No. 125/2008 Coll.**, implementing certain provisions of the Collective Investment Act. This decree fully implements Commission Directive 2007/16/EC of 19 March 2007, which implements Council Directive 85/611/EEC on the coordination of laws, other legal regulations and administrative provisions relating to undertakings of collective investment in transferable securities (UCITS) as regards the clarification of certain definitions, by transposing its provisions. The decree became effective on 1 July 2008.

In July 2008, the Bank Board of NBS approved Decree **No. 288/2008 Coll.** specifying the due form of application for prior approval from Národná banka Slovenska under the Collective Investment Act. The decree governs the issuance of prior approval by NBS under the Collective Investment Act to asset management companies, open-end and special mutual funds, foreign collective investment undertakings, and foreign asset management companies. In July 2008, the Bank Board also approved Decree **No. 310/2008 Coll.** stipulating the method of proving fulfilment of conditions for granting a licence for the establishment and activities of the management company (effective since 1 September 2008). This decree has abrogated Decree No. 616/2003 Coll. of the Ministry of Finance of the SR, which was inconsistent with the several times amended Article 6 of Act No. 594/2003 Coll. on collective investment and on amendments to certain laws, as amended.

In September 2008, the Bank Board of NBS approved Decree **No. 357/2008 Coll.** on exposure related to financial derivatives. The decree specifies the details of exposure calculation for mutual fund investments in financial derivatives for the calculation of risk-diversification limits under the Collective Investment Act. The decree has abrogated Decree No. 594/2004 Coll.

of the Ministry of Finance of the SR, which was inconsistent with the normal practice in the collective investment sector and with the corresponding legal regulations in other EU Member States.

In 2008, the Supervision Unit issued two methodological guidelines on collective investment. One of them was issued as an amendment to an existing guideline, the other was a completely new guideline. **Methodological Guideline No. 2/2008**, issued by the Financial Market Supervision Unit of NBS, amended Methodological Guideline No. 4/2007 on collective investment on the basis of a single European licence. The amended methodological guideline specified the obligations of notified entities.

**Methodological Guideline No. 4/2008**, laying down the rules for mutual fund investment, was a reaction of the Financial Market Supervision Unit of NBS to the issuance of NBS Decree No. 125/2008 Coll. of 1 April 2008, implementing certain provisions of the Collective Investment Act. As a result, the rules of mutual fund investment are currently based on two Slovak legal regulations and two EU regulations. The aim of this methodological guideline is to give the entities under supervision a comprehensive overview of the current rules of mutual fund investment; the guideline also transposes two guidelines of the Committee of European Securities Regulators (CESR), which were adopted at the third level of the Lamfalussy process as a common interpretation of CESR to Commission Guideline 2007/16/EC.

#### **Legislation enacted in 2008**

- Act No. 70/2008 Coll. of 31 January 2008, amending Act No. 291/2002 Coll. on the SR Treasury and on amendments to certain laws, as amended, and on amendments to certain laws (effective since 1 April 2008).

#### **NBS decrees enacted in 2008**

- Decree No. 64/2008 Coll. of 19 February 2008, setting out equal requirements for issuers with a registered office in a non-member country, whose securities are admitted to trading on a regulated market (effective since March 2008);
- Decree No. 125/2008 Coll. of 1 April 2008, implementing certain provisions of the Collective Investment Act (effective since 1 July 2008);
- Decree No. 9/2008 of 13 May 2008 on the submission of statements by entities providing for distribution of securities of foreign collective investment undertakings for supervision purposes (effective since 1 June 2008);
- Decree No. 288/2008 Coll. of 7 July 2008, specifying the due form of application for prior approval from NBS under the Collective Investment Act (effective since 1 September 2008);
- Decree No. 310/2008 Coll. of 29 July 2008, stipulating the method of proving fulfilment of conditions for granting a licence for the establishment and activities of the management company (effective since 1 September 2008);
- Decree No. 357/2008 Coll. of 9 September 2008 on exposure related to financial derivatives (effective since 1 October 2008).

#### **Methodological guidelines and recommendations adopted in 2008**

- Methodological Guideline No. 4/2007, issued by the Financial Market Supervision Unit of NBS, on collective investment on the basis of a single European licence as amended by Methodological Guideline No. 2/2007 of 7 May 2008;

- Methodological Guideline No. 4/2008 of 19 August 2008 on the rules of mutual fund investment.

### 3.3 Insurance sector

Most of the changes made in the area of insurance sector regulation during 2008 can be attributed to the coming into effect of **Act No. 8/2008 Coll.** on insurance and on amendments to certain laws (hereinafter referred to as 'Insurance Act'). In accordance with the EU legislation, this Act has modified the legal regulations governing the activities of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies in Slovakia. Since practice required some changes in this Act soon after its coming into effect, two amendments were made in the course of 2008. The first amendment, i.e. **Act No. 270/2008 Coll.** amending Act No. 510/2002 Coll. on the payment system and on amendments to certain laws as amended, related to the solvency of insurance companies, branches of foreign insurance companies, reinsurance companies and branches of foreign reinsurance companies. The second amendment, i.e. **Act No. 552/2008 Coll.** amending Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws (the Securities Act) as amended, modified the provisions pertaining to internal audit in insurance, prior approval by NBS, and some aspects of changeover to the euro. In connection with the coming into effect of the Insurance Act, a large number of regulations had to be issued in a relatively short period of time in accordance with the authorising provisions.

In 2008, Národná banka Slovenska issued ten decrees concerning the insurance sector. **Decree No. 1/2008** fixed the maximum technical interest rate at 2.5%. **Decree No. 2/2008** specified the minimum amounts of guarantee funds for insurance companies or branches of foreign insurance companies in a breakdown by insurance sector. **Decree No. 4/2008** and **Decree No. 6/2008** specified the due form of statements, reports and overviews issued by insurance/reinsurance companies and branches of foreign insurance/reinsurance companies, including the frequency and rules of submission of such documents to NBS. For the sake of effectiveness, the supervision of insurance companies and branches of foreign insurance companies by NBS had to be adjusted to the progress in risk measurement technology and methodology. Hence, NBS introduced an early warning system for monitoring the relevant indicators. This involved the need to collect data the form and contents of which were specified in the above decrees. **Decree No. 5/2008** specified elements of an application for granting prior approval under Article 45(1) of the Insurance Act. The decree laid down detailed requirements for the following applications for prior approval: for the redemption of securities; for the creation of additional technical reserves; for a change in a loan agreement; for loan repayment before due date; for insurance mediation and other mediating activities for financial institutions; for the inclusion of items specified in Articles 34(5) and 94(4) of the Act in the actual solvency ratio of an insurance/reinsurance company or branch of a foreign insurance/reinsurance company; for the sale of an insurance/reinsurance company or branch of a foreign insurance/reinsurance company or the part thereof; for the return of an insurance or reinsurance licence; for the merger of insurance or reinsurance company; for the appointment of a person as member of the board of directors or proxy of an insurance or reinsurance company, as head or proxy of a branch of a foreign insurance or reinsurance company; and for a reduction in the registered capital of an insurance or reinsurance company.

**Decree No. 7/2008** has set limits for investment of technical provisions in insurance companies and branches of foreign insurance companies. The aim was to lay down such rules that insurance companies, branches of foreign insurance companies, the Slovak Bureau of Insurers, reinsurance companies or branches of foreign reinsurance companies are not forced to become too dependent on a certain category of assets, investment market or placement. **Decree No. 10/2008** lays down the method of determining the value of securities and real properties that are part of the insurance sector's technical reserves. For the supervision of insurers by Národná banka Slovenska, methods are needed for the assessment of insurance risks faced by and the liabilities of insurance companies, reinsurance companies, branches of foreign insurance or reinsurance companies, and the shortcomings of insurers, reinsurers, branches of foreign insurers or reinsurers, which are connected with the activities of their actuaries and which are detected by their actuaries. This information is available in the reports of actuaries on the activities of insurance companies, reinsurance companies, branches of foreign insurance or reinsurance companies. The due form of a responsible actuary's report on the activities of a branch of a foreign insurance or reinsurance company is defined in **Decree No. 11/2008**.

The responsible actuary of an insurance or reinsurance company, or branch of a foreign insurance or reinsurance company, is responsible for the correct calculation of the rates of insurance and reinsurance premiums, their adequacy, the amount of technical reserves and their utilisation, the required solvency ratio, the distribution of revenues from investments made on behalf of the insured. The aim of **Decree No. 13/2008** on the actuarial professional examination was to specify the contents of such examinations, their administration, the way of registration for an examination, the deadlines, fees, and other particulars.

Council Directive 2004/113/EC of 13 December 2004 implementing the principle of equal treatment between men and women in the access to and supply of goods and services (hereinafter referred to as 'Directive') places the Member States under the obligation to ensure that, in all new contracts concluded after 21 December 2007, the use of gender as a factor in the calculation of insurance premiums and insurance benefits should not lead to differences in insurance premiums for individuals, and enables the Member States to postpone the implementation of these measures, which are needed to achieve compliance with this obligation, no later than two years after 21 December 2007. By issuing **Decree No. 20/2008**, the Slovak Republic has met the obligation to collect data on the use of gender as a determining factor in insurance mathematics in accordance with the guideline. On the basis of the data obtained, it is possible to analyse, publish, and update data on the use of gender as a determining factor in insurance mathematics.

**Decree No. 25/2008** lays down the method of calculating the solvency. The solvency of an insurance company, branch of a foreign insurance company, reinsurance company or branch of a reinsurance company is its ability to repay, at any moment, liabilities arising from any insurance or reinsurance activity.

Of vital importance was the issue of **Methodological Guideline No. 6/2008** on the conduct of insurance activities under the provisions of Articles 15 to 22, Articles 81 and 85 of Act No. 8/2008 Coll. on insurance and on amendments to certain laws, and under some of the provisions of Act 381/2001 Coll. on compulsory contractual motor vehicle third-party liability insurance and on amendments to certain laws as amended, and on the activities of insurance and reinsurance intermediaries under the provisions of Articles 8 and 16 of Act No. 340/2005 Coll. on insurance mediation and reinsurance mediation. This guideline modifies the assessment of the intentions and activities of insurers and NBS in line with the General Protocol on cooperation between the supervisory authorities of EU Member States in the area of insurance, i.e. 'Siena

Protocol', and the Protocol on cooperation between the relevant authorities of EU Member States, mainly in connection with Guideline 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, i.e. 'Luxembourg Protocol'.

**Recommendation No. 1/2008**, issued by the Supervision Unit of NBS, lays down the methods and rules of fee payment for the supervisory activities and proceedings of NBS, and for the conduct of professional examinations for actuaries and insurance intermediaries.

### **Legislation enacted in 2008**

- Act No. 8/2008 Coll. on insurance and on amendments to certain laws (effective since 15 February 2008).

### **NBS decrees enacted in 2008**

- Decree No. 1/2008 laying down maximum technical rate of interest (effective since 1 April 2008);
- Decree No. 2/2008 specifying the minimum amount of a guarantee fund for insurance companies or branches of foreign insurance companies (effective since 1 April 2008);
- Decree No. 4/2008 on the submission of statements, reports, and overviews by insurance companies and branches of foreign insurance companies (effective since 15 April 2008);
- Decree No. 5/2008 specifying elements of an application for granting prior approval under Article 45 (1) of the Act No. 8/2008 Coll. on insurance and on amendments to certain laws (effective since 1 May 2008);
- Decree No. 6/2008 on the submitting of statements, reports, summaries and other accounts by reinsurance companies and branches of foreign reinsurance (effective since 1 May 2008);
- Decree No. 7/2008 laying down limits for investment of technical provisions in insurance (effective since 1 June 2008);
- Decree No. 10/2008 laying down the method of determining the value of securities and real properties that are part of the insurance sector's technical reserves (effective since 1 June 2008);
- Decree No. 11/2008 on requirements of the responsible actuary's report on activities of an insurance company or reinsurance company and on requirements of the responsible actuary's report on activities of a branch of a foreign insurance company or branch of a foreign reinsurance (effective since 15 June 2008);
- Decree No. 13/2008 on the actuarial professional examination (effective since 1 July 2008);
- Decree No. 14/2008 establishing the method of proving the fulfilment of conditions for granting a licence to pursue insurance activity and for granting a licence to pursue reinsurance activity (effective since 15 July 2008);
- Decree No. 20/2008 on submitting of actuarial data and statistical data on insurance company and branch of a foreign insurance company (effective since 1 December 2008);
- Decree No. 25/2008 concerning the solvency and the minimum amount of the guarantee fund of an insurance company, branch of a foreign insurance company, reinsurance company and a branch of a foreign reinsurance (effective since 31 December 2008).

### **Methodological guidelines and recommendations adopted in 2008**

- Methodological Guideline No. 6/2008 of 1 December 2008 on the conduct of insurance activities under the provisions of Articles 15 to 22, Articles 81 and 85 of Act No. 8/2008

Coll. on insurance and on amendments to certain laws, and under some of the provisions of Act 381/2001 Coll. on compulsory contractual third-party liability motor insurance and on amendments to certain laws as amended, and on the activities of insurance and reinsurance intermediaries under the provisions of Articles 8 and 16 of Act No. 340/2005 Coll. on insurance and reinsurance mediation.

- Recommendation No. 1/2008 of 6 August 2008 on the payment of fees for the supervisory activities or proceedings of NBS and for the conduct of professional examinations for actuaries or insurance intermediaries.

### 3.4 Pension sector

In 2008, the Ministry of Labour, Social Affairs and Family of the SR made several amendments to Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended (Retirement Pension Saving Act). Two amendments were made in connection with the opening of Pillar II for savers for whom participation in the capitalisation pillar is disadvantageous for various reasons. Leaving was made easier by **Act No. 62/2008 Coll.**, which amended the Retirement Pension Saving Act allowing savers to leave the retirement pension scheme (at that time, the period for leaving the scheme was limited until 30 June 2008), without an officially verified signature.

**Act No. 434/2008 Coll.** of 24 October 2008, amending the Retirement Pension Saving Act and Act No. 461/2003 Coll. on social insurance as amended, reintroduced the option to leave the capitalisation pillar from 15 November 2008. The adoption of this Act was, according to its sponsor, necessitated by the current developments in the global financial markets, which caused the savings of people involved in the retirement pension scheme to depreciate. At the same time, the Act allowed new savers to enter this scheme.

In connection with the changes in the generally binding legal regulations pertaining to retirement pension saving, a very important change was the adoption of **Act No. 449/2008 Coll.** amending Act No. 461/2003 Coll. on social insurance as amended and on amendments to certain laws. This Act also amended Act No. 650/2004 Coll. on supplementary pension saving and on amendments to certain laws, as amended (Supplementary Pension Saving Act). The Supervision Unit was, to a significant extent, directly involved in the preparation of this change in the regulatory framework, mainly in the area of pension fund investments and supplementary pension fund investments. The change was of special significance, primarily because of the cancellation of the requirement to invest 30% of pension fund assets in the Slovak Republic. Other limits were also adopted to ensure a better risk diversification in pension funds. The most important were the limit on the value of a single issue, the limit for financial groups (consolidated units), and the limit on the amount of deposits in a single bank. A new element in the regulatory framework is the existence of detailed criteria for the use of ratings. An improvement in the legal framework is the provision of up-to-date information to savers and other entities involved in the retirement pension scheme. The most significant change in supplementary pension saving was the separation of investment rules from the Retirement Pension Saving Act. With effect from 1 January 2009, the new regulatory framework is formed by regulations that have transposed some of the standards and principles of asset management in collective investment.

A pension fund management company and its depository are required to supply Národná banka Slovenska with information on transactions in pension fund assets and on the balance of pension fund assets on a daily basis, using secure communication, i.e. electronic data transfer. In

this connection, NBS issued a decree on 19 February 2008 (**Decree No. 91/2008 Coll.**), governing the provision of information on transactions in pension fund assets and on the balance of pension fund assets by pension fund management companies and their depositories, and amending Decree No. 567/2006 Coll. specifying the contents of reports on the management of pension fund assets, the management of own funds by a pension fund management company, the way and range of their release, and the contents of daily information on transactions in pension fund assets.

**Decree No. 101/2008 Coll.** of 18 March 2008 on the own funds of a pension fund management company specifies the amount of own funds which a pension fund management company is obliged to maintain, the calculation of own funds, the definition of general operating expenses, liquid assets, liabilities and receivables, the calculation of liquid assets, and the method of demonstrating that the capital adequacy requirement is fulfilled.

In connection with the euro changeover, NBS issued a decree on 25 November 2008 (**Decree No. 523/2008 Coll.**), amending certain NBS decrees pertaining to the euro adoption in Slovakia (with effect from 1 January 2009), in accordance with Act No. 659/2007 Coll. on the introduction of the euro in the Slovak Republic. The aim of this decree was to ensure that all statements and reports submitted to NBS by the supervised entities for the purposes of supervision and statistics are adjusted with effect from 1 January 2009 in such a manner that the changes made in connection with the euro changeover are reflected in the relevant information, values and other data contained therein.

At the end of the year, NBS prepared a draft decree on notification of cases where limits on pension fund assets and supplementary pension fund assets are exceeded and reconciled, and a draft decree on the provision of information on the net value of assets in supplementary pension funds. The first decree was designed to ensure that pension fund management companies and the depositories of pension funds managed by these companies, and supplementary pension asset management companies and the depositories of supplementary pension funds managed by these companies, will present notifications of cases where the composition of assets is exceeded and reconciled with the limits and legal restrictions, notifications of infringement of laws, generally binding legal regulations, and the statutes of pension funds and supplementary pension funds in a unified manner, through the information system of NBS (Status DFT). The main aim of the decree on the supply of information on the net value of assets in supplementary pension funds is to obtain and monitor daily information for the purposes of supervision and statistics. Owing to the prolonged legislation process, both decrees were promulgated in the Collection of Laws of the SR as late as the beginning of 2009.

The draft decree on the method of determining the value of assets in pension funds and supplementary pension funds was also in the final phase of the legislation process at the end of 2008. The main aim of this decree is to specify and unify the methods used in valuating assets in pension funds and supplementary pension funds. The primary purpose of unifying the methods of asset valuation in different types of funds is to ensure that the values of individual assets are comparable to the maximum possible extent, with regard to the actual values of individual assets achieved in trade on the relevant market. The draft decree precisely and unambiguously specifies the procedures used in determining the values of individual components of pension fund assets and supplementary pension funds assets. Its main aim is to unify the valuation methods used by pension funds, supplementary pension funds, and mutual funds.

Very important in this sector of the financial market were the regulator's interventions in reaction to the need of the supervised entities to issue an opinion or instruction in special cases which are not covered by legislation, but are of principal importance for the activities of pension

fund management companies and supplementary pension asset management companies. Such a document was the draft of the Methodological Information, which regulates the positions of persons in charge of risk management in pension funds within the organisational structure of pension fund management companies or supplementary pension companies, and specifies the details of the risk management systems of pension fund management companies and supplementary pension asset management companies, through which the regulator communicated his basic idea of the significance and position of risk management to pension companies. The material will serve as a basis for the issue of secondary legislation pertaining to this matter. Another important material was an opinion on the valuation of securities issued by Lehman Brothers Holdings Inc., which can be found in the portfolios of pension fund management companies and supplementary pension companies, and which cannot be valued in a standard manner because of the issuer's collapse. The situation arising from the absence of legal regulations had to be resolved in the same way, by issuing an opinion, where a supplementary pension asset management company failed to meet the requirement concerning the minimum net value of assets in a supplementary pension fund, as well as the deposit of funds by a third person in the personal account of a participant in supplementary pension saving.

