

C. BANKING SUPERVISION



1. BANKING SECTOR DEVELOPMENT ^{1/}

In 2001, the most important event was the completion of the restructuring and privatisation of banks with a significant share of the assets (45%) of the Slovak banking sector.

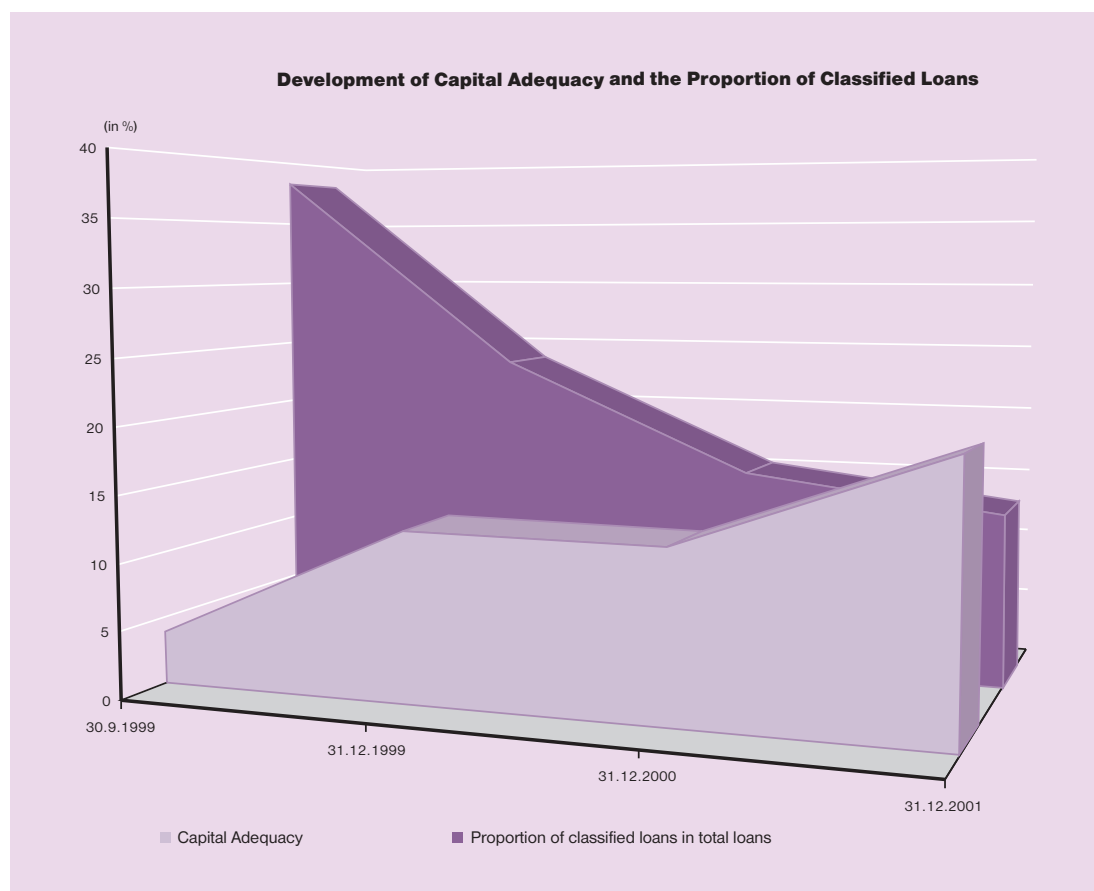
Banking sector recovery was reflected in a significant improvement in asset structure, the growth of capital adequacy of the sector and a reduction in the proportion of classified loans.

The transfer of loss-making loans and their replacement by state bonds influenced the release of funds linked to the coverage of non-performing assets. Together with the gradual restructuring of the corporate sector, this established a basis for the further growth of the Slovak economy.

