# 4. THE BANKING SECTOR

The banking sector in the Slovak Republic at 31 December 1993 consisted of 28 commercial banks including 10 branches of foreign banks. Of 18 domestic institutions, 15 banks maintained their headquarters in Bratislava; one bank in Košice, Žilina, and Banská Bystrica respectively.

Twenty-five banks provided banking services to customers at the end of 1993.

In addition, six representative offices of foreign banks operated in the Slovak Republic.

During 1992, four commercial banks (corporations) and one branch office of a foreign bank were established. After the split of the Federation at the beginning of 1993, the NBS issued banking licences to nine branches of foreign banks, eight of which were from the Czech Republic and one from the Netherlands.

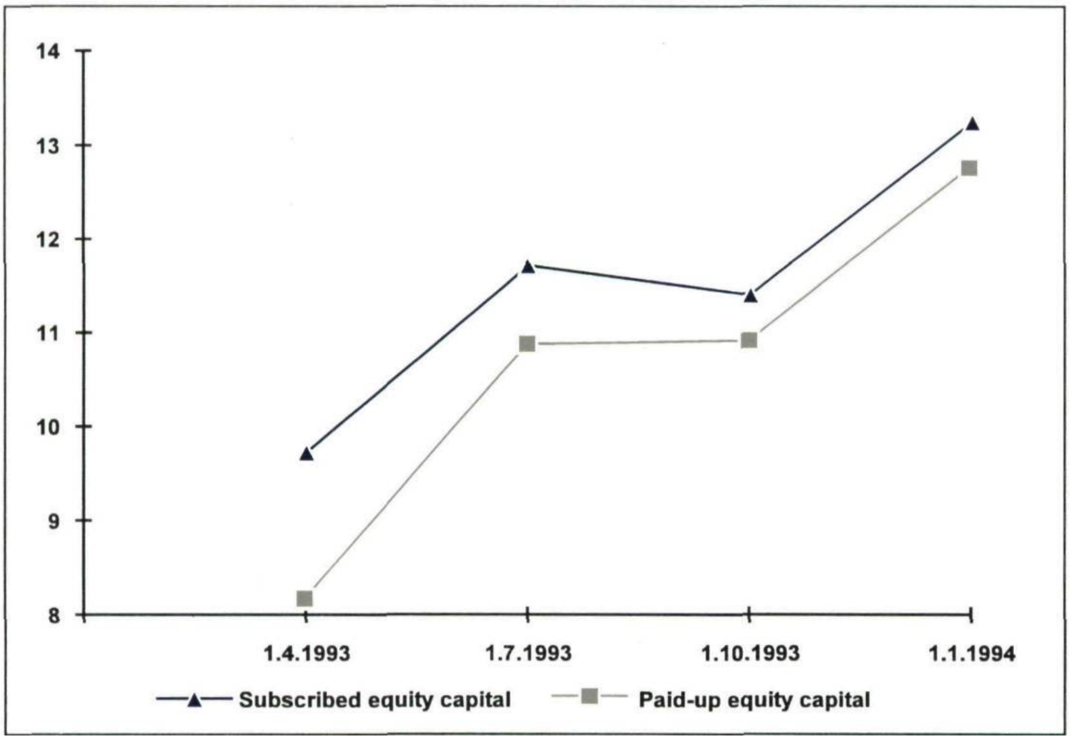
Three banks operated as public financial institutions and 15 banks as joint stock companies.

At end-December 1993, the subscribed equity capital of commercial banks amounted to Sk 13.2 billion, of which Sk 1.4 billion came from foreign investors, i.e. 10.6% of the total volume of subscribed equity capital. Eight commercial banks had foreign shareholders with equity participation ranging from 13.5% to 93%. These banks were mainly of medium size with equity capital between Sk 0.3 billion to Sk 0.8 billion.

Foreign banking capital came primarily from Austria, to a lesser extent from Germany, Russia, France, and the Czech Republic.

Twenty-four commercial banks performed general banking activities and four banks operated as specialised institutions.

