C. Banking Sector

1. DEVELOPMENT OF THE BANKING SECTOR

At the end of December 1995, there were 24 domestic banks (resident legal entities), 9 branches of foreign banks, and 12 representative offices of foreign banks operating in Slovakia.

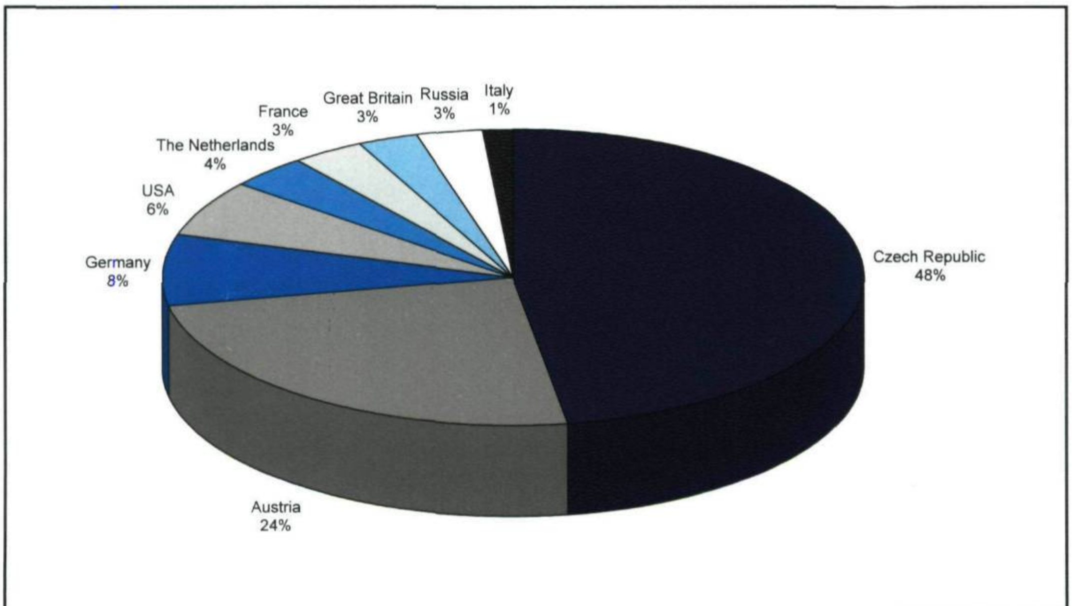
In 1995, the National Bank of Slovakia issued 5 licences to operate as a bank for new banking institutions - Bank Austria, a.s. Bratislava, Banka Slovakia, a.s. Banská Bystrica, Citibank (Slovakia), a.s. Bratislava, HYPO-BANK Slovakia, a.s. Bratislava, and Komerční banka Bratislava, a.s. Bratislava.

Most of the commercial banks operating in Slovakia are registered as joint stock companies (22 banks); only two are state-owned financial institutions. Most of these banks have their head offices in Bratislava (20), two are based in Banská Bystrica, and the remaining two are based in Žilina and Košice. Eight of the foreign banks have their head offices in the Czech Republic, and one foreign bank has its head office in the Netherlands.

Of the total number of domestic commercial banks (24), twenty banks have been granted a universal banking licence, and four are holders of a specialised banking licence for specific activities (building savings banks, guarantee and consolidation banks).

Sixteen commercial banks are licenced to conduct foreign exchange activities. The other banks operating in the Slovak banking sector have a limited licence to conduct foreign exchange business according to the requirements and conditions for trading in foreign exchange.

Composition of Subscribed Capital in the Banking Sector by Country



Note: Branch offices of foreign banks: permanent funds granted by foreign bank

By 31 December 1995, the volume of subscribed capital in the banking sector including the initial capital provided to branches of foreign banks (excluding the NBS) had passed the level of Sk 25 billion. The share of foreign capital in the Slovak banking sector represented 32.7%. Controlling foreign capital participation was reported in 14 domestic commercial banks, which were all medium-sized banks with share capital ranging from Sk 300 million to Sk 1 billion. Of the total volume of foreign capital in the Slovak banking sector, the Czech Republic accounted for 48%, Austria for 24%, Germany for 8%, and the US for 6%.