### **Legislation enacted in 2008**

- Act No. 62/2008 Coll. of 14 February 2008, amending Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended (effective since 1 March 2008);
- Act No. 434/2008 Coll. of 24 October 2008, amending Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended, and amending Act No. 461/2003 Coll. on social insurance as amended (effective since 15 November 2008);
- Act No. 449/2008 Coll. of 30 October 2008, amending Act No. 461/2003 Coll. on social insurance, as amended, and on amendments to certain laws (effective since 1 January 2009).

### **NBS decrees issued in 2008**

- Decree No. 91/2008 Coll. of 19 February 2008 on 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 on amendments to 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 form and range of their publication, and the contents of daily information on transactions in pension fund assets (effective since 1 April 2008);
- Decree No. 101/2008 Coll. of 18 March 2008 on the own funds of pension fund management company (effective since 1 April 2008);
- Decree No. 523/2008 of 25 November 2008, amending certain decrees of NBS in connection with the euro changeover in Slovakia (effective since 1 January 2009) – **concerns several sectors of the financial market.**

## 4. Licensing activity and enforcement

### 4.1 Licensing activity

Under the provisions of Act No. 747/2004 Coll. on financial market supervision, NBS conducts proceedings; grants authorisations, licences, approvals and prior approvals; imposes penalties and remedial measures; issues other decisions, positions, methodological guidelines and recommendations in accordance with this Act and other laws, and supervises the implementation of its decisions, including compliance with the terms and conditions stipulated in these decisions.

Another equally important task is to accept and/or send notifications of the intentions of financial market entities to provide services (e.g. banking activities, investment services, public offering of securities, insurance activities) in the member states of the European Economic Area, either via a branch office or directly, on the basis of the principle of free provision of cross-border services.

In 2008, the Financial Market Supervision Unit of NBS issued 987 licence decisions. A breakdown of these decisions by sector is shown in the following table:

<b>Sector</b>	<b>Number of decisions</b>
Banks and investment firms	203
Capital market	488
Insurance sector	159
Pension sector	103
Foreign exchange activity	34
<b>Total</b>	<b>987</b>

#### 4.1.1 Banks and investment firms

In 2008, the Supervision Unit issued 203 decisions concerning banks and investment firms, 4 certificates of registration as a bound agent, and received 389 notifications. They are specified in the following table:

<b>Decision / notification</b>	<b>Number of decisions / notifications</b>
Change in a bank's board of directors, supervisory board, management, proxies	87
Change in a bank's articles of association, home savings programme	25
Change in a bank's registered office address	1
Extension of a banking licence, authorisation for non-banking activities	18
Prior approval granted under Article 28 of the Banking Act	2
Prior approval granted under Article 33 of the Banking Act	3
Prior approval for the provision of information classified as a bank secret	5
Prior approval granted to an investment firm for the provision of investment services	2
Change in an investment firm's authorisation to provide investment services	15
Prior approval granted to an investment firm for the appointment of a board member	30
Prior approval granted to an investment firm for the change of registered office	1
Prior approval granted for the acquisition of a stake in an investment firm	4
Prior approval granted to an inv. firm for the return of its investment service licence	2
Discontinuance of proceedings	3
Suspension of proceedings	3
Division of proceedings	1
Joining of proceedings	1
Certificate of registration as a bound agent	4
Notification of the terms and conditions of opening a branch in Slovakia on the basis	2

of a single banking licence	
Notification from a foreign credit institution intending to provide cross-border banking services in Slovakia	64
Notification of the terms and conditions of opening a branch in Slovakia by a foreign investment firm on the basis of a single licence	2
Notification from a foreign investment firm intending to provide cross-border investment services in Slovakia	318
Notification from an investment firm intending to provide cross-border investment services in an EU Member State	3
<b>Decisions in total</b>	<b>203</b>
<b>Certificates in total</b>	<b>4</b>
<b>Notifications in total</b>	<b>389</b>

Legal and natural persons were required to harmonise their activities with the provisions of Act No. 566/2001 Coll. on securities and investment services transposed from Directive 2004/39/EC (the MiFID directive), by no later than 1 May 2008. During 2008, the Supervision Unit harmonised the licences of non-bank investment firms to provide investment services, on request, with the valid provisions of the Securities Act concerning investment services, investment activities and related services, in accordance with the MiFID directive. In 2008, the Supervision Unit also registered the first bound agents on the recommendation of investment firms.

Národná banka Slovenska issued the following decisions concerning investment firms in 2008:

- Decision of 21 February 2008 on the basis of which BHS Slovakia, o.c.p., a.s., received prior approval for the provision of investment services;
- Decision of 25 March 2008 on the basis of which J&T SECURITIES (SLOVAKIA), o.c.p., a.s., received prior approval for the provision of investment services;
- Decision of 28 April 2008 on the basis of which Blank Asset Managers, o.c.p., a.s., was authorised to provide investment services;
- Decision of 19 December 2008 on the basis of which SFM Group o.c.p., a.s., was authorised to provide investment services.

The following significant decisions of NBS related to banks in 2008:

- Decision of 14 January 2008 on the basis of which ČSOB, a.s., received prior approval for the acquisition of a share in the registered capital and voting rights of ČSOB stavebná sporiteľňa, a.s.;
- Decision of 14 January 2008 on the basis of which ČSOB stavebná sporiteľňa, a.s., received prior approval for becoming a subsidiary of Československá obchodná banka, a.s.;
- Decision of 28 July 2008 on the basis of which Slovenská sporiteľňa, a.s., received prior approval to use the internal ratings-based approach for credit risk measurement;
- Decision of 17 September 2008 in which NBS granted prior approval for the merger of Citibank Europe plc. (Ireland) and Citibank Slovakia, a.s.;
- Decision of 29 December 2008 on the basis of which Tatra banka, a.s., received prior approval to use the internal ratings-based approach for credit risk measurement.

In 2008, the following investment firms reported to have commenced investment activities via a branch office: X-Trade Brokers Dom Maklersky Spolka Akcijná, organisational unit (from 14 May 2008) and Buda-Cash Zrt. – Bratislava branch (from 15 May 2008).

In 2008, NBS registered 64 credit institutions (including electronic money institutions and foreign financial institutions) and 318 investment firms, which announced their intention to provide cross-border banking and investment services in Slovakia.

## 4.1.2 Capital market

### Collective investment

#### Domestic asset management companies and the mutual funds they manage

In the area of collective investment, 319 decisions were issued in respect of domestic entities and 34 notifications received. They are specified in the table below:

Decision / notification	Number of decisions / notifications
Modified authorisation to establish and operate an asset management company	3
Authorisation to establish an open-end mutual fund (UCITS)	9
Authorisation to establish a special mutual fund	3
Authorisation under Article 75(1) of the Collective Investment Act	6
Authorisation to acquire a stake in an asset management company	2
Prior approval for the sale of securities from an open-end mutual fund's portfolio to a shareholder of an asset management company	5
Prior approval for separate record-keeping by a depository / asset management company	3
Prior approval for the merger of open-end mutual funds	8
Prior approval for a change in the statutes	229
Prior approval for the appointment of a board member or a supervisory board member	29
Prior approval for a change in the articles of association	15
Suspension of proceedings	3
Discontinuance of proceedings	4
Notification under Art. 27 of the Collective Investment Act of asset management activity in a Member State without a local branch established	2
Notification from a foreign asset management company under Art. 29 of the Collective Investment Act	2
Notification from a European fund under Article 61 of the Collective Investment Act	30
<b>Decisions in total</b>	<b>319</b>
<b>Notifications in total</b>	<b>34</b>

The 2008 decisions of NBS concerning collective investment by domestic entities included the following:

- Modified authorisation to establish and operate an asset management company was granted to three asset management companies:
  - AIG Funds Central Europe, správ. spol. a.s., which extended the scope of its activities in accordance with Article 3(3) a) to c) of the Collective Investment Act;
  - Allianz Asset Management, správ. spol. a.s., which extended the scope of its activities in accordance with Article 3(3) a), b) of the Collective Investment Act;
  - VÚB Asset Management, správ. spol. a.s., which requested that an activity be excluded in accordance with Article 3(3) a), b) of the Collective Investment Act.
- The following companies were granted permits to establish open-end mutual funds (9 permits):

- Asset Management Slovenskej sporiteľne, správ. spol. a.s. (3 open-end mutual funds);
- ISTRO Asset Management, a.s. (1 open-end mutual fund);
- Tatra Asset Management, správ. spol. a.s. (2 open-end mutual funds);
- VÚB Asset Management, správ. spol. a.s. (3 open-end mutual funds).
- Although NBS issued 3 authorisations for the establishment of special mutual funds (2 special risky mutual funds for Asset Management Slovenskej sporiteľne, správ. spol. a.s., and 1 special real estate mutual fund for ČSOB Asset Management, správ. spol. a.s.), but they were not established.
- Two foreign investment companies were authorised to publicly offer securities issued by the collective investment funds they manage, through their organisational units:
  - AXA investiční společnost, a.s., Praha, Czech Republic (3 mutual funds);
  - ČP INVEST investiční společnost, a.s., Praha, Czech Republic (6 mutual funds).
- Asset Management Slovenskej sporiteľne, a.s., received prior approval for the sale of securities from the portfolios of five open-end mutual funds to a shareholder of the asset management company managing these mutual funds (Slovenská sporiteľňa, a.s.).
- The following companies received prior approval to merge open-end mutual funds (8 prior approvals):
  - IAD Investments, správ. spol. a.s. (2 approvals – to merge the following wound-up mutual funds: Európa o.p.f., Investičná a Dôchodková, správ. spol., a.s., and Sprint o.p.f., Investičná a Dôchodková správ. spol., a.s.);
  - ISTRO Asset Management, správ. spol., a.s. (1 approval – to merge the following wound-up mutual funds: ISTRO Asset Management správ. spol., a.s., Globálny technologický otvorený podielový fond, and ISTRO Asset Management správ. spol., a.s., Rastový akciový podielový fond EURÓPA);
  - PRVÁ PENZIJNÁ správ. spol., a.s. (2 approvals – to merge the following wound-up mutual funds: PRVÁ PENZIJNÁ správ. spol., a.s., Renta III-10 o.p.f., and Globálny akciový o.p.f., RENTA – PRVÁ PENZIJNÁ správ. spol., a.s.);
  - Tatra Asset Management, správ. spol., a.s. (2 approvals – to merge the following wound-up mutual funds: Tatra Asset Management správ. spol., a.s., dolárový dlhopisový o.p.f., Tatra Asset Management správ. spol., euro dlhopisový o.p.f., Tatra Asset Management správ. spol., a.s., fond korporátnych dlhopisov o.p.f., and Tatra Asset Management správ. spol., a.s., medzinárodný akciový-dlhopisový o.p.f.);
  - VÚB Asset Management, správ. spol., a.s. (1 approval – to merge the following open-end mutual funds: VÚB AM Dlhopisový korunový fond, o.p.f., and VÚB Asset Management správ. spol., a.s.).
- NBS certified PRVÁ PENZIJNÁ správ. spol., a.s., in accordance with Article 60(1) of Act No. 594/2003 Coll. on collective investment, in connection with the company's intention to publicly offer shares issued by the open-end mutual funds it manages in the Czech Republic.

## The Bratislava Stock Exchange

Within the scope of its licensing activity concerning the Bratislava Stock Exchange (hereinafter referred to as 'BCPB'), NBS issued 12 decisions in 2008:

Decision	Number of decisions
Modified authorisation to establish and operate a stock exchange	1
Prior approval for the appointment of a member to the BCPB board of directors	5

Prior approval for the appointment of a member to the BCPB supervisory board	1
Prior approval for the appointment of a chief inspector for stock exchange deals	1
Approval for a change in the stock exchange rules of BCPB, a.s.	4
<b>Decisions in total</b>	<b>12</b>

In 2008, NBS issued the following decisions regarding the activities of BCPB:

- 1 decision in March to modify the licence of BCPB to operate as a stock exchange; its scope of activities was extended to include the operation of a multilateral trading system;
- 4 decisions to approve changes in the stock exchange rules of BCPB, a.s.

### Central Securities Depository of Slovakia

Within the scope of its licensing activity, NBS issued 9 decisions in 2008 concerning the activities of the Central Securities Depository of Slovakia (hereinafter referred to as ‘CDCP’):

Decision	Number of decisions
Modified authorisation to operate as a central securities depository (CDCP)	1
Prior approval for the appointment of a CDCP Supervisory Board member	4
Prior approval for the appointment of a CDCP Board of Directors member	2
Approval of changes in the operating manual of CDCP	2
<b>Decisions in total</b>	<b>9</b>

In 2008, NBS issued the following decisions regarding the activities of CDCP:

- 1 decision in April to modify the authorisation of CDCP to operate as a central depository of securities;
- 2 prior approvals for the members of CDCP (Patria Finance, a.s., Citibank Europe plc.);
- 2 decisions to approve changes in the operating manual of CDCP.

### Public offering of securities

During 2008, 38 securities prospectuses were approved in accordance with Article 125(2) of Act No. 566/2001 Coll. on securities and investment services:

Decision	Number of decisions
Securities prospectus – shares	3
Securities prospectus – bonds	8
Securities prospectus – mortgage bonds	27
<b>Decisions in total</b>	<b>38</b>

In 2008, three amendments to securities prospectuses were approved under Article 125c(2) of Act No. 566/2001 Coll. on securities and investment services.

Securities prospectuses for bonds were approved for 7 issuers, for a total nominal value of SKK 3.09 billion, BGN 30 million, and EUR 1.5 million per decision.

Securities prospectuses for mortgage bonds were approved for 6 banks, for a total nominal value of SKK 14.19 billion.

For securities offered for trading on a regulated market, 30 prospectuses were approved (1 for trading on a foreign regulated market, i.e. the Warsaw Stock Exchange). For public offering and subsequent trading on a regulated market, 8 securities prospectuses were approved (1 for public offering and trading on a foreign regulated market, i.e. the Warsaw Stock Exchange).

## Public offering of assets

During 2008, four amendments to investment prospectuses were approved under Article 127(2) of Act No. 566/2001 Coll. on securities and investment services for 4 entities announcing public offers of assets under the joint logo of Slovak Investments.

## Notification of securities prospectuses

During 2009, NBS received a total of 99 notifications as specified below:

Notification	Number of notifications
Notification from the supervisory authority of a Member State of an approved securities prospectus and/or basic prospectus	22
Notification from the supervisory authority of a Member State of an approved amendment to a securities prospectus and/or basic prospectus	77
<b>Notifications in total</b>	<b>99</b>

## Take-over bids and squeeze-outs

Within the scope of its licensing activity among the issuers of securities traded on the BCPB floor, NBS issued 13 decisions in 2008 in take-over bid proceedings and squeeze-out approvals.

Decision	Number of decision
Approval of a compulsory take-over bid for the shares of a target company	10
Refusal of a compulsory take-over bid for the shares of a target company	0
Approval of a take-over bid for the shares of a target company announced voluntarily	1
Approval to exercise a 'squeeze-out' right	1
Obligation to complete and correct data in the draft of a take-over bid (process decision)	1
<b>Decisions in total</b>	<b>13</b>

The specification of an adequate compensation in proposals for compulsory take-over bids and in proposals for contracts for the purchase of shares under a squeeze-out right is significantly influenced by the valuation of shares in expert opinions in which the general value of shares is determined. The method of determining the general value of shares is laid down in Decree No. 492/2004 Coll. of the Ministry of Justice of the SR on appraisal of the general value of assets, as amended. With effect from 1 January 2008, the said decree was amended, specifically the part laying down the method of determining the general value of shares for the purpose of setting the value of adequate compensation under Act No. 566/2001 Coll. on securities and investment services. The amendment considerably restricted the freedom of experts in preparing expert opinions for the needs of compulsory take-over bids and squeeze-outs. While in 2007 experts set a compulsory minimum bid price under the provisions of Article 118g paragraphs 5), 6) and Article 118i paragraph 7) of Act No. 566/2001 Coll. on securities and investment services only in the case of 7.7% of the bids, a minimum price in 2008 was, under the amended decree, derived from expert opinions in the case of 58.3% of the bids approved where an expert opinion was required. As a result of this restriction on the free considerations of experts, the prices of shares calculated in expert opinions could not be artificially reduced. This change significantly affected the total number of take-over bid proceedings, and/or the interest of bidders in exercising their rights arising from the announcement of a compulsory take-over bid. It

is evident that the amended decree governing the preparation of expert opinions for the purposes of compulsory take-over bids and squeeze-outs, which had been initiated by NBS, was a significant contribution to the protection of minority shareholder rights.

During 2008, NBS assessed 11 take-over bids and issued 12 decisions in this connection; one of them was a process decision on a correction or change in a take-over bid proposal. Approved were ten compulsory take-over bids and one bid announced on a voluntary basis. No take-over bid was rejected. This represented virtually the same amount as in 2007. The proposers of these compulsory take-over bids announced them either because the statutory share of voting rights related to the shares of one issuer was exceeded pursuant to Article 118g of Act No. 566/2001 Coll. on securities and investment services, or on the basis of an issuer's general meeting deciding that the issuer's shares will no longer be quoted and/or will no longer be traded on the stock exchange under the provisions of Articles 119 and 170(3) of Act No. 566/2001 Coll. on securities and investment services.

For the purpose of squeeze-out pursuant to Article 118i of Act No. 566/2001 Coll. on securities and investment services, which is subject to approval from NBS, NBS approved a take-over bid announced on a voluntary basis and then granted approval for squeeze-out in accordance with Article 118i of Act No. 566/2001 Coll. on securities and investment services.

In 2008, NBS received notifications from 5 companies whose general meetings had decided to withdraw their shares from trading on the BCPB floor. NBS verified these notifications in terms of whether a compulsory take-over bid is to be announced or not. These companies were not obliged to announce a compulsory take-over bid, because the general meetings were attended by all shareholders of the individual issuers and they all (100%) voted for the said decision.

### **Investment service intermediaries**

In 2008, NBS issued 50 decisions to grant authorisation for the mediation of investment services for natural persons and 17 decisions for legal entities. All decisions became effective in the same year. In addition, NBS issued 30 prior approvals for the return of permits granted to investment service intermediaries. Subsequently, 28 permits were returned by natural persons and 2 permits by legal entities. In all cases, the entities concerned justified the return of their permits by the fact that they were no longer involved in the business of investment service mediation. One permit granted to a legal entity expired pursuant to Article 61(15) of Act No. 566/2001 Coll. on securities and investment services.