**Equity Capital of Commercial Banks** **(Sk billions)**



**Equity Capital of Commercial Banks**

| | 1.4.1993 | | 1.7.1993 | | 1.10.1993 | | 1.1.1994 | |
|---|---|---|---|---|---|---|---|---|
| | equity in Sk millions | | | | | | | |
| | subscribed | paid-up | subscribed | paid-up | subscribed | paid-up | subscribed | paid-up |
| Commercial banks - total | 9719.2 | 8155.1 | 11706.3 | 10867.9 | 11403.8 | 10905.6 | 13244.9 | 12754.7 |
| of which: | | | | | | | | |
| Public financial institutions | 2839.1 | 2506.1 | 3977.1 | 3977.1 | 3969.5 | 3969.5 | 4863.0 | 4863.0 |
| Banks without foreign participation | 5228.4 | 4612.4 | 4177.5 | 4063.5 | 4183.5 | 4084.5 | 5131.2 | 4849.0 |
| Banks with foreign shareholders | 1651.7 | 1036.6 | 3551.7 | 2827.3 | 3250.8 | 2851.6 | 3250.7 | 3042.7 |

Six commercial banks had a full foreign exchange dealer licence. The rest of the commercial banks had various degrees of foreign exchange licences. The National Bank of Slovakia declined to issue a foreign exchange licence to 4 specialized banks.

There were no foreign banks in operation in the Slovak Republic prior to 1 January 1993. During 1993, the NBS issued banking licences to ten foreign bank branches, which had head offices in the Czech Republic, and to one bank with a head office in the Netherlands.

The National Bank of Slovakia - in its effort to achieve the standards set by the Basle Banking Supervisory Committee - coordinated banking activities by enforcing the guidelines concerning capital adequacy, credit exposure, liquidity, and foreign exchange position.

The capital adequacy attained (overall capital to risk-weighted assets) varied. The banks may in general be divided into two groups. A positive development was the increase of this indicator in the first group comprising the three largest banks, in which capital adequacy ranged from 6.33% to 7.33%, thus closely approaching the 8% capital adequacy limit set by the NBS for 31 December 1996.

The second group was made up of the remaining banks with an excess capital adequacy ratio, ranging from 11.6% to 61 %, which is an indication of their less developed lending activities.

The ratio representing net credit exposure of banks to their capital remained at the 1992 level, when the 40% limit determined as of 31 December 1993, was exceeded by two banks with a capital adequacy ranging from 43.9% to 359.5%. The average net credit exposure towards non-bank customers in a group of the 10 largest debtors for 16 fully operating universal banks was 222.6% of their total capital; while, the limit value of 230% was set for 31 December 1995. The opposite situation occurred in the banks' credit exposure towards bank clients, where one bank greatly exceeded the 80% limit of credit involvement by depositing free funds with other banks (from 80.9% to 835.3%). This fact, stemming from the former monopoly position in the area of deposits, will be given increased attention in the following two years. The set limit was exceeded by another four banks.

The greatest problem faced by the banks in their prudent conduct of business was liquidity. Its major cause was a lack of funds and an insufficient inflow of resources back to the banks due to the clients' failure to meet loan repayment obligations as scheduled. These were primarily loans granted in the past without taking into consideration the clients' financial position under market conditions. A liquidity analysis showed a markedly low ratio of highly liquid assets of the banks to their total assets, its average being 12.1%.

In the period under consideration, the banking sector had an insufficient and unrealistic classification of bank receivables, and the amount was not balanced against credit risk exposure. The NBS will resolve this problem by creating provisions and reserves for bank assets exposed to risk, to include receivables categorization, creation of provisions and reserves, as well as accounting practices for receivables and corresponding provisions.

The evaluation of the banks' performance was based on the Czechoslovak State Bank's Regulations effective for 1993. In 1993 the National Bank of Slovakia, in cooperation with IMF advisors, worked on the new NBS regulations concerning safe banking practices of commercial banks. They set stricter conditions for the banks including monitoring of the business practices of foreign banks with the aim of a gradual improvement of the banking sector. The new measures were approved by the Bank Board of the NBS on 31 January 1994, and were published in the Collection of Laws of the Slovak Republic for 1994 in Part 7, effective from 18 February 1994.