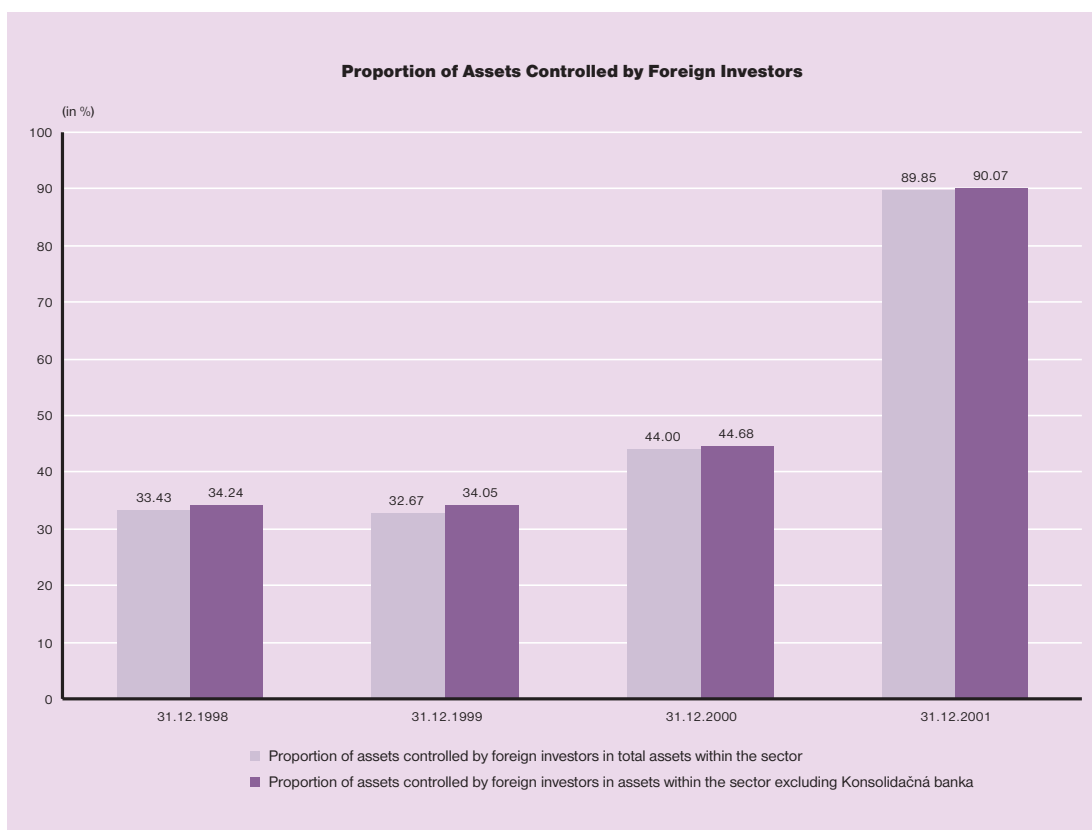
One of the objectives of the privatisation of banks with significant state participation was the transfer of know-how as a stabilising element preventing a worsening of the current situation especially with regard to the development of loan activities. Foreign investors controlled a dominant proportion of banks' equity as well as banks' assets at year-end 2001.

In 2001, foreign investors' share in total subscribed equity capital of banks and permanent funds provided to branches of foreign banks by their headquarters increased significantly. The increase was due mainly to the gradual sale of state-owned equity capital to foreign investors.

In April 2001, Erste Bank der Österreichischen Sparkassen acquired a majority share in the equity capital of Slovenská sporiteľňa, a.s. Bratislava, and as of the end of the monitored period it owned



^{1/} The aggregate data for the banking sector stated in this report as of year-end 2001 may not be final data due to the fact that, at the time of printing, an external audit of certain banks had not yet been concluded.



67.2% of the bank's shares. In November 2001, IntesaBci, Milano, acquired a 94.47% share of the equity capital of Všeobecná úverová banka, a.s. Bratislava via its 100% subsidiary Comit Holding International, S.A. Luxembourg. In connection with the forthcoming sale of shares of Investičná a rozvojová banka, a.s., Bratislava to a foreign investor, the Ministry of Finance of the SR transferred a 65.5% share to the National Property Fund (NPF), thus increasing the NPF's holding from 4.0% to 69.56%. In December 2001, Slovenská poisťovňa, a.s. increased its holding in Istrobanka, a.s., Bratislava from 72.0% to 82.0% with the purchase of the 10.0% holding of ERSTE BANK in connection with the forthcoming sale of shares to a foreign investor.

HVB Bank Slovakia, a.s., Bratislava has operated in the banking sector since October 2001, following the merger of Bank Austria Creditanstalt Slovakia, a.s. and HypoVereinsbank Slovakia, a.s., Bratislava.

The banking sector restructuring process is also connected to the transformation of Konsolidáčna banka, š.p.ú., to which part of problematic receivables were transferred. The MF SR, as the founder of Konsolidáčna banka Bratislava, š.p.ú. issued a statement winding up the bank without liquidation on 31 January 2002.