<b>Decision</b>	<b>Number of decisions</b>
Permit to mediate investment services for natural persons	50
Permit to mediate investment services for legal entities	17
Prior approval for the return of a permit to mediate investment services for natural persons	28
Prior approval for the return of a permit to mediate investment services for legal persons	2
<b>Decisions in total</b>	<b>97</b>

### **4.1.3 Insurance sector**

In 2008, NBS issued 159 various decisions for, and received 776 notifications from, the insurance sector. They are specified in the table below:

<b>Decision</b>	<b>Number of decisions</b>
Prior approval for appointment to an insurance company's board of directors	20
Prior approval for the conduct of intermediary activity for financial institutions	2
Prior approval for the acquisition of a share in registered capital/voting rights	7
Prior approval for the merger of an insurance company with another insurer	3
Extension of a permit to pursue insurance activities	3
Approval for the transfer of part of a life insurance stock	1
Permit to pursue insurance activities	1
Permit to mediate insurance services as an insurance agent – natural person	15
Permit to mediate insurance services as an insurance agent – legal entity	95
Permit to mediate insurance services as an insurance broker – legal entity	1
Permit to mediate reinsurance services	1
Decision to impose penalties	
Registration of a responsible actuary	5
Discontinuance of proceedings	5
<b>Decisions in total</b>	<b>159</b>

<b>Notification</b>	<b>Number of notifications</b>
Notification from an insurer based in another Member State of its intention to provide insurance services via a branch office in Slovakia	2
Notification from an insurer based in another Member State of its intention to provide insurance services without opening a branch in Slovakia	71
Notification from an insurance intermediary based in Slovakia of its intention to provide mediating services in another EU Member State	18
Notification from an insurance intermediary based in another Member State of its intention to provide mediating services in Slovakia via a branch office	2
Notification from an insurance intermediary based in another EU Member State of its intention to provide cross-border mediating services in Slovakia	683
<b>Notifications in total</b>	<b>776</b>

In 2008, NBS issued the following decisions regarding the insurance sector:

- On 25 January 2008, at the request of Wüstenrot poisťovňa, a.s., NBS approved the transfer of part of the life insurance stock belonging to a branch of Wüstenrot poisťovňa, branch for the Czech Republic, to Wüstenrot životní pojišťovna, a.s.;
- On 12 February 2008, at the request of ERGO Austria International AG, the founder of TEDA životná poisťovňa, a.s., authorisation was granted for insurance activity in the area of life insurance in the range of insurance classes listed in Annex 1 of the Insurance Act – Classification of Insurance Classes by Insurance Type:  
A – Life insurance classes:
  1. Death insurance, survival insurance, or insurance on both death and survival;
  4. Insurance as referred to in point 1, linked to an investment fund;
  6. Accident or sickness insurance, when representing supplementary insurance to some of the insurance classes referred to in points 1 and 4.
- On 27 March 2008, at the request of Wüstenrot Verwaltungs- und Dienstleistungen GmbH, Austria, prior approval was granted for the acquisition of a share in the registered capital and voting rights of Wüstenrot poisťovňa, a.s., to directly obtain, for the first time, more than 33% of the insurance company's registered capital and voting rights.

- On 2 May 2008, at the request of Poštová banka, a.s., prior approval was granted for the acquisition of a share in the registered capital and voting rights of Poist'ovňa TATRA, a.s., in excess of 50% of the insurance company's registered capital and voting rights for the first time.
- On 3 June 2008, at the request of Poist'ovňa TATRA, a.s., the insurance company's authorisation to provide insurance services was extended to include the B16 non-life insurance class, i.e. insurance on miscellaneous financial losses resulting from: employment, insufficient income, bad weather conditions, loss of profit, persistent general expenses, unforeseen trading expenses, loss of market value, loss of regular income, other indirect trading or other financial losses, and the B18 class, i.e. assistance insurance for persons in difficulties while travelling or being away from their permanent residence.
- On 3 June 2008, at the request of VICTORIA -VOLKSBANKEN Poist'ovňa, a.s., the insurance company's authorisation to provide insurance services was extended to include the B18 non-life insurance class, i.e. assistance insurance for persons in difficulties while travelling or being away from their permanent residence.
- On 17 June 2008, prior approval was granted for the merger of POIST'OVŇA HDI-GERLING Slovensko, a.s., and HDI Hannover Versicherung Aktiengesellschaft, Austria. Following the merger, HDI Hannover Versicherung Aktiengesellschaft, Austria, became the legal successor of POIST'OVŇA HDI-GERLING Slovensko, a.s.
- On 21 August 2008, prior approval was granted for the merger of Generali Poist'ovňa, a.s., and Česká poist'ovňa – Slovensko, akciová spoločnosť (abbr.: ČPS, a.s.). Following the merger, Generali Poist'ovňa, a.s., became the legal successor of Česká poist'ovňa – Slovensko, akciová spoločnosť (ČPS, a.s.).
- On 21 August 2008, at the request of Generali Poist'ovňa, a.s., the insurance company's authorisation to provide insurance services was extended to include the B14 non-life insurance class, i.e. Credit Insurance, and modified according to the Classification of Insurance Classes by Insurance Type (see Annex 1, Insurance Act).
- On 28 August 2008, at the request of WIENER STÄDTISCHE Versicherung AG Vienna Insurance Group, prior approval was granted for the acquisition of a share in the registered capital of Poist'ovňa Slovenskej sporiteľne, a.s., in excess of 50% of the insurance company's registered capital, for the first time.
- On 3 September 2008, at the request of GROUPAMA INTERNATIONAL Société anonyme, prior approval was granted for the acquisition of a share in the registered capital of OTP Garancia životná poist'ovňa, a.s., in excess of 50% of the insurance company's registered capital, for the first time.
- On 3 September 2008, at the request of GROUPAMA INTERNATIONAL Société anonyme, prior approval was granted the acquisition of a share in the registered capital and voting rights OTP Garancia poist'ovňa, a.s., in excess of 50% of the insurance company's registered capital, for the first time.
- On 4 September 2008, prior approval was granted to KOMUNÁLNA poist'ovňa, a.s., Vienna Insurance Group, for the conduct of intermediary activities for a financial institution, i.e. Slovenská sporiteľňa, a.s. (abbr.: SLSP, a.s.).
- On 25 November 2008, prior approval was granted for the merger of KOOPERATIVA poist'ovňa, a.s., Vienna Insurance Group and I.V.s.r.o. Following the merger, KOOPERATIVA poist'ovňa, a.s., Vienna Insurance Group became the legal successor of I.V. s.r.o.

- On 26 November 2008, at the request of GROUPAMA INTERNATIONAL Société anonyme, prior approval was granted for the acquisition of a share in the registered capital of OTP Garancia životná poisťovňa, a.s., in excess of 50% of the insurance company's registered capital.
- On 26 November 2008, at the request of GROUPAMA INTERNATIONAL Société anonyme, prior approval was granted for the acquisition of a share in the registered capital of OTP Garancia poisťovňa, a.s., in excess of 50% of the insurance company's registered capital.
- On 4 December 2008, prior approval was granted to KOMUNÁLNA poisťovňa, a.s., Vienna Insurance Group, for the conduct of intermediary activities for a financial institution, i.e. Slovenská sporiteľňa, a.s.

#### 4.1.4 Pension sector

##### Retirement pension saving

In 2008, NBS issued 54 prior approvals under Act No. 43/2004 Coll. on retirement pension saving, as specified below:

Decision	Number of decisions
Prior approval for the acquisition of a share in registered capital and voting rights	1
Prior approval for the appointment of Board and Supervisory Board members, a manager for professional activities, and the head of internal control	23
Prior approval for a change in the articles of association	8
Prior approval for a change in the statutes of a pension fund	21
Prior approval for a change of depository	1
<b>Decisions in total</b>	<b>54</b>

The most important NBS decisions concerning retirement pension saving (issued in 2008) were the following:

- Decision of 18 January 2008 on the basis of which ČSOB d.s.s., a.s., received prior approval for the acquisition of a 66% share in the registered capital and voting rights of ČSOB d.s.s., a.s., a pension fund management company, in order for ČSOB d.s.s., a.s., to become a subsidiary of Československá obchodná banka, a.s.
- Decision of 28 April 2008 on the basis of which ČSOB d.s.s., a.s., received prior approval for a change of depository; the company's new depository is ING Bank N.V., a branch of a foreign bank.

##### Supplementary pension saving

In 2008, NBS issued 40 prior approvals under Act No. 650/2004 Coll. on supplementary pension saving, as specified below:

Decision	Number of decisions
Prior approval for the appointment of Board and Supervisory Board members, and a manager in charge of internal control	16
Prior approval for a change in the articles of association	6
Prior approval for a change in the statutes of a supplementary pension fund	13
Prior approval for a change in the benefit pension plan	3
Discontinuance of proceedings	1

The most important NBS decisions concerning supplementary pension saving (issued in 2008) were the following:

- Decision of 17 June 2008 in which NBS modified the authorisation of STABILITA d.d.s., a.s., to operate as a supplementary pension asset management company;
- Decision of 5 May 2008 on the basis of which Doplnková Dôchodková Spoločnosť Tatra banky, a.s., received prior approval for a change in its benefit pension plan;
- Decision of 6 May 2008 on the basis of which STABILITA d.d.s., a.s., received prior approval for a change in its benefit pension plan;
- Decision of 6 June 2008 on the basis of which ING Tatra - Sympatia d.d.s., a.s., received prior approval for a change in its benefit pension plan.

In 2008, NBS granted 9 permits to mediate supplementary pension saving services, 2 to natural persons and 7 to legal entities. As at 31 December 2008, 39 legal entities and 3 natural persons were authorised to act as supplementary pension intermediaries.

Starting from the beginning of 2007, supplementary pension asset management companies register supplementary pension intermediaries working exclusively for one supplementary pension asset management company, through the STATUS DFT program. In 2008, 66 natural persons and 3 legal entities were registered as supplementary pension intermediaries working exclusively for one supplementary pension asset management company.

#### **4.1.5 Foreign exchange activities**

As an authority competent to conduct first-instance proceedings under the provisions of Article 29(1) of Act No. 747/2004 Coll. on financial market supervision and Article 40 of Act No. 202/1995 Coll. of the National Council of the SR, Foreign Exchange Act and Act amending the provisions of Act No. 372/1990 Coll. on infringements as amended, the Supervision Unit issues foreign exchange licences for trade in foreign exchange assets in the following range:

- currency exchange activity;
- non-cash transactions in funds in foreign currency; and
- foreign exchange services.

##### **Currency exchange activity**

Under the valid legislation, a foreign exchange licence for currency exchange activity may be issued for the purchase of foreign currency for Slovak currency in cash or for the sale of foreign currency for Slovak currency in cash, while a condition for the issue of a foreign exchange licence for the sale of currency is, among other things, the conduct of foreign currency purchasing activity for at least 12 months in accordance with the generally binding legal regulations and the terms laid down in a foreign exchange licence for the purchase of foreign currency for Slovak currency in cash.

In 2008, NBS issued 32 foreign exchange licences for currency exchange activity, as specified in the table below:

<b>Decision</b>	<b>Number of decisions</b>
Foreign exchange licence for the purchase of foreign currency for Slovak currency in cash for a legal person (LP)	21
Foreign exchange licence for the purchase of foreign currency for Slovak currency in cash for a natural person (NP)	6
Foreign exchange licence for the sale of foreign currency for Slovak currency in cash for a LP	2
Foreign exchange licence for the sale of foreign currency for Slovak currency in cash for a NP	3
<b>Decisions in total</b>	<b>32</b>

### **Non-cash transactions in funds**

Non-cash transactions in funds are defined as transactions in foreign exchange assets, consisting in the purchase or sale of funds in one currency for funds in other currency for own account or for another person's account via money transfer in non-cash form, or the mediation or arrangement of such purchase or sale, including the receipt and delivery of instructions for its execution or arrangement.

In 2008, one foreign exchange licence was issued for non-cash transactions in funds; it authorises the licence holder to conduct non-cash transactions in foreign currencies, specifically to purchase or sale foreign currencies for his own account or for another person's account via money transfer.

In their applications and/or the documents attached, applicants for a foreign exchange licence of this type offer their clients better currency conversion conditions than banks. Their clients come from the segments of small- and medium-sized enterprises and business organisations, which have no possibility, or do not use it for some reason, for agreeing individual rates with their commercial banks when converting foreign currencies earned from exports of goods or services, or when converting Slovak koruna to foreign currencies to discharge liabilities vis-à-vis abroad.

### **Foreign exchange services**

Foreign exchange services are defined as services provided to third persons as part of a business activity, the subject of which is the execution or mediation of cross-border transfers of cash payments in Slovak or foreign currency, or the operation of commercial agencies for the execution or mediation of such cross-border transfers.

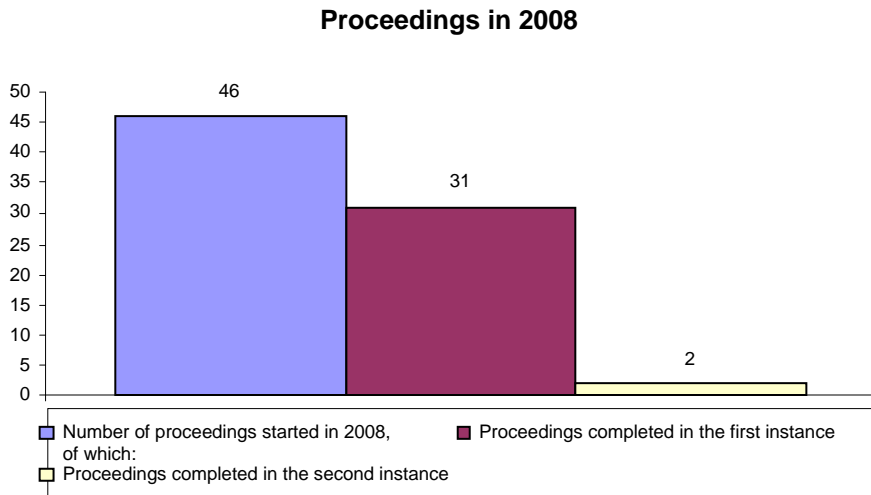
In 2008, NBS granted 1 licence for foreign exchange services, enabling the licence holder to mediate cross-border transfers of cash payments in SKK, EUR and USD from Slovakia abroad, and cash payments in SKK, EUR and USD from abroad to Slovakia.

#### **4.1.6 Payment system**

The supervision of payment systems is within the competence of NBS under Article 59(3) of Act No. 510/2002 Coll. on the payment system. In 2008, NBS authorised T - Mobile Slovensko, a.s., to issue electronic money instruments in accordance with Article 21d of Act No. 510/2002 Coll. on the payment system.

## **4.2 Penalties and remedial measures**

## 4.2.1 Proceedings started in 2008



A breakdown of the proceedings by sector is shown in the following table:

Sector	Number of proceedings
Banks and investment firms	17
Capital market	5
Insurance sector	19
Pension sector	0
Foreign exchange activity	5
<b>Total</b>	<b>46</b>

## 4.2.2 Decisions issued in 2008

### Banks and investment firms

In 2008, NBS issued 18 decisions concerning the banking sector, including 17 decisions to impose a preliminary measure and 1 decision to impose a remedial measure (in this case, the proceeding started in 2007).

### Capital market

Regarding the capital market, 7 decisions were issued in the course of 2008, including 5 final decisions to impose a penalty and 2 final decisions to discontinue the proceedings. Two final decisions imposing a remedial measure related to the collective investment sector.

### Insurance sector

In 2008, NBS issued 8 decisions concerning the insurance sector, including 7 final decisions to impose a penalty and 1 decision to impose a preliminary measure. The Bank Board of NBS decided to withdraw 3 decisions.

### Pension sector

Regarding saving for retirement, no decision to impose a penalty or remedial measure was issued in 2008.

### **Foreign exchange activity**

In 2008, NBS issued 5 final decisions to impose a penalty in connection with foreign exchange activity.

### **4.2.3 Second-instance decisions of the Bank Board**

In 2008, the Financial Market Supervision Unit forwarded 3 appeals lodged against first-instance NBS decisions to the Bank Board for reconsideration. In the same year, the Bank Board confirmed 1 decision issued in the first instance.

## **4.3 Customer protection**

From 1 January 2008 to 31 December 2008, the Clients' Protection Section received 871 petitions from customers (both natural and legal persons) dissatisfied with the practices of financial service providers. This represented an increase of almost 230% compared with 2007. The Section managed to settle 830 petitions, representing a 95.29% success factor in processing petitions.

Of the total number of petitions (871), 127 concerned the banking sector, 561 the insurance sector, and 183 related to other segments of the financial market (e.g. investment firms, pension fund management companies, supplementary pension asset management companies, intermediaries, applications for information, etc.).

Under Article 2(2) of Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (hereinafter referred to as 'NBS Act') and Article 1(1) of Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws as amended (hereinafter referred to 'Supervision Act'), the task of Národná banka Slovenska in respect of the financial market and the aim of financial market supervision is to contribute to the stability of the financial market as a whole, as well as to the secure and sound functioning of the financial market for the sake of its credibility, customer protection, and out of respect for the rules of economic competition.

In Article 2(1), the Supervision Act stipulates that, in performing supervision, NBS ascertains important particulars about the supervised entities and their activities, especially shortcomings in the activities of entities under supervision, the causes and consequences of these shortcomings, and the persons responsible. The customer protection agenda includes the verification and processing of various types of petitions, suggestions and notifications received from natural persons and legal entities in connection with the activities of financial market entities under supervision (including petitions filed by financial market entities), as well as activities related to the preparation of generally binding legal regulations for the transposition of EU directives on customer/consumer protection designed to protect the customers of such financial market entities.

The Clients' Protection Section, which is part of the Financial Market Supervision Unit (responsible for customer protection under the NBS Act and the Supervision Act), deals with petitions filed by the clients of insurance companies and other financial institutions supervised by Národná banka Slovenska on the basis of its powers arising from the cited laws and the Organisation Manual of NBS. In handling customer petitions, Národná banka Slovenska proceeds

in accordance with Article 2(1) of the Supervision Act, Article 6 of Act No. 483/2001 Coll. on banks, and Article 48 paragraphs 1, 2, 9 and 10 of Act No. 8/2008 on insurance.

Under Article 2(7) of the Supervision Act, entities subject to supervision are obliged to submit to Národná banka Slovenska, within the time limit set by NBS, any data, documents, information, and explanations required by Národná banka Slovenska in connection with the performance of its tasks.

Under Article 37(1) of the Insurance Act, an insurance company is required, among other things,

- to pursue its activities with professional care in the interest of customers;
- to provide customers, in a clear and intelligible manner, with any information needed for the conclusion of an insurance contract and to draw their attention to the important facts and risks associated with the conclusion of an insurance contract;
- to use no untrue or misleading information while promoting its services, to conceal no important facts, and to offer no advantages that cannot be guaranteed.

Under Article 37(2) of the Insurance Act, an insurance company is obliged, when requested by a customer or by NBS, to prove in a trustworthy manner that it exercises due professional care.

Under Article 27 of the Banking Act, banks and branches of foreign banks are obliged to proceed with prudence when pursuing their activities and, among other things, to carry out transactions:

- in a manner that does not damage the interests of depositors in regard to the recoverability of their deposits;
- under financial and legal conditions favourable to the bank or branch of a foreign bank and to its customers when transactions are concluded for the customer's account, while exercising due professional care.

Among other things, 'exercising professional care' means that the entity under supervision records how its activities are performed in the interests of customers.

Under the aforementioned provisions of the Supervision Act, Banking Act, and Insurance Act, the Clients' Protection Section of the Supervision Unit requires, when handling customer petitions, opinions and other information, the presentation of proofs that the entity concerned pursues its activities with professional care in the interests of customers.

Národná banka Slovenska (Clients' Protection Section) proceeds in accordance with the defined aim of supervision, the tasks of Národná banka Slovenska during supervision under Article 2(1) of the Supervision Act, and the objective of NBS supervision under Article 2(3) of the NBS Act and Article 1(1) of the Supervision Act – to contribute to the secure and sound functioning of the financial market in order to maintain its credibility and to ensure customer protection.

While performing tasks in the area of customer protection under the NBS Act and the Supervision Act within the competence of NBS, the Clients' Protection Section often arranges 'agreed remedies' for unsatisfied clients of insurance companies, banks, and other financial market entities (e.g. arranges that an insurance company modifies its decision to pay no insurance benefit), and thus they do not have to file a lawsuit to claim damages. Standard financial market entities cooperate with Národná banka Slovenska, supply NBS with information on customer

petitions, respect the opinions of NBS, and are willing to make compromises or to reconsider their decisions.