At the end of 1995, the number of staff in the banking sector of the SR totalled 22 thousand, of whom 1,367 were employed by branches of foreign banks.

On 31 December 1995, there were 1,843 operating units registered in the Slovak banking sector. Of which, 1,793 were banks and 50 were registered as branches of foreign banks.

2. PRUDENTIAL BANKING REGULATIONS

Evaluation of the prudential conduct of bank business in the SR is based on the analysis of accounting documents and reports made by commercial banks on their prudential behaviour in accordance with the NBS regulations governing capital adequacy, credit risk exposure, liquidity ratio, and regulation of the monetary position.

Based on the current prudential regulations and with regard to the programme for restructuring of commercial banks, the NBS approved a decree stipulating regulations for the evaluation of the receivables and off-balance sheet liabilities of banks according to the risk incurred and the creation of resources to cover such risk (NBS Decree No.3 of 3 March 1995).

The above decree unified the classification of bank receivables and tightened the criteria for the calculation of uncovered estimated loss on receivables, and substantially influenced the evaluation of the banking sector as a whole, especially indicators such as capital adequacy, credit risk exposure, and the monetary position of banks.

2.1 Structure of Resources and Capital Adequacy

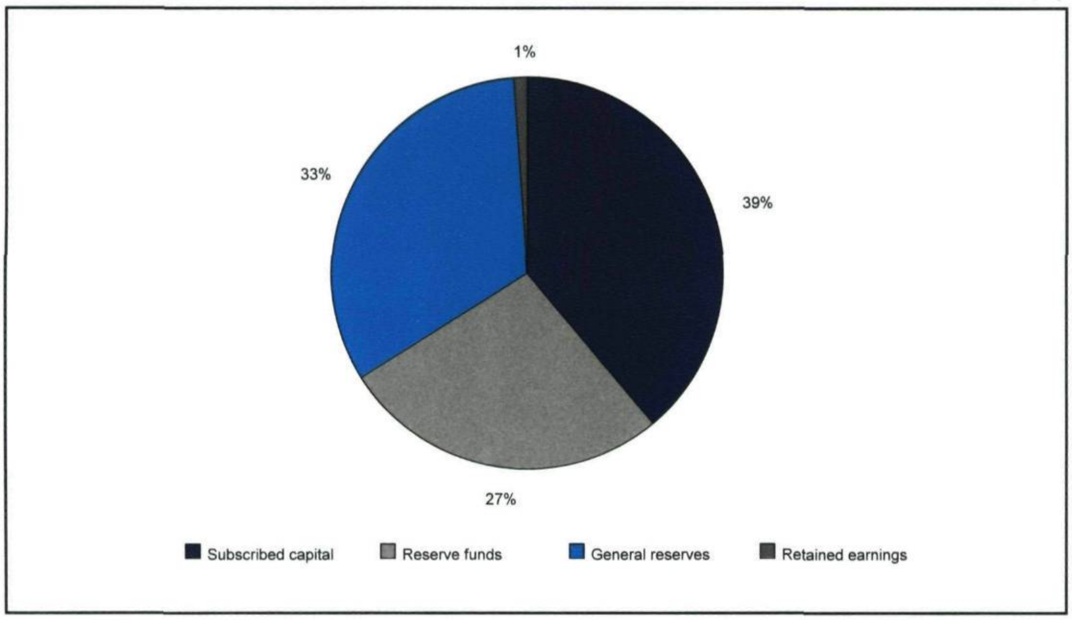
2.1.1 Structure of Resources

Over the course of 1995, the volume of resources in the banking sector of the SR increased by Sk 3.47 billion (7%), to Sk 52 billion.

This growth was accompanied by structural changes in these resources, due mainly to the enactment of Decree No.3, which brought about an increase in the creation of provisions and a decrease in general reserves.

For this reason, at the end of 1995, the volume of resources was dominated by subscribed capital (38.8%). General reserves accounted for 32.7%, and reserve funds for 27.2% of the total volume of resources.