In handling customer petitions, the Clients' Protection Section cooperates with the Supervisory Department and the Regulation and Risk Management Methodology Department. If necessary, the Section requests opinions from these departments and supplies them with information obtained from customer petitions.

In general, petitions received from the clients of banks, insurance companies, or other supervised entities represent a source of information about the activities of these entities. The information obtained is taken into account by the Supervisory Department when conducting on-site inspections.

## 5. Supervision activities

When exercising supervision, 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.

Supervision is exercised on an individual or consolidated basis, as supervision of individual entities or groups of entities and special-purpose asset pools, including the entities under supervision, and supplementary supervision of financial conglomerates.

On-site inspection is defined as information gathering directly on the premises of the supervised entity or from its employees, including an evaluation of the information obtained in such a manner. Off-site supervision is defined as the collection and evaluation of information obtained about a supervised entity in a manner other than on-site inspection, for example on the basis of a written request made by NBS and from reports, statements, and other documents submitted to NBS.

Three basic types of on-site inspections are conducted at the supervised institutions:

- comprehensive inspection – includes an evaluation of all main activities, followed by an assessment of the overall risk profile of the supervised entity;
- thematic inspection – focuses on selected activities or on selected risks; thematic inspection is also used in approving the internal models of banks for the calculation of their capital requirements;
- follow-up inspection – is designed to evaluate the implementation of measures adopted by the supervised entity on the basis of a comprehensive or thematic inspection; follow-up inspection may also be combined with a thematic or comprehensive inspection.

In 2008, a total of 65 on-site inspections were carried out at the supervised financial market institutions in the following breakdown<sup>1</sup>:

On-site inspection	Comprehensive	Thematic	Follow-up	Total
Banks	-	21	1	22
Non-bank investment firms	6	-	-	6

<sup>1</sup> Not included in the table are on-site inspections which were conducted to verify compliance with the statutory and contractual requirement for euro cash frontloading at banks and legal entities (for more details see part 4.6).

Asset management companies	3	2	1	6
Pension fund management and supplementary pension asset management companies	5	2	1	8
Insurance companies	3	3	-	6
Intermediaries of insurance, reinsurance and investment services	10	-	-	10
Entities subject to foreign exchange supervision	7	-	-	7
<b>Inspections in total</b>	<b>34</b>	<b>28</b>	<b>3</b>	<b>65</b>

## 5.1 Banks and investment firms

### On-site supervision

On-site inspections at banks were conducted according to the Supervision Unit's annual plan, which includes a schedule of inspections and their aims. The aims and findings of inspections carried out at investment firms in 2008 were the following:

- **Tatra banka, a.s.** – an inspection was carried out at the bank in connection with the validation of the IRB model, in line with the approved plan of inspections for 2008. The aim of inspection was to verify the quality of data used for credit risk calculation and measurement using the advanced internal model-based approach, in a range necessary for the issue of a prior approval for the use of the internal ratings-based approach for credit risk measurement in accordance with the Banking Act. The output of this inspection was an NBS report on the use of the IRB approach for credit risk measurement, prepared for the approval of a model for the RZB Group. In this report, NBS gave its consent to the use of the IRB approach for credit risk measurement for the Corporate, Project Finance, Finance Institutions, Insurance, Sovereigns, Purchased Receivables, and Funds asset classes, after all conditions stipulated in the individual parts of the report had been met.
- **VÚB banka, a.s.** – a thematic inspection was carried out at the bank in line with the approved plan of inspections for 2008. The aim of inspection was to verify the system of operational risk management, selected reports on the prudential conduct of banking business, the information system, and the system of protection against money laundering and terrorism financing.
- **VÚB banka, a.s.** – a thematic inspection was carried out at the bank in line with the approved plan of inspections. The inspection verified the credit risk management system and selected statements and reports on the prudential conduct of banking business.
- **Poštová banka, a.s.** – a thematic inspection was carried out at the bank in line with the plan. It was designed to verify the system of operating risk management, selected statements and reports on the prudential conduct of banking business, the information system, and the system of protection against money laundering and terrorism financing.
- **J&T Banka Slovensko, branch of a foreign bank** – a thematic inspection was carried out at the bank at the request of the domestic regulator, i.e. ČNB. The inspection verified the system of credit risk management and selected credit portfolio clients.
- **VÚB banka, a.s.** – a thematic inspection was carried out at the bank in line with the plan of inspections. Its aim was to verify the bank's depository activities, investment services

provided to customers, and selected statements and reports on the prudential conduct of banking business.

- **Slovenská záručná a rozvojová banka, a.s.** – a thematic inspection was carried out at the bank in line with the approved plan. The inspection verified the system of credit risk management and selected statistical statements and reports on the prudential conduct of banking business.
- **Tatra banka, a.s.** – a thematic inspection was carried out at the bank in line with the plan; its aim was to verify the system of internal capital adequacy valuation. The system was verified on the basis of a review of the bank's strategy for managing the amount of internal capital and its implementation, an assessment of the bank's organisation and management, the information and communication system adopted by the bank within the ICAAP in relation to the scope and complexity of the bank's activities. The inspection also evaluated the methodology, identification and measurement of the major risks, and their incorporation in the bank's governance framework.
- **Poštová banka** – a thematic inspection was carried out at the bank. The inspection verified the procedure and method used by the bank in conducting money market transactions in May to July 2008. The objects of on-line inspection were forward currency transactions conducted by the bank on selected days of May 2008 with two entities with a special relationship to the bank, and forward currency transactions conducted by the bank in the interbank market in the same range and at the same time.
- **Dexia banka Slovensko** – a thematic inspection was carried out at the bank; it focused on selected financial operations carried out by the bank in the money and foreign exchange markets in the period from 1 May to 12 June 2008 for three clients. The inspection also covered selected interbank spot transactions concluded with Tatra banka, a.s., on 28 May 2008.
- **Tatra banka, a.s.** – an inspection was carried out at the bank in connection with the validation of the IRB model. Its aim was to verify areas that are important for the use of the model for the RZB group at local level and the application of the model under local conditions, and to verify compliance with the requirements stipulated by the Supervision Unit within the scope of the first evaluation (from 28 December 2007 to 31 March 2008) as conditions for authorisation for the use of the said model.
- **Dexia banka Slovensko, a.s.** – a thematic inspection was carried out at the bank according to the bank's internal control and internal audit division, which informed NBS of the shortcomings revealed in compliance with Article 25(5) of the Banking Act. Národná banka Slovenska was informed that an exposure of the bank towards a client exceeded the limit value and showed an unfavourable tendency; the exposure resulted from transactions concluded with the client in the money and foreign exchange markets.
- **UniCreditBank, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the systems of operational risk management, market risk management, and liquidity risk management, and evaluating the prevention of money laundering.
- **OTP Banka Slovensko, a.s.** – a thematic supervision was carried out at the bank with the aim of evaluating the system of operational risk management. It was combined with a follow-up inspection designed to monitor the implementation of measures adopted by the bank in the areas of market risk and liquidity risk management on the basis of an inspection carried out in 2006.

- **ČSOB, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the use of the internal ratings-based approach in the calculation of capital requirements for credit risk at the request of KBC Bank N.V.
- **Slovenská sporiteľňa, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the use of the internal ratings-based approach in the calculation of capital requirements for credit risk at the request of Erste Bank Group.
- **ISTROBANKA, a.s.** – a follow-up inspection was conducted with the aim of monitoring the implementation of measures adopted by the bank in the area of depository activities on the basis of an inspection carried out in 2007.
- **ČSOB, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the performance of depository activities.
- **OTP Banka Slovensko, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the bank's selected transactions, asset and liability management, and liquidity management.
- **ČSOB, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the systems of market risk management, liquidity management, and the bank's activities as an investment company.
- **UniCreditBank, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the system of credit risk management. The inspection also verified the bank's preparedness to use the internal ratings-based approach for the calculation of capital requirements for credit risk.
- **Slovenská sporiteľňa, a.s.** – a thematic inspection was carried out at the bank with the aim of evaluating the use of the advanced approach in calculating the capital requirements for operational risk (AMA), at the request of Erste Bank Group.

### Off-site supervision

Within the scope of off-site supervision, standard monthly and quarterly reports and statements were compiled for 26 banking institutions (14 banks, 3 home savings banks, 8 branches of foreign banks, and 1 savings cooperative), from which data outputs were prepared automatically in the statement collecting and processing system (APS STATUS): FINAN (a file of financial indicators) and CONCENTRATION (concentration of non-performing loans by sector). During 2008, FINAN was extended to include new indicators and a new output was prepared for 2009: DEPOSITS AND LOANS (a breakdown of deposits and loans by type, maturity, economic sector, and geographical area). Normally, the risks and risk management systems of banks are evaluated on a year-on-year (or ad hoc) basis. Off-site supervision is responsible for ratings set on the basis of the financial indicators achieved.

During the verification of reports on the application of prudential business rules, no significant shortcomings were recorded. Shortcomings were usually caused by human failure (e.g. during the manual feeding of data into the system) or information system failure; the deadlines for the delivery of statements were missed sporadically.

For the needs of management and the Supervisory Department, the individual banks are analysed by off-site supervision on the basis of statements received from them and other data outputs. Such analyses are normally performed on a quarterly basis or, if need be, in other months as well. The analyses focus on developments in assets and liabilities, interbank transactions, the portfolios of loans, deposits, and financial instruments, and on the foreign exchange positions of

banks. Special attention is paid to the results of budgetary performance and the prudential indicators of banks.

In 2008, seven stress scenarios were prepared for banks: they were designed to simulate an increase in non-performing loans and a decrease in deposits, to monitor the dependence of banks on interbank market resources, the failure of the four biggest debtors, and the bank's ability to cover its volatile funds by liquid assets.

With its comments and analyses, the Supervisory Department significantly contributed to the preparation of NBS Decree No. 18/2008 on the liquidity of banks and branches of foreign banks, the method of liquidity risk management by banks and branches of foreign banks, and on amendments to Decree No. 11/2007 concerning the presentation of statements and reports by banks, branches of foreign banks, investment firms, and branches of investment firms for supervision and statistical purposes.

In connection with the financial crisis, daily liquidity monitoring was introduced at the end of September 2008, on the basis of a decision imposing a preliminary NBS measure requiring banks to maintain a minimum amount of liquid assets on a daily basis, set according to the specific conditions of individual banks. Banks were required to ask Národná banka Slovenska for prior approval if they expected a decline in assets below the minimum level.

Banks were also required to inform Národná banka Slovenska of the occurrence of any obligation in excess of Sk 100 million, which may lead to infringement of the minimum liquidity requirement. The aim of the said decision was to obtain relevant information on the organisation and management of banks, whether they pursue their activities in a manner taking into account and minimising the risks, without damaging the interests of depositors and without threatening their own security and economic situation, and whether they pursue their activities with due professional care in the interest of customers.

Subsequently, information was required under the provisions of Article 35(1) of Act No. 747/2004 Coll. on financial market supervision, of the daily amounts of deposits on bank accounts, customers, and the general government sector in the prescribed range and structure.

Following the issue of a new decree on liquidity, banks were required under Article 35(1) of Act No. 747/2004 Coll. on financial market supervision, to supply information on the daily amount of liquid assets and liquid liabilities in the structure specified in NBS Decree No. 18/2008 of 28 October 2008 on the liquidity of banks and branches of foreign banks and on liquidity management at banks and branches of foreign banks.

### **Other activities related to banking supervision**

Within the scope of IRB model validation, off-site supervisors cooperated in the analysis of loan portfolios and the calculation of risk-weighted assets in determining the capital requirements of banks.

### **On-site inspections at investment firms in 2008**

- **BROKERSKÝ DOM o.c.p., a.s.** – an inspection was carried out at the company in line with the plan; it focused on the following areas: the implementation of measures adopted by the company on the basis of an earlier inspection (2006), compliance with the conditions stipulated in the permit to provide investment services, compliance with the provisions of Act No. 566/2001 Coll. on securities and investment services and the related laws in the range specified therein and in the generally binding legal regulations issued for their implementation.

- **KEY INVESTMENTS o.c.p, a.s.** – an inspection was carried out at the company in line with the plan; it focused on the following areas: the company’s organisation and management, activities as an investment firm under the provisions of Act No. 566/2001 Coll. on securities, compliance with the conditions stipulated in the permit to provide investment services, the company’s business documentation, compliance with the requirement to provide investment services with professional care and with the reporting requirement, i.e. to submit correct statements and reports on the basis of the company’s accounting records and internal control system, compliance with the internal regulations governing the company’s activities, the security of its information system, data protection and backup system, and the protection against money laundering.
- **PORTFIN, o.c.p., a.s.** – an inspection was carried out at the company in line with the plan; it focused on the following areas: the company’s organisation and management, activities as an investment firm under Act No. 566/2001 Coll., compliance with the conditions stipulated in the permit to provide investment services, the company’s trading system and business documentation, compliance with the requirement to provide investment services with professional care and with the reporting requirement, i.e. to submit correct statements and reports on the basis of the company’s accounting records and internal control system, compliance with the internal regulations governing the company’s activities, the security of its information system, data protection and backup system, and the protection against money laundering.
- **DLHOPIS, o.c.p., a.s.** – an inspection was carried out at the company in line with the plan; it focused on the following areas: the company’s activities as an investment firm under Act No. 566/2001 Coll., scope of activities, organisation and management, business documentation, trading system, compliance with the conditions stipulated in the permit to provide investment services, compliance with the requirement to provide investment services with professional care and with the reporting requirement, i.e. to submit correct statements and reports on the basis of the company’s accounting records and internal control system, compliance with the internal regulations governing the company’s activities, the security of its information system, data protection and backup system, and the protection against money laundering.
- **IS SLOVAKIA, s.r.o.** – an inspection was carried out at the company in line with the plan; it focused on the following areas: scope of activities, organisation and management, the pursuit of activities as an investment service intermediary under Act No. 566/2001 Coll., compliance with the conditions stipulated in the permit to operate as an investment service intermediary.
- **ACROSS Wealth Management o.c.p, a.s.** – an inspection commenced at the company in line with the plan; it focused on the following areas: dealing in securities, compliance with the conditions laid down in the permit to provide investment services, compliance with the provisions of Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws as amended and other laws in the range specified therein and in the generally binding legal regulations issued for their implementation. The inspection had not been completed by the end of 2008.
- **SLÁVIA CAPITAL o.c.p, a.s.** – an inspection commenced at the company in line with the plan; it focused on the following areas: dealing in securities, compliance with the conditions laid down in the permit to provide investment services, compliance with the provisions of Act No. 566/2001 Coll. on securities and investment services and other laws

in the range specified therein and in the generally binding legal regulations issued for their implementation. The inspection began on 27 November 2008 and was still ongoing at the end of 2008.

## 5.2 Capital market

### On-site supervision

In 2008, on-site inspections were conducted according to the Supervision Unit's annual plan, which was drawn up with regard to the inspections carried out in the previous years, i.e. the focus was on companies at which on-site inspection had not yet been conducted and on the sector's major companies. In some cases, the companies had been visited before inspection.

In 2008, the following inspections were carried out at asset management companies:

- **AIG Funds Central Europe správk. spol., a.s.** – a comprehensive inspection was carried out at the company with the aim of examining its asset management activities and the mutual funds they manage, compliance with the provisions of Act No. 594/2003 Coll. on collective investment, Act No. 566/2001 Coll. on securities and investment services, and compliance with other laws and generally binding legal regulations issued for their implementation.
- **VÚB Asset Management, správk. spol., a.s.** – a comprehensive inspection was carried out at the company on the basis of the approved plan; its aim was to verify the following areas: asset management activities, compliance with the provisions of the Collective Investment Act, other generally binding legal regulations, the statutes of mutual funds and the articles of association of the asset management company, compliance with the conditions laid down in the permits and other decisions of NBS, and the factual accuracy of selected statements and reports.
- **Tatra Asset Management, správk. spol., a.s.** – a thematic inspection combined with a follow-up inspection was carried out at the company, in line with the plan of inspections for 2008. The aim of inspection was to verify the following areas: the trading activities of selected funds, implementation of the plan of remedial measures, asset management activities, compliance with the provisions of the Collective Investment Act, Act on Securities and Investment Services and other generally binding legal regulations, compliance with the statutes of mutual funds and the articles of association of the asset management company, and compliance with the conditions laid down in permits issued under the Collective Investment Act and in other decisions of NBS, and the factual accuracy of selected statements and reports.
- **ČSOB Asset Management, správk. spol., a.s.** – a comprehensive inspection was carried out at the company with the aim of evaluating its main activities in managing the assets of mutual funds, its organisation and management, internal regulations, trading system, portfolio management system, internal control system, and risk management in mutual funds.
- **Istro Asset Management správk. spol., a.s.** – a follow-up inspection was carried out at the company with the aim of monitoring the implementation of measures adopted by the company on the basis of the previous inspection (2007).

### Off-site supervision

The main task of off-site supervision in the area of collective investment in 2008 was to support the process of on-site supervision, in the phase of preparation as well as execution. This support mainly consisted in the verification of portfolio valuation at the entities under supervision. The necessary information was obtained from statements submitted by the supervised entities to NBS via the APS STATUS DFT system, and from on-site inspections carried out at these entities (a more detailed description of the methods of market-based and theoretical valuation, data specifying the information obtained from monthly statements). In verifying the valuation of financial instruments, the Bloomberg system was used as a primary source of market-based securities prices. The main source of yield curve rates, which are used in the theoretical valuation of financial instruments, is the Reuters system. The eased legislation governing the valuation of assets managed by asset management companies in mutual funds did not enable such control over the valuation procedures as in the case of pension funds. This situation should be remedied through the adoption of a new decree on the method of asset valuation for mutual funds, in the preparation of which off-site supervision was actively involved in 2008. Further supervision is needed to monitor the quality of information reported by asset management companies, for statements and reports still show some shortcomings, which complicate the process of off-site supervision.

### **The Bratislava Stock Exchange and the Central Securities Depository of Slovakia**

The supervision of BCPB during 2008 consisted mainly in the continuous monitoring of completed transactions in securities admitted to the individual markets of BCPB within the scope of its trading system modules. The monitoring focused on cases of possible confidential information misuse and market manipulation with an emphasis on trading in the shares of issuers for which a compulsory take-over bid had been announced, and on the activities of BCPB members with regard to the principles of fair trading with professional care. Cases where a suspicion of market manipulation arose were duly verified. The supervision of CDCP during 2008 focused on the verification of customer petitions filed against the handling of shares.

### **Issuers of securities and issuers of public offerings**

In 2008, NBS exercised off-site supervision in order to verify compliance with the reporting requirement by issuers whose securities were admitted to trading on the regulated market of BCPB under Act No. 429/2002 Coll. on the stock exchange, the provisions of which concerning the regulated market became effective on 1 May 2007, and under Article 130 of Act No. 566/2001 Coll. on securities and investment services, compliance with the reporting requirement by issuers of public offerings which accumulate funds from the public on the basis of public offerings.

The number of issuers whose securities were admitted to the regulated market of BCPB, a.s., and which were subject to the reporting requirement under the Stock Exchange Act, was 173 as at 1 January 2008 and 144 as at 31 December 2008. There were four issuers of public offerings which collected funds from the public on the basis of public offerings and which were subject to the reporting requirement under Article 130 of Act No. 566/2001 on securities and investment services.

In 2008, NBS verified annual reports, semi-annual reports, preliminary statements, and other documents presented in line with the reporting requirement. NBS also evaluated how issuers met the reporting requirement in 2007, under Article 34 of Act No. 429/2002 Coll. on the stock exchange. On the last day of the statutory deadline for the submission of annual reports (30

April 2008), the securities of 171 issuers were admitted to the regulated market of the stock exchange. Annuals reports for 2007 were submitted to NBS by 159 issuers of securities and 4 issuers of public offerings. All issuers of public offerings collecting funds from the public on the basis of public offerings delivered an annual report to NBS for 2007. In June 2008, a total of 34 issuers were instructed to meet the reporting requirement in relation to NBS or BCPB. With effect from 1 September 2008, BCPB decided to end trading in the securities of 4 issuers on the regulated market, because they failed to release and submit to BCPB an annual report for 2007. The majority of issuers sent an incomplete annual report to NBS for 2007. The incomplete annual reports were ascribable to the legislative change made in 2007, which substantially extended the contents of annual financial reports.

Issuers whose securities had been admitted to trading on a regulated market were required to submit a semi-annual financial report to NBS in 2008, prepared in accordance with Article 35 of Act No. 429/2002 Coll. on the stock exchange. In total, 151 issuers were required to submit a semi-annual report in 2008. This requirement was met by 139 issuers. Of the total number of issuers of public offerings (4), the reporting requirement for the first half of 2008 was met by all issuers. NBS sent an appeal to 20 issuers who had failed to meet the reporting requirement vis-à-vis NBS and/or BCPB. Compliance with the reporting requirement for the first half of 2008 was verified continuously. For failure to meet the reporting requirement for that period, the securities of 9 issuers were excluded from the regulated market of BCPB. Most of the verified reports for the first half of 2008 were incomplete. This was mainly due to the fact that the majority of issuers were unaware of the changes in legal regulations pertaining to the compilation of semi-annual reports.

Off-site supervision was also exercised under Article 36 of Act No. 429/2002 Coll. on the stock exchange, according to which an issuer of securities admitted to trading on a regulated market is required to publish a preliminary statement made by its managing body within the first six months of the accounting period and another preliminary statement within the second six months of the accounting period. A preliminary statement for the first six months had to be delivered by 171 issuers. This requirement was met in relation to NBS by 141 issuers. NBS sent letters to 44 issuers which had failed to submit a preliminary statement to NBS and/or BCPB within the statutory time limit. The preliminary statements for the second six months were in the phase of verification.

Issuers of public offerings were not required to submit a preliminary statement made by their managing bodies.

NBS verified the reports delivered by the individual issuers in terms of completeness, as well as their electronic versions released via the Internet. In addition to these reports, the issuers were also required to submit to NBS and publish other regulated information under the Stock Exchange Act.

NBS also exercised off-site supervision among bond issuers, by verifying compliance with the requirement to make the issuing conditions available to the public under Article 3(5) of Act. 530/1990 Coll. on bonds, and with the requirement to present the issuing conditions to NBS under Article 8(1) of the Bond Act. NBS subsequently ensured that the presented bond issuing conditions were published in the Commercial Journal under Article 3(5) of the Bond Act. In 2008, 76 bond issues were floated by 27 bond issuers, while all issuers met the above requirements. Since 2007, NBS has been monitoring compliance with the obligation of issuers to pay yields on bonds within the prescribed time limit, on the basis of the bond issuers' annual summary reports.

## 5.3 Insurance sector

### On-site supervision

In 2008, on-site inspections were conducted according to the Supervision Unit's annual plan, which was drawn up with regard to the inspections carried out in the previous years, i.e. the focus was on companies at which on-site inspection had not yet been conducted and on the sector's most significant companies.

During 2008, 3 comprehensive and 3 thematic on-site inspections were carried out or commenced at insurance companies:

- **Poist'ovňa Česká poist'ovňa - Slovensko, a.s.** – a comprehensive inspection was carried out at the insurance company in line with the plan, with the aim of verifying compliance with Act No. 95/2002 Coll. on insurance, other related laws, generally binding legal regulations issued for their implementation, and compliance with the conditions stipulated in the permit issued under the Insurance Act.
- **ING Životná poist'ovňa, a.s.** – a thematic inspection was carried out at the insurance company at the request of the supervisory authority of the Netherlands (DNB), an EU Member State, under Article 12 of Directive No. 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. The on-site inspection was designed to verify compliance with the insurance company's valid internal regulations concerning compliance in 2007 and part of 2008, the system of internal control in insurance in the period 2005-2007, and compliance with the reporting requirement vis-à-vis NBS at the end of 2006 and in 2007. As an invited person under Article 11 of Act No. 747/2004 Coll. on financial market supervision, an employee of DNB also participated in the on-site inspection.
- **Allianz - Slovenská poist'ovňa, a.s.** – a thematic inspection was carried out at the insurance company at the request of the supervisory authority of Germany (Bafin), an EU Member State, under Article 12 of Directive No. 2002/87/EC of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. The aim of inspection was to verify compliance with the insurance company's valid internal regulations during the conduct of internal audit and the system of internal control used in the insurance company. At the same time, NBS verified compliance with the reporting requirement vis-à-vis NBS, the conclusion and administration of insurance contracts, and the related relationships with insurance intermediaries.
- **PČSP Rapid poist'ovňa, a.s.** – a thematic on-site inspection was carried out with the aim of verifying the creation of technical reserves at the insurance company and the supporting documentation, accounting for the technical reserves, the provisions of the General Insurance Terms and Conditions negotiated by the insurance company (valid since 21 May 2007), the insurance risks accepted by the company, the administration of insurance contracts, settlement of insurance events, and the payment of insurance benefits in accordance with Act No. 8/2008 Coll. on insurance. The on-site inspection also verified data and information which were submitted to NBS in the form of statements, reports, surveys and other documents under the Insurance Act and other generally binding legal regulations.

- **Amslico AIG Life poist'ovňa a.s.** – a comprehensive inspection was carried out at the insurance company in line with the plan of inspections, with the aim of verifying compliance with Act No. 8/2008 Coll. in insurance and other generally binding legal regulations, and compliance with the terms and conditions laid down in the permit issued under Act No. 8/2008 Coll. on insurance.
- **KOOPERATIVA poist'ovňa, a.s., Vienna Insurance Group** – a comprehensive on-site inspection was carried out in line with the plan of inspections. The aim of inspection was to verify compliance with Act No. 8/2008 Coll. in insurance and other generally binding legal regulations, and compliance with the terms and conditions laid down in the permit issued under Act No. 8/2008 Coll. on insurance.

By 31 December 2008, on-site supervision had not been completed in the following insurance companies:

- **Amslico AIG Life poist'ovňa, a.s.,**
- **PČSP Rapid poist'ovňa, a.s.,**
- **KOOPERATIVA poist'ovňa, a.s., Vienna Insurance Group.**

In view of the findings of on-line inspections, the representatives of NBS had several meetings in 2008 with the responsible auditors who conduct audits at insurance companies. The subjects of these meetings were the different opinions of the parties on the reporting of certain accounting items.

### **Off-site supervision**

In the area of off-site supervision, the Supervision Unit verified the standard statements and reports of insurance companies for 2007 (audited) and for the individual quarters of 2008 (continuous), as well as ad-hoc reports delivered via the APS STATUS DFT application software, referred to as FINAN (files of financial indicators). They were compiled retrospectively for 2006, 2007 and the first quarter of 2008. The verification of statements and reports revealed numerous shortcomings, which were examined (e.g. in the regular quarterly statements, annual and semi-annual reports). Some of the shortcomings were resolved at meetings with the representatives of insurers.

An important task of off-site supervision in the area of insurance in 2008 was to support the process of on-site supervision, in the phase of preparation as well as execution. This support mainly consisted in the verification of portfolio valuation at the supervised entities. The necessary information was obtained from quarterly statements submitted by the supervised entities to NBS via the APS STATUS DFT system, and from on-site inspections carried out at the supervised entities (a more detailed description of the methods of market-based and theoretical valuation, data specifying the information obtained from quarterly statements). In verifying the valuation of financial instruments, the Bloomberg system was used as a primary source of market-based securities prices. The main source of yield curve rates, which are used in the theoretical valuation of financial instruments, was the Reuters system.

In connection with the financial market turbulences and the deepening financial and economic crisis, a meeting with insurance companies was arranged. Their representatives informed NBS in detail of the current impacts of the crisis on the functioning and financial performance of insurance companies.

## **Intermediaries of insurance, reinsurance and investment services**

On-site inspections were conducted at insurance and reinsurance intermediaries with the aim of verifying compliance with the provisions of the relevant generally binding legal regulations in force in Slovakia.

In 2008, on-site inspections were conducted at nine companies. Except at two companies, the inspections were completed in the course of 2008.

The on-site inspections revealed that the entities under supervision acted in contradiction with Act No. 340/1995 Coll. on insurance and reinsurance mediation and on amendments to certain laws as amended (hereinafter referred to as 'Insurance and Reinsurance Mediation Act'), in the following cases:

- insurance services were mediated by persons who failed to satisfy the credibility and qualification requirements;
- insurance services were mediated by persons who had no authorisation (were not registered as intermediaries or started to mediate insurance services before registration);
- the insurance intermediaries failed to meet the information requirement in relation to customers, i.e. they did not inform customers of facts that are important for them to make a correct decision, where this obligation is imposed by the Insurance and Reinsurance Mediation Act;
- the insurance intermediaries failed to meet the reporting requirement in relation to NBS (to report on the conclusion or termination of contracts with insurance companies, or on the existence of a third-party liability insurance contract for insurance mediation).

The on-site inspections revealed that the supervised entities authorised to mediate insurance and reinsurance services failed to meet the requirements laid down in the Insurance and Reinsurance Mediation Act, regarding the mediation of insurance and reinsurance services.

## **5.4 Pension sector**

### **On-site supervision**

During 2008, on-site inspections were carried out at the following pension fund management companies:

- **Allianz - Slovenská dôchodková správcovská spoločnosť, a.s.** – the focus of on-site inspection was on the following areas of pension asset management: the organisation, management, legal framework, and contracted agenda of the company; the management of investments and activities associated with the valuation of assets in pension funds, including the settlement of transactions; risk management and compliance with the statutory limits concerning the composition of assets in pension funds; the information system and information flows within the company; the valuation of pension fund assets, calculation of the net asset value and the current value of a pension unit, pension fund charges; accounting and reporting, the management of personal pension accounts for savers; the crediting of benefits and yields, the debiting of charges; retirement pension savings contracts; internal control and complaints, advertising and promotion.
- **AXA dôchodková správcovská spoločnosť, a.s.** – the focus of on-site inspection was on the following areas of pension asset management: the organisation and management of the company; the management of investments and activities associated with the valuation

- of assets in pension funds, including the settlement of transactions; business documentation, risk management and compliance with the statutory limits; the valuation of pension fund assets, calculation of the net asset value and the current value of a pension unit; the management of personal pension accounts for savers, retirement pension savings contracts; reporting, complaints from savers, and the internal control system.
- **AEGON dôchodková správcovská spoločnosť, a.s.** – the focus of on-site inspection was on the following areas of pension asset management: the organisation and management of the company; the management of investments and activities associated with the valuation of assets in pension funds, including the settlement of transactions; business documentation, risk management and compliance with the statutory limits; the valuation of pension fund assets, calculation of the net asset value and the current value of a pension unit; the management of personal pension accounts for savers, retirement pension savings contracts; reporting, complaints from savers, and the internal control system.
  - **VÚB Generali, dôchodková správcovská spoločnosť, a.s.** – a comprehensive inspection was carried out with the aim of verifying the following areas: the pension fund management company's activities; compliance with the relevant provisions of the law on retirement pension saving, other generally binding legal regulations, the statutes of pension funds, and the articles of association of the pension fund management company; compliance with the terms and conditions under which the permit was granted, and with the conditions laid down in other decisions of Národná banka Slovenska; and the factual accuracy of selected statements and reports.
  - **ING dôchodková správcovská spoločnosť, a.s.** – a comprehensive inspection was carried out in line with the approved plan for 2008. The aim inspection was to verify the company's activities; compliance with the relevant provisions of the law on retirement pension saving, other generally binding legal regulations, the statutes of pension funds, and the articles of association of the pension fund management company; compliance with the terms and conditions under which the permit was granted, and with the conditions laid down in other decisions of NBS; and the factual accuracy of selected statements and reports.
  - **ČSOB, dôchodková správcovská spoločnosť, a.s.** – a follow-up inspection was carried out at the company with the aim of verifying the implementation of measures that were adopted on the basis of the previous inspection (2007).

At supplementary pension asset management companies, the following on-line inspections were carried out in 2008:

- **STABILITA doplnková dôchodcovská spoločnosť, a.s.** – the aim of on-line inspection was to verify the following areas of supplementary pension asset management: transformation of the company from a supplementary pension insurance company into a supplementary pension asset management company under the law on pension fund management companies (PFMC Act); settlement of the claims of recipients of supplementary pension insurance benefits; discharge of liabilities arising from the original supplementary pension benefit plans; the method used for identifying payments received by supplementary pension funds and their subsequent redistribution among savers participating in supplementary pension saving; redistribution of revenues among the company's customers; the procedure used in valuating the assets of supplementary

pension funds managed by the company and calculating the net value of assets in supplementary pension funds; the method of accounting for expenses incurred in connection with the management of assets in supplementary pension funds under Article § 35 paragraphs 1 to 5 of the PFMC Act; and the method and procedure used in handling complaints received from supplementary pension savers.

- **AXA doplňková důchodková společnost, a.s.** – the aim of on-line inspection was to verify the following areas of supplementary pension asset management: the personal accounts of savers or recipients of pension benefits, and statements from the personal accounts of savers or recipients of pension benefits.

### **Off-site supervision**

In 2008, the objects of off-site supervision within the retirement pension scheme were 6 pension fund management companies managing a total of 18 pension funds and 4 banking institutions pursuing depository activity under Act No. 43/2004 Coll. on retirement pension saving. In the area of supplementary pension saving, the objects of off-site supervision were 5 supplementary pension asset management companies managing 14 supplementary pension funds (AEGON d.d.s., a.s., had not yet had a payment fund, owing to the short period of operation in the market) and 4 banking entities pursuing depository activity under Act No. 650/2004 Coll. on supplementary pension saving.

During the previous year, off-site supervision focused on retirement pension saving. One of the standard tasks of off-site supervision was to verify compliance with the daily reporting requirement by pension fund management companies and the depositories of pension funds under Decree No. 91/2008 Coll. of NBS. On the basis of the information so obtained, the supervisors evaluated risks involved in the individual transactions, as well as their effects on the portfolios of pension funds. During the off-site supervision process, the focus was on the continuous verification of asset valuation in pension funds and the acquisition of financial instruments for the funds of individual pension fund management companies in accordance with the provisions of Act No. 43/2004 Coll. on retirement pension saving. The shortcomings revealed were discussed with the individual pension fund management companies, while their impact on the net values of pension fund assets was negligible. On the basis of daily reports and other information obtained directly from the supervised companies, quarterly reports were prepared with the aim of monitoring the market risks in the individual pension funds using the Value-at-Risk method, especially the sensitivity of pension funds to changes in interest levels, share prices, and exchange rates. An integral part of the reports were the results of stress testing. Owing to the deepening financial crisis in 2008, the normally used set of stress scenarios was extended to include new scenarios reflecting the current situation. Based on the results obtained, the individual funds were compared, as well as the effects on the profits/losses of pension funds. Monthly reports were prepared on assets held in pension funds, illustrating the individual financial instruments as a percentage of the value of pension fund assets, and the year-on-year outputs of the individual pension funds. In March 2008, off-site supervision began to verify compliance with the provisions of Article 91 of Act No. 43/2004 Coll. on retirement pension saving, regarding the comparison of pension funds in terms of output. To this end, the information system of the Supervisory Department, i.e. *System of Pillar II Pension Limits*, was

extended to include the *Pension Fund Output* module, providing a basis for the automated monitoring of compliance with the relevant provisions of the law, on a daily basis. Information on the average yields of pension funds and the average yields of competitors is regularly released on the web site of NBS. The *System of Pillar II Pension Limits* information system was also extended to include a *Monthly Reports* module, which provides aggregate information on the distribution of pension fund investments by type of asset, geographical location, and currency exposure. At present, information is supplied on the ten largest share, bond, and financial investments. The financial crisis also affected the market for pension saving. An important task of off-site supervision in 2008 was to support the process of on-site supervision, in the phase of preparation as well as execution. This support mainly consisted in the verification of portfolio valuation at the entities under supervision. The necessary information was obtained from daily statements delivered by the supervised entities and from on-site inspections carried out at the supervised entities (a more detailed description of the market-based and theoretical valuation methods, data specifying the information obtained from quarterly statements). In verifying the valuation of financial instruments, the Bloomberg system was used as a primary source of market-based securities prices. The main source of yield curve rates, which are used in the theoretical valuation of financial instruments, was the Reuters system. In checking the theoretical prices given in the statements, on-site supervision focused on the method of their calculation, which must be in accordance with the relevant legislation. During the year, off-site supervision actively participated in the preparation of amendments to primary and secondary legislation pertaining to retirement pension saving (changes in the investment rules, valuation methods, etc.).

## **5.5 Foreign exchange supervision**

Foreign exchange supervision focused on the verification of compliance with the reporting requirement, mainly at the suggestion of the Statistics Department of NBS. In all cases where foreign exchange supervision was exercised, the supervisors revealed that the foreign exchange reporting requirement had not been met. In the area of currency exchange activity, the supervisors verified the prescribed documentation (purchase and sale statements, foreign exchange journals, etc.). Foreign exchange supervision was exercised at 7 entities in 2008.

## **5.6 Preparedness for the euro cash changeover**

In 2008, the Supervision Unit verified the preparedness of the supervised entities for the euro cash changeover, mainly compliance with the dual price display requirement laid down in Act No. 659/2007 Coll. on the introduction of the euro in Slovakia. The objects of verification were all entities under supervision, i.e. banks, branches of foreign banks, credit cooperatives, insurance companies, investment firms, asset management companies, pension fund management companies, supplementary pension asset management companies, the stock exchange, and the central securities depository. After the documentation delivered by the supervised entities had been evaluated, on-site inspections were carried out at the individual entities. The entities were subsequently warned of the shortcomings revealed and instructed to remedy the situation without delay.

Inspections were carried out at 42 entities in the fourth quarter of 2008: at 16 banks, 9 branches of foreign banks, 12 asset management companies, 5 supplementary asset management companies, and 5 supplementary pension companies. Shortcomings were found at 10 banks, 3

branches of foreign banks, and 2 asset management companies. Where shortcomings were detected, the entities concerned were warned of the shortcomings and instructed to remedy the situation without delay. Some of the shortcomings associated with the dual price display requirement were eliminated by the staff immediately, during the inspection.

The inspections verified the level of preparedness for the euro adoption as from 1 January 2009 at 18 investment firms, the Bratislava Stock Exchange, and the Central Securities Depository of Slovakia. The supervisors found the supervised entities were prepared – in organisational, technical and personnel terms – to ensure a smooth changeover to the euro.