Structure of Resources ***(%)***



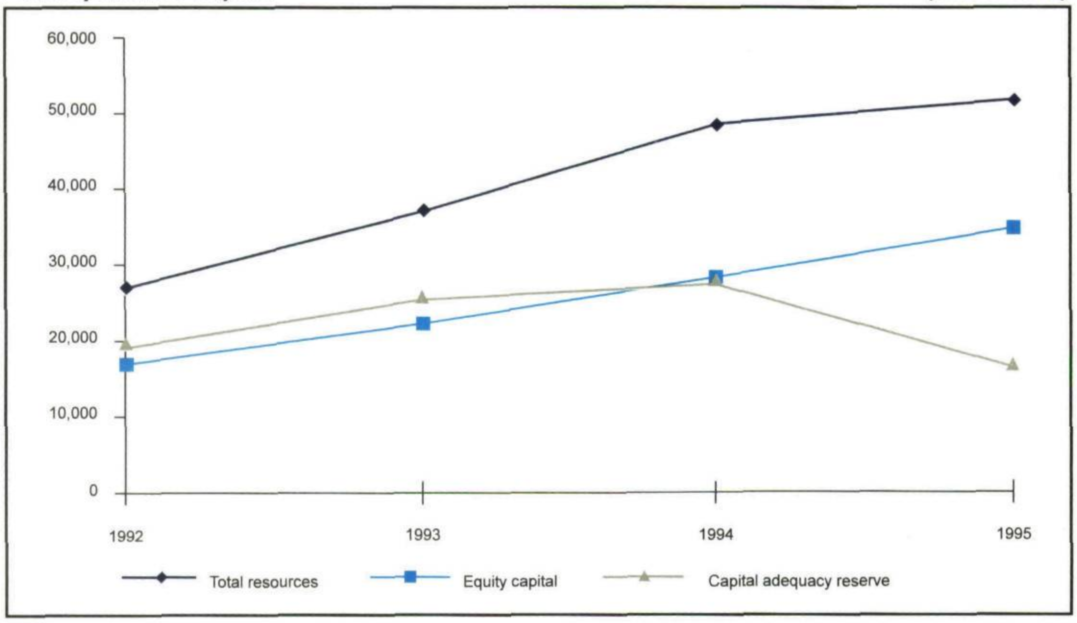
2.1.2 Capital Adequacy

The minimum ratio of capital adequacy, which had been set at 8% for 1995 (or 7.25% for banks established before 1992), was achieved by all commercial banks with the exception of one bank undergoing transformation and one state financial institution, the credit portfolios of which are to be restructured with the participation of the State.

A characteristic development in 1995 was the over 20% increase in the volume of equity capital (to Sk 35 billion) as a result of the opening of new banks and increase of capital in existing banks. Despite this development, the volume of additional capital fell by 38.6%, to Sk 1.3 billion, in connection with the use of general reserves earmarked for risk coverage.

Capital applied for the calculation of capital adequacy reached Sk 24 billion at the end of 1995. The average capital adequacy ratio for banks operating in the SR excluding branches of foreign banks was 7.9%.

Development of Capital ***(Sk millions)***



2.2 Large Credit Exposure

2.2.1 Net Credit Exposure to Non-bank Customers

The limit for net credit risk exposure to a non-bank customer was set at 40% of the ratio of net credit exposure to an individual borrower or a group of economically connected borrowers to the bank's capital adequacy reserve.

In the period under consideration, this limit was exceeded by eight banks; however, the number of borrowers who exceeded the limit was no larger than in the previous year. A positive development was the shift of customers classified as high credit risk exposure to a lower category.

2.2.2 Net Credit Exposure to Bank Customers

The net credit risk exposure to a banking institution may not exceed 80% of the capital adequacy reserve.

In 1995, the number of banks exceeding the limit of credit risk exposure to banking clients decreased to 7, from 12.

2.2.3 Aggregate Net Credit Risk Exposure

The aggregated amount of net credit exposures was defined as 800% of the capital adequacy reserve. In this category of credit exposure, the limit was not exceeded by any of the banks during the period under consideration.