The supervisors also verified the preparedness of insurance companies for the euro cash changeover, in terms of the dual price display requirement. The inspections took place in October to December 2008, and included a verification of documents, as well as compliance with the said requirements at selected insurance companies. The verification of documents received from insurance companies and the on-site inspections revealed numerous shortcomings in the area of compliance with the requirements laid down in Act No. 659/2007 Coll. on the introduction of the euro in Slovakia (the conversion rate was missing in certain forms or an incorrect conversion rate was used, prices were given with an incorrect number of decimal places; the dual price display requirement was ignored; prices were incorrectly converted from Slovak koruna to euro; the conversion rate was not displayed in a visible place on the business premises, nor was available information on the measures, rules and procedures that the insurance company planned to adopt or had adopted to ensure a smooth changeover to the euro). Where shortcomings were revealed in connection with the euro cash changeover and the dual price display, the insurance companies were warned in writing of the shortcomings and instructed to remedy the situation without delay.

The supervisors also verified compliance with the statutory and contractual frontloading requirement, i.e. the frontloading of euro banknotes and coins to financial institutions, during preparation to the euro under Act No. 659/2007 Coll. on the introduction of the euro in Slovakia and on amendments to certain laws under the ECB/2000/9 Directive of the European Central Bank of 14 July 2006. Subsequently, inspections were conducted in cooperation with commercial banks with the aim of verifying compliance with the statutory and contractual sub-frontloading requirements among commercial banks and entrepreneurs.

## **6. Other activities**

### **6.1 Cooperation with foreign supervisory authorities**

On 7 October 2008, NBS representatives held a bilateral meeting with the Austrian Financial Market Authority (FMA). The meeting is convened annually on the basis of a Memorandum of Understanding, and this year's gathering discussed how to address the financial crisis.

A general framework for cooperation between supervisory authorities in regard to the fulfilment of their supervisory roles has been established by the Multilateral Memorandum of Understanding on the Exchange of Information and Surveillance of Securities Activities (CESR/05-335). Two basic models of cooperation between competent supervisory authorities are provided by the Protocol on the Supervision of Branches under MiFID (CESR/07-672) – cooperation through either the "Common Oversight Request", a model based on the joint and coordinated supervision of branches, or the "Standing Request for Assistance", a model whereby

a competent supervisory authority requests another competent supervisory authority to provide supervisory assistance.

A Standing Request for Assistance in the supervision of branches of foreign banks operating also as investment firms was accepted by NBS in respect of branches of the foreign banks COMMERZBANK AG (supervisory authority: Germany's Bundesanstalt für Finanzdienstleistungsaufsicht), and HSBC Bank plc. (supervisory authority: the UK's Financial Market Authority).

### **6.1.1 Banks and investment firms**

- In January 2008, the latest developments in Volksbank Group regarding the implementation of the Basel II rules were presented at a meeting held in Vienna.
- In February 2008, supervisors of Unicredit Group met to discuss a draft multilateral agreement on cooperation in the supervision of Unicredit Group.
- In July 2008, supervisors of Unicredit Group held a meeting at which the Italian supervisor presented the results of its assessment of the group's credit and operational risk models and an agreement was reached on the scope of model reviews to be carried out by other supervisors.
- In September 2008, the college of supervisors of the KBC Group held its first meeting, at which the Belgian supervisor presented the group's strategy as well as its assessment of the group. The supervisors discussed ways of cooperating in the supervision of this banking group.
- In October 2008, the college of supervisors of Erste Bank Group held a meeting to exchange information on supervision of the group, to assess its risk profile and also to discuss a draft multilateral agreement on cooperation in the supervision of Erste Bank Group.
- In September and October 2008, staff of the NBS Supervision Unit were in Paris to attend a Europe-wide mission aimed at evaluating the economic capital model in Société Générale Group. Other countries represented at the meeting included the Czech Republic, France, Greece, Luxembourg, Romania and Slovenia.
- In October 2008, a meeting was held in Paris at which the preliminary conclusions of the mission in Société Générale Group were presented, along with the methodology used by the French supervisor under Pillar 2 as well as the methodologies used by selected host supervisors under Pillar 2.
- In December 2008, a meeting was held in Vienna to discuss the latest developments in the structure of RZB Group and Volksbank Group and the implementation of Basel II rules, as well as the methodology for the internal capital adequacy assessment process (ICAAP).
- In December 2008, the college of supervisors for OTP Group also held a meeting. Each supervisor presented key information from its supervision of the group and there was also discussion of a draft multilateral agreement on cooperation in the supervision of OTP Group.

### **6.1.2 Insurance sector**

In 2008, meetings were held of the supervisors of the following EU cross-border insurance groups that have a branch or branches in Slovakia: Eureka Group (Union poisťovňa, a.s.), Generali (Generali poisťovňa, a.s.), Allianz Group (Allianz – Slovenská poisťovňa, a.s.), Vienna Insurance Group (Kooprativa poisťovňa, a.s. Komunálna poisťovňa, a.s. Kontinuita

poist'ovňa, a.s. and Poist'ovňa Slovenskej sporiteľne, a.s.), HDI Versicherung (POISŤOVŇA HDI-GERLING Slovensko, a.s.), BNP Paribas Assurances (Poist'ovňa Cardif, a.s.), ALICO Group (Amslico AIG Life poist'ovňa a.s.) and ING Group (ING Životná poist'ovňa a.s.). The meetings focused on presentations of financial indicators and problems of particular institutions in attendance, which supervisors had encountered when exercising supervision in the groups. Their discussions covered the possibility of preparing joint inspections, evaluating supervisory activities in the respective countries, and proposals for new ways of implementing supervision. The meetings also addressed the QIS 4 results and the preliminary repercussions of the financial crisis on the overall performance of insurance companies.

### **6.1.3 Pension sector**

In November 2008, a meeting was held at the NBS headquarters in Bratislava with representatives of Romania's supervisory authority for pension fund management companies. This purpose was mainly to exchange information on the pension saving system in Slovakia and Romania and to share experiences of supervisory procedures in this area.

## **6.2 Participation in working groups**

In connection with NBS's commitments to international organisations, the European Central Bank, EU committees, and so on, staff members of the NBS Supervision Unit regularly attend meetings of various working groups and committees. NBS is a member of the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS), and the Committee of European Securities Regulators – the so-called "Level 3 Committees".

### **6.2.1 Banks and investment firms**

In addition to performing traditional activities on working groups and committees, NBS contributed significantly to Slovakia's requirements being taken into account in draft EU directives (amending Directive 2006/48/ES of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast). At the end of 2008, NBS was putting forward its comments at meetings of the Council's working groups, too.

In the adoption procedure for the European Commission's draft Regulation on Credit Rating Agencies, proposed as part of the EC's activities in response to the financial crisis, NBS again made significant interventions at the Council level, bearing in mind that this regulation could in future affect the central bank's activities in many ways.

In both these cases, the legislative process had not been completed by the end of 2008.

*Banking Supervision Committee (BSC)* – The main task of the BSC in 2008 was to monitor financial stability at the EU level. Its analyses (produced at the subgroup level) and discussions focused in particular on the vulnerability of the EU financial system and the system's resilience to various shocks. The BSC's objective is to strengthen cooperation between supervisors and central banks across the EU in order to maintain financial stability.

- *Working Group on Developments in Banking (WGDB)* – In 2008, this working group conducted regular monitoring of structural changes in the European banking sector. Among the matters discussed at its meetings were the impact of the financial crisis on

particular sectors in EU countries and the measures adopted by individual countries to mitigate the effects of the crisis. In 2008, the group published a report on the so-called "originate and distribute" models in banking.

- *Working Group on Macro-Prudential Analysis (WGMA)* – In 2008, this working group produced the following periodic reports for the same year: the "Financial Stability Review" and "Banking Sector Stability Report". At all four meetings over the course of the year, the group focused on the impact of the financial crisis on financial sectors in EU countries. The group's work centred also on developments in the real estate market in individual Member States and on stress testing.
- *Task Force on Crisis Management (TFCM)* – In 2008, this working group was engaged in producing an analytical system tool that could be used by supervisors at times of financial crisis. Its aim is to create a common language and area for mutual communication during crises.
  - *BSC-CEBS Joint Task Force on the Impact of the New Capital Framework* – In 2008, this working group prepared for the BSC and CEBS a first report on own funds and capital adequacy among banks that had been implementing advanced risk measurement methods under Basel II (based on data as at 30 June 2008), and a qualitative evaluation of the procyclicality of the new capital requirements.

*The Committee of European Banking Supervisors (CEBS)* – The CEBS gives the European Commission advice on banking matters. It focuses mainly on capital requirement rules for financial institutions with the aim of ensuring that the capital of financial institutions is more closely aligned with the risks they face. The committee met four times in 2008.

- *Groupe de Contact (GdC)* – An expert group of the CEBS devoted to the harmonization of supervisory procedures and the exchange of information. The group's principal work in 2008 was in the areas of cooperation between supervisors at the college level, recommendations on liquidity risk management, internal governance, practical procedures for the assessment of banks under Pillar 2, and crisis management. This group held four meetings in 2008, including one in Bratislava.
- *Passport Experts Network* – In 2008, this operational group worked mainly on aspects of the single passport for countries of the European Economic Area, in order to streamline processes and procedures concerning the single passport issue in EEA countries. The group's meetings (one in 2008) were attended by representatives of EEA countries' supervisory authorities.
- *Subgroup on Operational Networking (SON)* – This group is tasked with supporting cooperation among supervisors, including the cooperation referred to in Article 129 of Directive 2006/48/EC, and dealing with the implementation of AMA and IRB approaches from the view of both supervisors and banking groups. The group held five meetings in 2008.
- *Pillar 2 Convergence Network (P2CN)* – This working group focuses on issues concerning the application of supervisory procedures under Pillar 2, its main task being to harmonize supervisory authorities' approaches, procedures and assessments within the Pillar 2 framework of the CRD. The group met six times in 2008. Its activities in 2008 centred mainly on the following: producing a consultation paper (CP20) on technical aspects of diversification effects, updating an analytical document on national approaches to Pillar 2 of the CRD, and updating and supplementing the CEBS guideline on

- *Cross Border Mergers and Acquisitions Task Force (3L3 CMATF)* - The principal task of this working group is to issue guidelines concerning Directive 2007/44/EC in order to define which proportionate information will be required for the assessment and common understanding of the evaluation criteria, and to lay down a set of practical procedures and processes for cooperation between diverse competent authorities. The group held five meetings in 2008.
- *NOVI-O* – The NOVI-O subgroup is responsible for supporting validation practices in relation to operational risk. Its aim is to support the exchange of information on technical aspects in the given area and to identify problems that require additional inputs from the CEBS. This subgroup met twice during the course of 2008, and it produced documents on the use test, the allocation mechanism, operational risk triggers, and the fraud case at Société Générale. The group looked at the approaches of major commercial banks in regard to application of the use test, correlations and insurance. At the end of the year, it was working on a document regarding insurance and other risk transmission mechanisms. The focus of the group's work was on four documents constituting a compendium of operational risk, three of which were published by the CEBS in December 2008 as Consultation Paper No. 21.
- *Supervisory Culture Network (CEBS)* – This working group focuses on the training of banking supervisors' staff, specifically the use of exchange schemes and study visits to raise the qualifications, expertise and knowledge of these staff. Participants in the group are representatives of the banking supervisors of EU Member States. The group meets once a year.
- *Working Group on Passporting (CEBS)* – This working group addresses the issue of licensing – i.e. the single passport. Its objective is to prepare a joint manual of uniform procedures for the licensing of credit entities from EEA countries (the single passport). The group's participants are representatives from certain EEA countries. The group used to meet five times a year, but at present its activities have been discontinued.
- *Anti Money Laundering Task Force (AMLTF)* – The role of this working group is to implement the EU's "Third Directive" on money laundering and terrorist financing prevention in Member States, with stress on the practical problems arising from its application, and to implement Regulation (EC) No. 1781/2006 on information on the payer accompanying transfers of funds, which entered into force across the EU as from 1 January 2007, with stress on the practical problems arising from its application. The group has the following aims: to acquire an overview of current issues concerning the enforcement of rights and obligations arising under the Third Directive to regulated entities and to institutions authorised to exercise oversight and supervision; to produce a lucid document that after being published on the CEBS website will lay a basis for cooperation in the exercise of cross-border supervision of regulated entities; and to produce, discuss with banks' representatives, and publish on the CEBS website a document on the practical implementation of Regulation (EC) No. 1781/2006 on information on the payer accompanying transfers of funds. Members of the group are representatives of banking supervisors in Member States (including supervisors of the

capital market and insurance sectors, since it is a 3L3 committee). The group meets as necessary, usually six times a year.

- *MONEYVAL* – Council of Europe, Strasbourg – The aim of this committee is to continually monitor compliance with and implementation of measures to counter money laundering and terrorist financing in the Council of Europe's member countries, based on the FATF's 40+9 recommendations and the EU's Third Money Laundering Directive. To this end, the committee produces reports on its member countries, basing them on evaluations made by foreign experts directly in the countries concerned (the reports include ratings on each of the FATF's recommendation). After the reports are discussed at plenary meetings, the committee publishes them on its website and subsequently produces progress reports on the efforts of the member countries to address the deficiencies identified in their preventive and repressive regimes. The committee's membership comprises delegations of the member countries (including representatives of the financial intelligence unit, general prosecutor's office and supervisory authority). The committee holds plenary meetings at least three times a year.
- *Group of contact points on the bank lending survey* – This working group, reporting to the ECB, is tasked with discussing technical and implementation details of the ECB's Bank Lending Survey, which covers changes in lending standards and in lending demand across euro area countries. Following Slovakia's entry into the euro area as of 1 January 2009, NBS began on a quarterly basis to collect data from the country's three largest banks in accordance with the ECB's methodology.

## 6.2.2 Capital market

*The Committee of European Securities Regulators (CESR)* – The task of the committee is to improve coordination among securities regulators across the European Union, to act as an advisory group to assist the European Commission, and to work to ensure more consistent and timely implementation of community legislation in Member States. At meetings of the CESR's members, these top representatives of the individual securities regulators take key decisions on the regulation and supervision of this area and approve Level 3 guidelines and other important documents concerning the CESR's activities (on the basis of a qualified majority vote, in accordance with the CESR's revised rules of procedure). The meetings are attended by an NBS's representative, as well as by the CESR's internal coordinator. In 2008, the CESR paid special attention to issues concerning its role and powers, improving the efficiency of its activities, and mutual cooperation with the "3L3 committees", which was reflected in the CESR's revised rules of procedure in force as of 10 September 2008. NBS is represented in several of the CESR's permanent working and expert groups, their output being the formulation and preparation of most of the expert materials submitted for approval to the highest-level CESR meetings (the "CESR Plenary" and "CESR Chairs" meetings).

An NBS representative also attends meetings of the International Organisation of Securities Commissions (IOSCO).

- *Review Panel (RP)* – This permanent operational group of the CESR is mandated to use information obtained from national supervisors to assess the degree to which national legislative environments are in harmony with Community requirements (at Level 1 and Level 2) as well as with CESR guidelines and standards at Level 3. It assesses the overall process of implementation, provides common understanding, and expresses views on specific problems in the implementation process encountered by individual CESR

members. The group usually meets four times a year. In 2008, the group produced an Assessment Report on the extent to which CESR members have implemented the CESR's guidelines to simplify the notification procedure of UCITS, which was published in May 2008 following its approval at a CESR Plenary Meeting. Having been mandated by the European Commission to assess the implementation of Directive 2004/39/EC on markets in financial instruments (MiFID) into the national legal systems of CESR members, the group carried out a comprehensive survey and used the information obtained to produce the "Report on the mapping of supervisory powers, supervisory practices, administrative and criminal sanctioning regimes of Member States in relation to the Markets in Financial Instruments Directive (MiFID)". On the basis of another RP survey, the CESR will evaluate the competences, method of supervision, and imposition of sanctions in relation to the Transparency Directive. The RP has likewise reassessed the process of ensuring that CESR members comply with the principles of financial standards No. 1 and No. 2.

- *CESR-Pol* – In 2008, the main output of this operational group's activities was to prepare the publication of the "Third set of CESR Guidance on the Operation of the Market Abuse Directive ("MAD") at level 3 under the Lamfalussy process, and also to coordinate work of Member States in regard to the legal regulation of short-selling as one of the measures to prevent repercussions from the crisis.
- *CESR-Fin* – In 2008, the work of this operational group included recurrent discussions of issues related to EC measures on the use of third countries' national accounting standards in the EU and to the equivalence of the accounting standards of selected third countries with IAS/IFRS standards. Regulations and improvements to individual standards were proposed. The group continues to oversee the operation of the database of decisions taken by Member States' competent authorities in regard to the enforcement of financial reporting standards.
- *CESR MiFID Expert Group* – The objective of this group is to facilitate the smooth and uniform/consistent implementation of the MiFID amendment that has been in effect since November 2007, with emphasis on the practical application of the directive. Aspects of its work include reporting to the EC, other advisory and consulting activities, and the provision of guidelines and recommendations. Further work will be performed as required and warranted. The group focuses, for example, on: the effect of the MiFID's application on the secondary market (the functional aspect); CESR and ERGEG recommendations on the Third Energy Package addressed to the EC; activities based on surveys of market participants; conflicts of interest; supervisory activities (centred on the passporting process); increasing confidence among retail clients (the development of a retail investor's guide to the MiFID regime); improving the functionality of MiFID databases; and common consultations in the area of commodities.
- *CESR Expert Group on Investment Management (CESR-IMEG)* – In 2008, the work of this expert group focused on two main areas. The first of these concerned the performance of its advisory role vis-à-vis the European Commission in regard to preparations of the new draft UCITS directive<sup>2</sup>. This included cooperating in the production of a proposal for a new form of pre-contractual disclosure in collective investment, but mainly the

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<sup>2</sup> The draft new Directive 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 (UCITS) is expected to replace the existing Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as amended.

provision of technical assistance in respect of the Management Company Passport, which went through fast-tracked preparation and approval in the third quarter of 2008. The second key area of the expert group's work concerned the impact of the global financial crisis on the collective investment sector. Most of its activities in this regard were undertaken by the Operational Task Force subgroup. In addition to the monitoring and analysis of some of the segments of the collective investment sector that were hardest hit by the global financial crisis (e.g. money market pension funds), the group's work involved preparing the CESR's possible response at level 3 of the Lamfalussy process. Besides these two principal operational processes, the group was also engaged in the preparation of guidelines at level 3 of the Lamfalussy process in relation to risk management in the management of collective investment funds.

- *CESR Prospectus Contact Group* – The task of this group is to ensure the functioning of the passporting process and the harmonization of procedures and solutions for practical problems and issues related to securities prospectuses. In 2008, for example, it addressed the updating and disclosure of frequently asked questions regarding prospectuses.
- *Transparency Expert Group* – In 2008, this expert group focused on, among other things, the preparation of the 'Q&A' document, the purpose of which is to give market participants answers to practical questions and which will be periodically updated and published. During the course of the year, the group also produced a comprehensive survey that mapped the implementation of the Transparency Directive (Directive 2004/109/EC) in individual Member States. The group's working meetings also discussed the assessment of third countries' equivalent requirements for periodic financial reporting and notifications of major shareholdings, as well as reaching a consensus on how to proceed with their assessment. Another task of the expert group is to participate in establishing a common electronic network that will link national mechanisms for the storage of regulated information (the central "filing of regulated information"). The purpose of establishing such an integrated electronic network is to simplify investors' access to information about issuers whose securities are admitted to trading on a regulated market and to support the integration of European capital markets. This operational group met three times during 2008.
- *CESR-Tech (TREM project)* – The work of this group in 2008 centred on coordinating the implementation and testing of a new version of the Transaction Reporting Exchange Mechanism (TREM), preparing a new project for a central database of financial instruments (including the organisation of a seminar), and apportioning the costs for the operation of the TREM system and the project for the exchange of information on trading in OTC derivatives.
- *Post-Trading Expert Group* – This is an expert operational group focused on post-trading activity across Member States of the European Union. In 2008, its work largely involved defining the tasks and responsibilities of supervisors in the clearing and settlement process, possible future cooperation between supervisors, reviewing the mandate of the operational group, preparing standards and recommendations for the clearing systems, the transformation of standards into recommendations, and the cross-border settlement of securities transactions. Another part of its work involved producing a survey on measures and requirements regarding central depositories from other jurisdictions entering regulated markets in individual Member States.

- *CESR Mutual Recognition Task Force* – The focus of this operational group in 2008 was the approval of its mandate to identify the benefits for Europe of EU–US mutual recognition and to determine the conditions and criteria under which mutual recognition with third countries will be supported in general. The group held one meeting in 2008.
- *Takeover Bids Network* – In 2008, this operational group worked mainly on addressing current practical issues, on supporting the exchange of knowledge and opinions, and on preparing materials for the "Q&A" document. Meetings of the operational group also included presentations and analysis of significant takeover bids in certain member countries, especially in regard to acting in concert and cross-border takeovers. In connection with the revision of the Takeover Bids Directive (2004/25/EC) on the basis of experiences gained during its application, the European Commission together with members of this operational group prepared a survey on takeover bids. The purpose of this survey will be to map takeover bids for 2008 in individual member countries. The group met three times in 2008.
- *TREM User Network* – This group focused on finding operational solutions to problems of a technical nature. The principal matters in this regard were the identification of the main problems in data quality (and finding solutions to them), the method and validation of system-generated statistics, and the harmonisation of rules for the identification of transactions and roles of individual transaction participants across different jurisdictions of particular Member States.
- *EU Council: The Working Party on Financial Services (UCITS IV)* – This working group concerned itself with the new draft Directive 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 (UCITS IV). Since the draft directive had secured a sufficient qualified majority for approval by the EU Council, December's meeting of ECOFIN – the Economic and Financial Affairs Council – discussed the wording of the text. With some minor amendments, the directive was subsequently approved by the European Parliament and European Commission. Both NBS and the Ministry of Finance of the Slovak Republic had representatives participating in expert meetings of the group.

### 6.2.3 Insurance sector

- *CEIOPS Financial Requirements Expert Group - Solvency II* – In 2008, this working group cooperated with Groupe Consultatif in the preparation and publication of a document dealing with simplified (proxy) methods for calculating technical provisions and risk margins for those cases where the insurer has insufficient knowledge in the area of actuarial calculation methods, or not enough data with which to make a precise calculation. Furthermore, this working group cooperated in the preparation of recommendations for the European Commission in regard to the proportionality principle, and specifically the area of quantitative criteria. During the year, the group worked on the preparation of the technical specifications of the Fourth Quantitative Impact Study (QIS 4) on Solvency II, which was conducted from April to July 2008. The group also contributed to the analysis of the QIS 4 results. The final report on these findings was published at the end of November 2008. The working group held ten meetings during 2008.

- *CEIOPS Internal Governance, Supervisory Review and Reporting Expert Group - Solvency II* – In 2008, this working group focused on the preparation of Level 2 advice on Pillars 2 and 3 for the European Commission. In regard to Pillar 2, the group looked at qualitative requirements for the performance of insurance and reinsurance activities. Its work in respect of Pillar 3 centred on the preparation of a common reporting format for supervisory purposes and disclosure requirements in the insurance sector. The group is also involved in the preparation of international accounting standards (IAS/IFRS) regarding insurers and reinsurers and acts as an information sharing platform for Member States in the field of accounting and financial reporting. Also in 2008, the group participated in the implementation and analysis of QIS 4 (valuation of assets and liabilities [except for technical provisions] and operational risk).
- *CEIOPS Internal Model Expert Group - Solvency II (CEIOPS-IMEG)* – The task of this working group is to conduct preparatory work on specific provisions for the design and approval of full and partial internal models for the calculation of solvency capital requirements. The group also supports the sharing of information and knowledge in the field of internal models. At the request of the European Commission, the group prepared a summary report of its findings concerning technical aspects of the internal models used by insurers and reinsurers, as well as its experience of the approval process in the banking sector. The group held eight meetings in 2008 and organised a significant number of meetings with market representatives, at which individual companies presented their approaches to internal models. In response to an EC request, the group produced a stock-taking report on current practice in different areas of internal models. The group participated in the evaluation of QIS 4 in respect of internal models, and it began drafting recommendations for the European Commission regarding the text of Solvency II implementing measures (level 2 of the Lamfalussy process) in the area of internal models.
- *CEIOPS Committee on Consumer Protection* – This working group was established in March 2008 to continue the work of the Intermediaries' Expert Group. It focuses on increasing consumer protection in the financial market by improving both the information provided to consumers about financial products and financial education. The group's main tasks include fostering the supervision of financial market entities, developing cooperation among Member States in the handling of consumer complaints, supporting the exchange of experiences related to the implementation of Directive 2002/92/EC on insurance mediation, enhancing the supervision of cross-border services, and assisting the European Commission in the development of insurance guarantee schemes. The group held four meetings in 2008.
- *CEIOPS Insurance Groups Supervision Committee* – Formerly known as the Helsinki Protocol Working Group, this committee was established following the signing of the Helsinki Protocol in May 2000. It is tasked with mapping all insurance groups with cross-border activities within the European Economic Area (EEA). The committee also acts as an umbrella for the different coordination committees (Co-Cos). The Co-Cos are responsible for organising the supplementary supervision of each group falling within the scope of Directive 98/78/EC of the European Parliament and of the Council on the supplementary supervision of insurance undertakings in an insurance group. Following the reorganisation of CEIOPS operational structure in June 2007, the committee received from the Commission an additional mandate to perform tasks related to the supervision of groups within the framework of the Solvency II project and to assess the potential

diversification effects in insurance groups. In May 2008, the committee published its "Advice to the European Commission on aspects of the Framework Directive Proposal related to Insurance Groups". The committee's work during 2008, dealt mainly with those aspects of the Solvency II project relating to insurance groups. It discussed and prepared draft advices on the text of "Level 2 implementing measures", and participated in the preparation, implementation and assessment the QIS 4 impact study. The committee was also involved in the organisation and hosting of a CEIOPS autumn seminar together with workshop. In addition to work on the Solvency II project, the group's activities in 2008 focused on the updating of the "Helsinki Protocol" and the IGD database and on examining how the meetings of the coordination committees are working. The committee held seven meetings in 2008.

- *CEIOPS HR network* – This group has been established to support cooperation related to exchanges and working meetings of staff of supervisory authorities across the European economic area.
- *EU Council - Working Party on Financial Services (Solvency II)* – This working party's meetings discussed the draft Directive of the European Parliament and of the Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II). It addressed reservations and uncertainties of individual Member States about the proposal. At December's meeting of the Economic and Financial Affairs Council (ECOFIN) adopted a general approach on a compromise text of the directive. Expert meetings of the group were attended by representatives of Národná banka Slovenska and the Slovak Ministry of Finance.
- *OECD Insurance and Private Pension Committee* – The purpose of this committee is to promote effective, open and market-oriented insurance systems and private pension schemes based on transparency. The committee seeks to improve information provision and education in the field of insurance and private pensions and to enhance the financial management of catastrophic risks.
- *OECD Working Party of Governmental Experts on Insurance* – This working group was established ad hoc to analyse and assess the regulatory environment in Member States and supervision techniques in regard to solvency.
- *OECD Insurance Statistics Task Force* – The task of this working group is to enhance the timeliness of data collection and the relevancy of published statistics.
- *IAIS Insurance Laws, Regulations, Practices and Standards Subcommittee* – The focus of this group is insurance law, prudential regulation, and the processing of the insurance laws database.

#### **6.2.4 Pension sector**

*International Organisation of Pension Supervisors (IOPS)* – The meetings of this organisation in 2008 centred mainly on guidelines for on-site and off-site supervision, with particular stress on the identification of tools for the performance of risk-focused supervision, on problems in the scope and content of information provided to participants in mandatory and voluntary pension schemes, and on how the financial crisis has affected this field of financial services. NBS was actively involved in a project team that compared costs and fees in IOPS

member countries with private defined contribution pension systems. The results of the work were published on the IOPS website in June 2008 as Working Paper No. 6.

- *CEIOPS Occupational Pensions Committee (OPC)* – The main role of this committee is to identify barriers to the cross-border activities of occupational pension providers, to cooperate with the European Commission in the implementation of the IORP Directive, and to produce reports on matters of particular importance for its members. In 2008, the committee therefore focused on identifying the content of social and labour law regulations which EU Member States apply as a public-interest exemption under the IORP Directive and which limit the cross-border activities of institutions in occupational retirement provision (IORPs). The committee also focused on the approach of countries to the implementation of the "venture capital market" concept and to the monitoring of cross-border activities, and it began work on a revision of the Budapest Protocol on cooperation between supervisory authorities. During this period, NBS led a project team composed of representatives from the supervisory authorities of Malta, Romania, and Latvia, which produced a report on the regulation of outsourcing of occupational retirement provision in EU Member States. Its final report was approved in October 2008 and is published on the organisation's website. At present, NBS is actively involved in a project team addressing the issue of risk management in Pillar III of the pension system. In addition, NBS hosted a meeting of the respective committee in Bratislava in July 2008.
- *OECD Working Party on Private Pensions (WPPP)* – This group comprehensively covers the issue of defined benefit pension systems and defined contribution pension systems in OECD countries. Its activities in 2008 centred mainly on the repercussions of the financial crisis on pension saving.
- *OECD Task Force on Pension Statistics* - This group is concerned with the collection and evaluation of statistical data for various purposes relating to pension schemes in OECD countries.

## **6.3 Cooperation with sectoral associations and other institutions**

### **6.3.1 Banks and investment firms**

Cooperation with associations in 2008 can be largely defined by the adoption of the following three major pieces of secondary legislation, which constituted the central pillar of changes made to the regulatory system for banks and investment firms during the year: Act No. 17/2008 amending Decree No. 4/2007 of Národná banka Slovenska Banks' on Banks' Own Funds and Banks' Capital Requirements and on Investment Firms' Own Funds and Investment Funds' Capital Requirements; Decree No. 18/2008 of NBS on the Liquidity of Banks and Branches of Foreign Banks and on the Process of Liquidity Risk Management of Banks and Branches of Foreign Banks; and Decree No. 24/2008 of NBS amending certain decrees of Národná banka Slovenska in connection with the introduction of the euro currency in the Slovak Republic.

The adoption of NBS Decree No. 17/2008 marked the culmination of almost two years' of efforts by the Slovak Banking Association, on one hand, and Národná banka Slovenska, on the other hand, to issue an amending regulation in the area of capital requirement calculations for banks and investment firms, so as to ensure that the legislation in this field reflected the experience amassed from actual practice. The amendment covered the points discussed most frequently with representatives of the Slovak Banking Association, by:

- amending the definition of an independent valuer;
- extending the scope of eligible collateral for credit risk mitigation, to include a definition of commercial real estate, a revised definition of residential real estate, a definition of sufficient insurance, and revised provisions concerning property valuation methods;
- amending the definition of subordinated debt – waiving the requirement that subordinated debt cannot be recognised as own funds where the subordination obligation is attached to a security;
- amending the regulation concerning the assignment of risk weights to claims on a Member State or on the central bank of a Member State;
- amending the regulation concerning the assignment of risk weights to claims on public authority bodies and non-commercial undertakings;
- amending the calculation of large exposures;
- correcting erroneous references in the text of the decree and incorrect use of terminology;
- laying down a transitional period for Member States' currencies and their position vis-à-vis the Slovak koruna in regard to the calculation of risk-weighted assets.

The quality of the approved text of NBS Decree No. 17/2008 reflected significant contributions made by both the Slovak Banking Association and banks' representatives. This input was based on the continuation of cooperation that had already been significantly strengthened during preparations for the Capital Requirements Directive (comprising Directive No. 2006/48/EC and 2006/49/EC). Another institution involved at this stage of elaborating legislation on capital requirements and large exposures was the Slovak Association of Securities Dealers (AOCP), which participated in the preparatory work on NBS Decree No. 17/2008. The final text of the decree reflected some of AOCP's proposals and comments in regard to the activities of non-bank investment firms, particularly its efforts to establish certain allowances for the calculation of large exposures of these institutions.

As for the adoption of NBS Decree No. 18/2008, the Slovak Banking Association sought to be involved as much as possible in the task of determining the parameters of liquid asset ratios set out in the decree. In this regard, it supplied analyses, calculations and proposals for their level. The requirement on banks and branches of foreign banks to maintain liquidity took on a new dimension following September 2008 and the spread of the global financial crisis. This resulted in the postponement of the date of coming into force of the decree to 15 November 2009 (after being originally planned for the first quarter of 2009) and a significant acceleration of its legislative proceedings in comparison with the original schedule. As a result, discussions between NBS and the Slovak Banking Association on this measure could not be completed in the standard way. Nevertheless, the SBA had a significant effect on the decree's quality, and discussions are planned to continue in 2009.

In the case of NBS Decree No. 24/2008, the issue of mandatory reporting to NBS had to be addressed from the view of the multifaceted links between the central bank's interests and those of market participants (including banks and investment firms), so as to ensure a smooth changeover to the euro currency in the Slovak Republic. In this regard, the Slovak Banking Association proved to be a significant partner in discussions held at various levels with NBS representatives, and its most important contribution to the cooperation was undoubtedly in the field of payment systems.

During preparations of the Supervision Unit's Methodological Instruction No. 7/2008 on the protection of banks and branches of foreign banks against money laundering and terrorist

financing, a working group consisting of experts from the Supervision Unit, Slovak Ministry of Finance and Financial Intelligence Unit attended several meetings at the headquarters of the Slovak Banking Association to discuss a range of issues with representatives of banks and branches of foreign banks.

### **6.3.2 Capital market**

In 2008, as part of its regulatory role over the collective investment sector, NBS cooperated intensively with the Slovak Ministry of Finance (MF SR). The focus of this collaboration in the first half of the year was the transposition of Commission Directive 2007/16/EC by means of an NBS decree. With the European Commission having presented its draft of the new UCITS Directive in July 2007, the focus of this cooperation shifted in the second half of 2008 to providing MF SR with expert assistance in the legislative process being conducted at EU institutions.

Based on Resolutions of the Slovak Government (No. 624/2007 and No. 365/2008), NBS was also cooperating closely with the Slovak Ministry of Finance in the preparation of the bill on financial intermediation and financial advice and on amendments to certain laws, as well as in the drafting of a bill on consumer protection in the financial market.

Preparatory work on the first of these regulations had already begun by the end of the previous year and continued during 2008. For NBS representatives, the most intensive period of their participation was in the first half of 2008, when Národná banka Slovenska helped the Finance Ministry to prepare the regulatory aims and propositions of the new legal amendment and to communicate with representatives of the professional community. As for the bill on consumer protection in the financial market, work on did not begin until the second half of 2008, and the active involvement of NBS staff in this process is expected to continue in 2009.

In order to ensure the flexible communication of necessary information and suggestions between NBS and the collective investment sector – represented by the Slovak Association of Asset Management Companies (SASS) – NBS continued its well-established regular meetings with SASS representatives. Held every two months, they facilitated the exchange of information on the current state of the sector and on important issues of interest to both sides (e.g. the decrees being prepared by NBS, the relationship between the UCITS and MiFID directives, problems in the distribution of mutual fund shares, the global financial crisis and particularly its repercussions on money market funds, and the preparatory work on the EU's new UCITS IV Directive and the possible effect of the new directive on the local collective investment sector).

In addition to the regular meetings, NBS had further meetings with representatives of most asset management companies (SASS members). The meeting held in June 2008 discussed the issue of large exposures related to financial derivatives in mutual funds; in July 2008, practical issues concerning the euro changeover; and in October 2008, the measures available to asset managers in response to the low market liquidity and increased redemptions of mutual funds brought on by the financial crisis. As for preparations on the new NBS decree on how to determine the asset value of mutual funds, a meeting was held in December 2008 between representatives of NBS specialist departments and representatives of SASS and the Slovak Banking Association, in order to discuss comments, proposals and suggestions. As regards cooperation with the Slovak Association of Securities Dealers (AOCP), it included NBS staff sitting on the examination committee for AOCP's professional examination of investment services intermediaries and contributing to the setting of the exam. NBS representatives also attended the conference "MiFID in practice II", held in Vyhne, Slovakia, in April 2008.

### **6.3.3 Insurance sector**

During the course of 2008, several meetings were held between NBS staff and representatives of insurance companies and law firms in order to provide clarification and to ensure that activities related to the mediation of insurance by insurance companies, or insurance intermediaries, were harmonised with the Insurance Mediation Act and that activities related to the provision of insurance and reinsurance services were harmonised with the new Insurance Act.

Meetings with the Slovak Insurance Association (SAP) were held as part of the preparatory work for NBS decrees regulating the insurance sector, as well as for the purpose of clarifying SAP's comments on the draft regulations. Regarding the NBS decree on the submission of actuarial data and statistical data, the Slovak Insurance Association contributed significantly to its drafting in relation to the application of the gender criterion as a determining actuarial factor.

Support was given to the preparation of a day-long seminar on professionalism organised by the Slovak Society of Actuaries.

### **6.3.4 Pension sector**

In connection with the need to establish a basic regulatory framework for investment in retirement pension saving and supplementary pension saving, the Working Group on the Amendment of the Regulation of Pension Saving was established at the level of NBS and representatives of the Slovak Ministry of Labour, Social Affairs and Family, which is the sponsor of the legislation. During the first months of last year, the group dealt mainly with the amendment of rules for investing in Pillar II and Pillar III of the pension system. Meeting regularly once a week since December 2007, this joint working group has received a gradual stream of materials, analyses and other documents produced by NBS's Pension Saving Regulation Section, highlighting problematic provisions of the Retirement Pension Saving Act and offering various solutions to the given issue or a new perspective and change in regulation. The changes to the regulatory regime effected by Act No. 449/2008 Coll. were based on the conclusions of this working group. In the second half of 2008, selected members of the working group drew up more precise rules for determining the value of investment instruments in the assets of pension funds and supplementary pension funds, taking as their basis the new principles laid down in this field. The resulting rules are due to be enacted in secondary legislation at the beginning of 2009.

In regard to these legislative changes, NBS organised regular meetings with the Slovak Association of Pension Fund Management Companies, the Slovak Association of Supplementary Pension Asset Management Companies and the Slovak Banking Association (representing the depositories of Pension Funds and Supplementary Pension Funds), so that the conclusions from these meetings could be included in draft materials from the outset of the legislative process.

In response to the global financial crisis and its impact on the performance of pension funds, ongoing meetings were organised with representatives of supervised entities in order to seek ways to approach the valuation and holding of pension funds' "impaired" assets. Those parts of the pension regulatory regime that did not take account of the exceptional situation in financial markets and did not allow a flexible response through the partial revaluation of portfolios, or through the retention of financial instruments even during a drop in their rating quality, were therefore overhauled on the basis of agreement. The reformed parts were included in the amendments framework in 2008.

## 6.4 Sectoral findings

In 2008, the fourth Quantitative Impact Study (QIS 4) for Solvency II was carried out in the insurance sector. The purpose of QIS 4 was to obtain information and data about the potential impact of the calculation of capital requirements under the Solvency II project. The main tasks that the European Commission laid down for QIS 4 were: the quantitative assessment of solvency balance sheets of insurance and reinsurance groups, including diversification effects on own funds and the transferability of own funds; the use of simplified methods for the calculation of capital requirements and technical provisions, the use of parameters specific to the risk profile of insurance and reinsurance companies; and the design and calibration of minimum capital requirements, including a comparison of the results computed by internal models and by the standard formula.