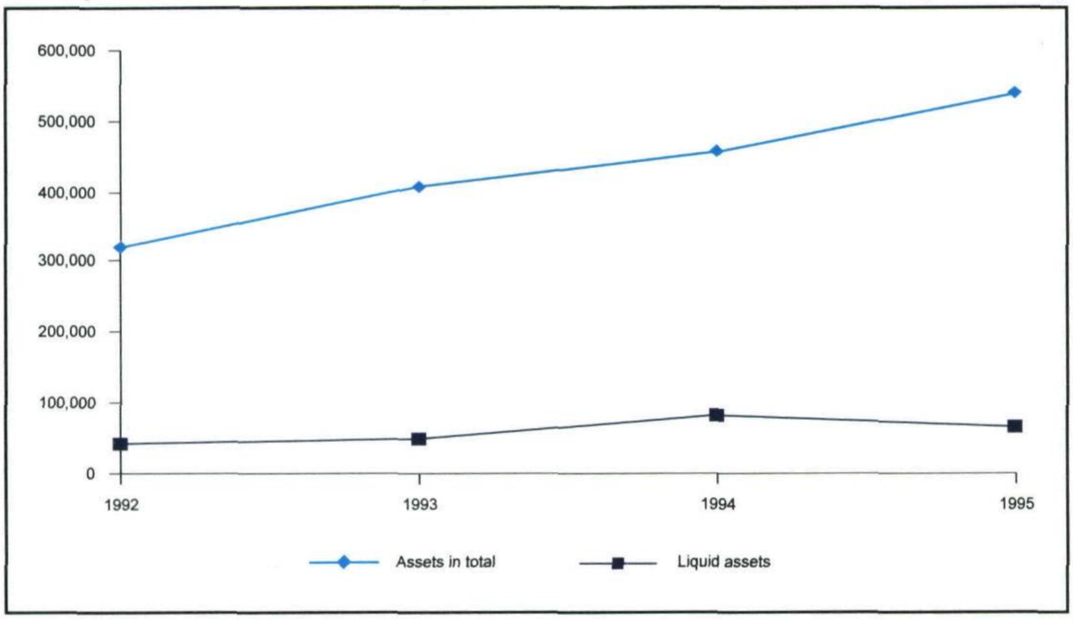
2.3 Liquidity

In 1995, commercial banks in Slovakia had no serious liquidity problems. Banks maintained the required level of liquidity, fulfilled their required reserve requirements, without having to draw a stand-by loan from the National Bank of Slovakia.

2.3.1 Liquid Assets

At 31 December 1995, highly liquid assets accounted for 12.8% of the volume of total assets in the banking sector. The ratio of liquid assets to other assets was as follows: 1.5% in cash assets, 4% in funds deposited in central bank accounts, 1.5% in interbank market for liquid assets, 4.2% in short-term securities, and 1.5% in other negotiable securities.

Development of Total Assets and Liquid Assets ***(Sk millions)***



The share of individual banks in the total volume of liquid assets varied considerably within the sector. This was due mainly to the different types of banks, i.e. their main activities, and the length of service. The trend of development indicated that the ratio of highly liquid assets to total assets decreased as a result of an increase in the volume of total assets, especially in respect of interest accrued but unpaid.

2.3.2 Investment in Property

The total book value of funds invested in fixed assets and intangible assets, including the equity capital of banks, amounted to Sk 23 billion.

The ratio of this amount to the capital adequacy reserve reached a level of 96.2%, meeting the requirements laid down in the NBS Decree on capital adequacy. This situation reflects the increasing amount of investment in fixed property by banks (construction, reconstruction, purchase of equipment, etc.)

2.4 Monetary Positions

Reports on monetary positions made by banks at 31 December 1995 allow us to state that the majority of banks kept within the limits for foreign exchange positions. In some cases, the limits for individual currencies, especially US$ and DEM, and the overall monetary and crown positions, were exceeded for short periods. Subsequently, banks adopted measures to remedy these deficiencies within time limits agreed with the banking supervision authority.

In connection with the liberalisation of the Foreign Exchange Act and the subsequent transition to a standard method of payments and settlement between the SR and the CR, the Banking Supervision Division of the NBS modified the limit for the individual overnight monetary position of the Czech crown, from 2% to 10% of the bank's capital as defined by the NBS Decree on capital adequacy.