In order to improve the comparability of the data obtained, NBS organised working meetings with insurers' representatives in regard to the organisation and completion of tables. A total of 5 insurers participated in QIS 4, representing a 23.8% share of the total number of insurance companies licensed to operate in the Slovak Republic. The market share of the participating insurers in life and non-life insurance did not differ markedly since the companies in questions were mostly of the universal type.

The most significant change to Solvency II that arose from the results of QIS 4 was the sharp decline in technical provisions. This was, however, offset to some extent by the rise in capital requirements. Such a result is in line with the philosophy of the draft Solvency II Directive, which shifts regulation away from implicitly stipulated security in the form of technical provision to the explicit valuation of risks in the context of capital requirements.

## 6.5 Analytical activities

The Financial Market Supervision Unit carries out analytical activities at different levels of its organisational structure, and the major part of this work is done at the Regulation and Risk Management Methodology Department ("RRMM"). Analyses are largely focused on the quantification of risks in the financial sector in regard to developments in financial markets and in the domestic and external economy. Their main purpose is to identify medium- to long-term risks. Another task of RRMM's analytical work is to ensure closer links between analysis outputs and regulatory changes. Regulation should thus be well placed to react to potential risks in the financial sector long before they materialise.

In addition to the regular evaluation of trends and risks in the domestic and external financial market (on the basis of selected indicators), a large part of the work is focused on the Analysis of the Slovak Financial Sector. This biannual report is submitted to the NBS Bank Board and an abridged version is published<sup>3</sup>. It also serves as an important basis for the Financial Stability Report. The analysis provides a comprehensive and in-depth evaluation of trends throughout the financial sector, identifies risks, and quantifies the ability of both individual financial entities and the sector as a whole to cope with the risks faced.

Another biannual analysis is the Report on the State and Development of the Slovak Financial Market, which is submitted to both the Government and Parliament of the Slovak Republic in accordance with the Financial Market Supervision Act.

Analytical activities in 2008 were influenced to a great degree by the ongoing financial crisis. In this regard, the impact of the first phase of the mortgage crisis on the banking sector and

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<sup>3</sup> [http://www.nbs.sk/sk/publications/NBS\\_publications/Analysis\\_of\\_the\\_Slovak\\_Financial\\_Sector](http://www.nbs.sk/sk/publications/NBS_publications/Analysis_of_the_Slovak_Financial_Sector)

on Pillar II of the pension system was analysed. The studies in question closely examined the sensitivity of the respective entities' securities portfolios to the decline in the value of selected categories of financial assets. In assessing the repercussions of the crisis, attention was also focused on the evaluation of systemic risk, the exposure of Slovak financial market entities to counterparties whose risk had increased during the crisis, and the monitoring of various market indicators (e.g. shares and credit derivative prices).

Special attention was paid to improving models and the risk assessment system, particularly concentrating on stress testing. As part of the risk assessment process, the effects of two macroeconomic scenarios on the financial market were stress-tested and the results were published. For this purpose, several econometric models were used, for example, a multi-equational dynamic model for the transmission of changes in the central bank's base rate into other market interest rates, or a model of changes in household loan default rate according to macroeconomic variables. In cooperation with NBS's Research Department, the results of macro stress testing for the banking sector were published also as an independent working paper of NBS<sup>4</sup>. The risk assessment process included the implementation of a new method of monitoring credit risk which uses specific data on individual loans and their collateral, obtained from the Register of Bank Loans and Guarantees (RBUZ). A statistical scoring model for measuring credit risk in the corporate sector was also being developed.

The purpose of the analyses was to establish a closer connection between data for individual financial sector entities and market data, so as to support the prompt identification of risks in the financial sector. A CDS analysis-based model for analysing the default rate of foreign banks was also produced. There was also vigorous monitoring of price trends in both the residential and commercial real estate markets.

As part of the analytical activities, several meetings were held with banks during the course of 2008. These included discussions focusing on banks' commercial property exposures, risk developments in banks, and changes in banks' lending standards and lending policies.

Based on Resolution No. 808 of the Slovak Government of 6 November 2008 on draft Government measures for overcoming the effects of the global financial crisis, the Supervision Unit produces the monthly Report on Developments in New Retail Lending and Lending Rates, which is then submitted to Government sessions.

Analytical activities also include processing data and producing analytical materials. In this regard, analytical materials are regularly processed for the NBS management, through presentations, reports and/or comment proceedings. Much of the processed data is regularly published on the NBS website – quarterly analytical data for the financial sector, monthly data on house purchase loans, reports and analytical material on supply and demand developments in the lending market.

Analytical materials are periodically produced for the international institutions – the IMF, the ECB, and the World Bank. Financial stability indicators for the IMF were produced in 2008 for the first time.

The expansion of analytical activities highlights the need for adequate input data. In 2008, several new sources of data started to be used for analytical purposes, in particular, the Real Estate Price Map. With the Register of Bank Loans and Guarantees due to be used as a data source from the first half of 2009, preparatory work on accessing it was stepped up.

Separate analyses were produced on the issue of bank charges, focusing mainly on the term restrictions attached to bank products and associated charges.

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<sup>4</sup> Jurča, P., Zeman, J.: Macro stress testing of the Slovak banking system, Working Paper NBS, 2008

In the Supervision Unit, the introduction of single European currency was reflected at several levels. Its analytical activities included an analysis of the impact of the euro changeover on the financial sector. The regulatory aspect of activities in this area concerned mainly the preparatory work on the following regulations: NBS Decree No. 221/2008 Coll. laying down certain rules for the dual display of prices, payments and other amounts in the financial market and in respect of services provided by financial institutions in the sectors of banking, capital market, insurance and pension saving; NBS Decree No. 240/2008 Coll. stipulating the number of decimal places to which the par value of certain types of security is to be rounded when converted from the Slovak currency to euros; and Decrees No. 24/2008 and No. 523/2008 stipulating changes to the reports submitted by supervised entities following the euro changeover. In connection with the adoption of the euro, RRMM coordinated tasks laid down in the internal work programme of the Supervision Unit and issued instructions for supervised entities on matters related to the changeover.

Analytical activities were quite intensively used also for the preparation of new regulations, particularly for analysing the potential impact of legislative changes. These covered, for example: decrees/regulations on the method of determining the asset value of mutual funds, pension funds and supplementary pension funds, on rules and restrictions regarding investment in pension funds, and on benchmarking and fee rules for pension funds; Decree No. 357/2008 Coll. on exposures related to financial derivatives; and Decree No. 17/2008 amending Decree No. 4/2007 on banks' own funds. A significant part of the work concerned the preparation of a decree on liquidity management in banks in connection with the introduction of a new liquidity ratio and the preparation of a decree/regulation concerning the euro changeover. Proposed amendments regarding large exposures in individual banks were also quantified.

As part of its analytical activities in 2008, RRMM examined the impact of the introduction of an interest rate ceiling on the consumer lending market and produced several analyses in this regard. It also contributed to the drafting of the Slovak Ministry of Finance's decree on the submission of data by creditors. In accordance with a Slovak Government Regulation, RRMM regularly prepares and processes data sent from creditors and then forwards them to the Ministry of Finance.

In 2008, RRMM coordinated and prepared an evaluation of the integration of financial market supervision, and it was also responsible for producing the Strategy of the Financial Market Supervision Unit. Both documents were submitted to the NBS Bank Board.

Amid the ongoing crisis, an increasing amount of attention was paid to crisis management. At the international level, RRMM cooperated mainly in the production of a common analytical tool for crisis situations – the "Systemic impact assessment framework – a heat map". The department's international activities also involved several meetings with representatives of neighbouring countries' central banks.

During the course of 2008, a number of meetings were held with representatives of the IMF and the World Bank. The discussions focused on the exchange of information about developments in the Slovak financial sector and on risk exposures. The outputs of analytical activities were also discussed at regular meetings with major rating agencies.

## **6.6 Organisational activities**

### **6.6.1 Banks and investment firms**

In December 2008, the Supervision Department organised the fifth annual "Financial Stability Christmas Seminar", attended by representatives of the central banks of Slovenia, the Czech Republic, Austria, Poland and Hungary. The focus of the presentations were new quantitative methods and models that could be used within central banking for the assessment of financial stability. There were also presentations on effects of the financial crisis on the financial systems of Poland, the Czech Republic and Slovakia.

### **6.6.2 Pension sector**

In April 2008, NBS organised a meeting of central European pension supervisors. Its main purpose was to establish closer cooperation between supervisors of compulsory contribution defined pension systems, which do not fall under common European regulation, and to actively shape regulation at the level of national law. Attended by representatives of supervisory authorities from the Czech Republic, Hungary, Poland, Romania and Bulgaria, the event focused on the following topics: the payout stage, the investment strategy of pension funds, competitiveness and consolidation in pension saving, and fees in Pillar III of the pension system.

In May 2008, a meeting was held with representatives of the Czech Ministry of Labour and Social Affairs to discuss the transformation of supplementary pension insurance companies into supplementary pension asset management companies ("SPMCs") that took place in Slovakia in 2005 and 2006. This included looking at the key stages of the process, problems in the production of transformation projects, and the specification of the equity level of SPMCs for the purpose of separating policyholder's assets from the company's assets. Among the other matters discussed were the most recent changes and intended course of supplementary pension regulation in both the Czech and Slovak republics.

## **6.7 Other matters**

### **Information systems for supervisory purposes**

The Supervision Department's information systems, which are undergoing continuous development, include the routine system operation of the Register of Bank Loans and Guarantees (RBUZ) (for the provision of methodological information, verification of banks' conflicting records, their correction, and the subsequent provision of information to banks on incorrect customer records in the system) and the MIM system (for the import and processing of data from commercial banks, the updating of reporting for the purposes of processing prudential and warning indicators). In 2008, the most important changes were made in anticipation of the euro changeover, to the systems APS MIM, RUZAN and RBUZ. In APS MIM, algorithms were developed for the automated identification of items containing monetary amounts, thereby enabling the creation of a consistent time series of monetary amounts for the periods before and after the introduction of the euro. Other changes focused on the automation of data transmission from APS STATUS to the MIM and TREM systems. In APS MIM, the capacity for bulk importing of data was considerably enhanced. In order to improve data quality in the MIM and RUZAN databases, new logical controls were implemented. In addition, new reports were generated from the APS RUZAN system which enabled a substantial improvement in the analysis of corporate credit risk. An updated version of the operating rules for APS MIM was published under Working Instruction No. 21/2008 of 12 August 2008.

The TREM system, which went into live operation in 2008, facilitates the exchange of information between European regulators (CESR members) on transactions in instruments admitted to trading on regulated markets. The first version of the system, launched in November 2007, had two serious shortcomings. One was that it did not cover instruments that were admitted to trading on a regulated market but were not assigned an ISIN code; the second problem was in the identification of the country to which the transaction information should be sent. Consequently, a second version of the system was developed in 2008 (in cooperation with the Federation of European Securities Exchanges), in which instruments without ISIN codes are identified by the code AII, and information is sent to countries in accordance with a centrally updated table. The table, however, is just a temporary solution until the establishment of a central database of financial instruments admitted to trading on regulated markets, which is now being developed. The second version of TREM was launched on 3 November 2008, but although it was officially hailed a success, the technical demands of the transition to the new version meant that not all Member States had been able to implement the system in full by this date. This was not the case with NBS, however, which carried out all the work according to schedule. Both local and international testing were completed well in advance of the deadline, and thus the start of the new version proceeded without a hitch.

As part of the fulfilment of NBS's obligation to implement a mechanism for the central storage of regulated information, an infrastructure was established for the systemic digitalisation of all documents falling under this obligation. (NBS is required to maintain such a register by Directive 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. This regulation, known as the "Transparency Directive" was transposed into national law by Act No. 209/2007 Coll.). For the purposes of effective storage and further processing of documents and meta-information, a specialised application was established which allows this information to be provided to third parties in accordance with the requirements of the respective law.

## 7. Annexes

Annex 1

### List of laws governing the supervision of the financial market by NBS:

- Act No. 747/2004 Coll. on financial market supervision and on amendments to certain laws, as amended.
- Act No. 483/2001 Coll. on banks and on amendments to certain laws, as amended.
- Act of the Slovak National Council No. 310/1992 Coll. on home savings, as amended.
- Act No. 566/2001 Coll. on securities and investment services and on amendments to certain laws, as amended.
- Act No. 530/1990 Coll. on bonds as amended.
- Act No. 429/2002 Coll. on the stock exchange, as amended.
- Act No. 594/2003 Coll. on collective investment and on amendments to certain laws, as amended.
- Act No. 8/2008 Coll. on insurance and on amendments to certain laws, as amended.
- Act No. 340/2005 Coll. on insurance and reinsurance mediation and on amendments to certain laws.
- Act No. 381/2001 Coll. on compulsory contractual motor vehicle third-party liability insurance and on amendments to certain laws, as amended.
- Act No. 43/2004 Coll. on retirement pension saving and on amendments to certain laws, as amended.
- Act No. 650/2004 Coll. on supplementary pension saving and on amendments to certain laws, as amended.
- Act No. 266/2005 Coll. on consumer protection in connection with the distance marketing of financial services and on amendments to certain laws.
- Article 22 of Act No. 118/1996 Coll. of the National Council of the SR on the protection of bank deposits, as amended.

**List of entities and groups of entities supervised by NBS within the scope of financial market supervision:**

- banks and branches of foreign banks;
- investment firms and branches of foreign investment firms;
- intermediaries of investment services;
- stock exchanges;
- central securities depositories;
- asset management companies and branches of foreign asset management companies;
- mutual funds;
- foreign collective investment undertakings;
- insurance companies and branches of foreign insurance companies;
- reinsurance companies and branches of foreign reinsurance companies;
- insurance intermediaries;
- reinsurance intermediaries;
- pension fund management companies;
- pension funds;
- supplementary pension insurance companies;
- supplementary pension asset management companies;
- supplementary pension funds;
- supplementary pension intermediaries;
- electronic money institutions and branches of foreign electronic money institutions;
- The Deposit Protection Fund;
- The Investment Guarantee Fund;
- The Slovak Bureau of Insurers;
- consolidated groups;
- financial holding institutions (only regulated entities);

- financial conglomerates;
- other entities, property associations with a specific purpose, and groups of persons and property associations with a specific purpose charged with obligations under separate laws in the area of banking, the capital market, insurance or pension insurance.

**Organisational chart of the Financial Market Supervision Unit of NBS in 2008:**

**Deputy Governor**

**Financial Market Supervision Unit**

**Licensing and Enforcement Department**

Licensing Section

Cross-Border Cooperation Section

Clients' Protection Section

Enforcement Section

**Regulation and Risk Management Methodology Department**

Collective Investment Regulation Section

Markets Regulation Section

Insurance Regulation Section

Pension Savings Regulation Section

Banking Sector and Securities Dealers Regulatory Section

Financial Market Risk Analysis Section

Risk Measurement Regulatory Models Section

**Supervisory Department**

Quantitative Analyses Section

Banking Groups Supervisory Section 1

Banking Groups Supervisory Section 2

Insurance Groups Supervisory Section

Capital Market Entities Supervisory Section

Insurance and Reinsurance Mediation and Foreign Exchange Supervisory Section

**List of abbreviations:**

<i>Abbrev.</i>	<i>Full title / meaning /</i>
AMLTF	Anti Money Laundering Task Force
AMA	Advanced Measurement Approach / to operational risk measurement /
AOPC	Asociácia obchodníkov s cennými papiermi [Association of Investment Firms]
APS MIM	Application system with a metainformation module
APS RBUZ	Application system for the Register of Bank Loans and Guarantees
APS STATUS	STATUS application system
APS STATUS	
DFT	STATUS application system for financial market supervision
ASISTENT	assistance for the implementation of Basel II and Solvency II
Basel II	Internal Convergence of Capital Measurement and Capital Standards / a revised framework /
BCPB	Burza cenných papierov v Bratislave, a.s. [Bratislava Stock Exchange]
BGN	Bulgarian leva
BR	Bank Board of Národná banka Slovenska
BSC	Banking Supervision Committee
BSCEE	Banking Supervision Committee for Central and Easter Europe
CBFA	supervisory authority of Belgium
CDCP	Centrálny depozitár cenných papierov SR, a.s. [Central Securities Depository SR]
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pension Supervisors
CEIOPS-IMEG	CEIOPS Internal Model Expert Group
CESR	Committee of European Securities Regulators
CESR - Fin	permanent operational group with the role of coordinating the work of CESR Members in the area of endorsement and enforcement of financial reporting standards in Europe
CESR – IMEG	CESR Expert Group on Investment Management
CESR - Pol	permanent operational group within CESR, composed of senior officials of CESR members that are responsible for supervision and the exchange of information
CP	cenné papiere [securities]
CRD	Capital Requirements Directive
CZK	Czech koruna
DBP	defined benefit plan / a pension plan in which the benefits are specified /
DCP	defined contribution plan / a pension plan in which the contributions are specified /
ECB	European Central Bank
ECM	Economic Capital Model
ECOFIN	Economic and Financial Affairs Council of the EU
EG CR	Expert Group for Capital Requirements
EGFI	Expert Group on Financial Information
EK	European Commission

EÚ	European Union
Finan	monthly summary of financial indicators
FINREP	Financial Reporting
FMA	supervisory authority of Austria
FSAP	Financial Sector Assessment Program
GdC	Groupe de Contact
HUB	distributor of the TREM system
IAIS	Insurance International Association of Insurance Supervisors
IAS/IFRS	international accounting standards
IASB	International Accounting Standards Board
ICAAP	internal capital adequacy assessment process
IOPS	International Organisation of Pension Supervisors
IORP	Institutions for Occupational Retirement Provisions
IRB approach	internal ratings based approach to credit risk measurement
ITAS	International Training and Secondment
IWCFC	Interim Working Committee on Financial Conglomerates
MAD	Market Abuse Directive
MF SR	Ministry of Finance of the Slovak Republic
MiFID	Markets in Financial Instruments Directive / Directive 2004/39/EC of the European Parliament and of the Council /
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures
MTF	multilateral trading facility
NBS	Národná banka Slovenska [National Bank of Slovakia]
NOVI-O	Network on validation issues - operational risk
OECD	Organisation for Economic Cooperation and Development
OPC	Occupational Pensions Committee
P2CN	Pillar 2 Convergence Network
UCITS	Commission Directive 2007/16/EC implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.
QIS	quantitative impact study
RP	review panel
SASS	Slovak Association of Asset Management Companies
SAP	Slovenská asociácia poisťovní [Slovak Insurance Association]
SBA	Slovenská banková asociácia [Slovak Banking Association]
SDTF	Supervisory Disclosure Task Force
Sk	Slovak koruna
SKP	Slovenská kancelária poisťovateľov [Slovak Bureau of Insurers]
Solvency I	current regulatory system for insurance companies
Solvency II	planned regulatory system for insurance companies
SON	GdC subgroup on Operational Networking
SR	Slovenská republika [Slovak Republic]
SSA	Slovenská spoločnosť aktúarov [Slovak Society of Actuaries]
TREM	Transaction Reporting Exchange Mechanism
UCITS	Undertakings for Collective Investment in Transferable Securities, EU funds
WGBD	Working Group on Banking Developments

WGMA	Working Group on Macroprudential Analysis
WGOC	Working Group on Commodities
WGOLE	Working Group on Large Exposures
EGOOF	Working Group on Own Funds

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