2. BUSINESS RESULTS AND PRUDENTIAL CONDUCT OF BUSINESS

At year-end 2001, results confirmed the stabilisation of the development of the Slovak banking sector.

At 31 December 2001, twenty-one banking entities were active in the banking sector (nineteen banks and two branches of foreign banks) and ten representative offices of foreign banks. Of the nineteen banks, two are state financial institutions, and three specialised banks



– home savings banks. Five banks and one branch of a foreign bank were authorised to conduct mortgage business.

Total subscribed equity capital within the Slovak banking sector (excluding the NBS) increased year-on-year by Sk 4.0 billion from Sk 49.2 billion to Sk 53.2 billion. The reported funds permanently provided to branches of foreign banks by headquarters increased year-on-year by Sk 81.4 million, from Sk 4.8 billion to Sk 4.9 billion.

In addition to a year-on-year increase in the sectors' balance-sheet total of Sk 81.9 billion (by 9.66%) to Sk 928.8 billion, certain financial indicators improved and the performance of prudential banking indicators developed favourably. The balance-sheet total was mainly influenced by an increase in primary resources of Sk 64.6 billion (by 10.83%) to Sk 660.9 billion.

Loan receivables as of 31 December 2001 compared to year-end 2000 recorded a fall, but

when taking into consideration the conversion of transferred loans into restructuring bonds the overall banking sector recorded a year-on-year increase in the volume of loans in excess of 10%.

Classified loan receivables fell by Sk 14.1 billion to Sk 74.5 billion, i.e. by 15.87%. The proportion of classified loans in total loans was influenced by the faster pace of the reduction of total receivables compared to the reduction of classified receivables and at the end of the monitored period this figure was 22.00% (excluding Konsolidačná banka - 14.01%).

The proportion of earning assets of the banking sector as of 31 December 2001 reached 91.13%, primarily due to the influence of the placement of free banking funds into securities. The year-on-year increase was 12.99% and the volume increased to Sk 846.4 billion.

At 31 December 2001, banks reported a net profit of Sk 9.1 billion. Year-on-year, the

increase was Sk 4.7 billion (by 107.22%). Negative returns were reported by three banks, i.e. two fewer than in the same period for 2000.

The improved quality of assets was also reflected in the development of return ratios:

Return on equity (ROE) in %	31.12.2000	31.12.2001
Banking sector as a whole	8.90	17.07
Banking sector excluding Konsolidačná banka, š.p.ú.	25.16	22.67

Return on assets (ROA) in %	31.12.2000	31.12.2001
Banking sector as a whole	0.54	1.02
Banking sector excluding Konsolidačná banka, š.p.ú.	1.48	1.01

3. REVIEW OF PRUDENTIAL CONDUCT OF THE BUSINESS OF BANKS

The main task and role of banking supervision is the support of stability and the sound development of banks, the banking system and the protection of the interests of depositors. The basic regulation instruments of banking supervision are the prudential rules for banks and the limits set therein.

The capital adequacy of the Slovak banking sector at 31 December 2001, increased, and after excluding the influence of Konsolidačná banka, reached 19.72%. At the end of the monitored period, one bank failed to meet the capital adequacy limit.

The uncovered estimated loss of the Slovak banking sector, compared to the loss reported at 31 December 2000 decreased from Sk 0.011 billion to Sk 0.007 billion as of 31 December 2001. Three banks reported an uncovered estimated loss for the evaluated period.

During 2001, an overall improvement of the fulfilment of stipulated credit exposure limits was recorded. At 31 December 2001, four banks had breached the limit regarding non-bank customers (excluding Konsolidačná banka). One bank did not comply with the limit regarding entities with a special relationship and the aggregate net credit exposure limit.

At 31 December 2001, the monthly liquidity limit (the ratio of monthly assets and liabilities may not fall below 0.9) was complied with by all banks. The limit of the ratio of the sum of fixed and non-liquid assets to own funds and reserves (which may not exceed 1.0) was not complied with by two banks.

Compliance with limits regarding unsecured foreign exchange positions stabilised and all banks had complied with the required limits by the end of the evaluated period.

On-site Inspection

In 2001, six on-site inspections at five banks were carried out.

By a decision of 24 August 2001, the NBS placed DEVÍN BANKA, a. s., Bratislava under forced administration and the bank was put under a special regime. On 28 September 2001, the Bratislava Regional Court declared bankruptcy on the bank. This declaration terminated the forced administration.

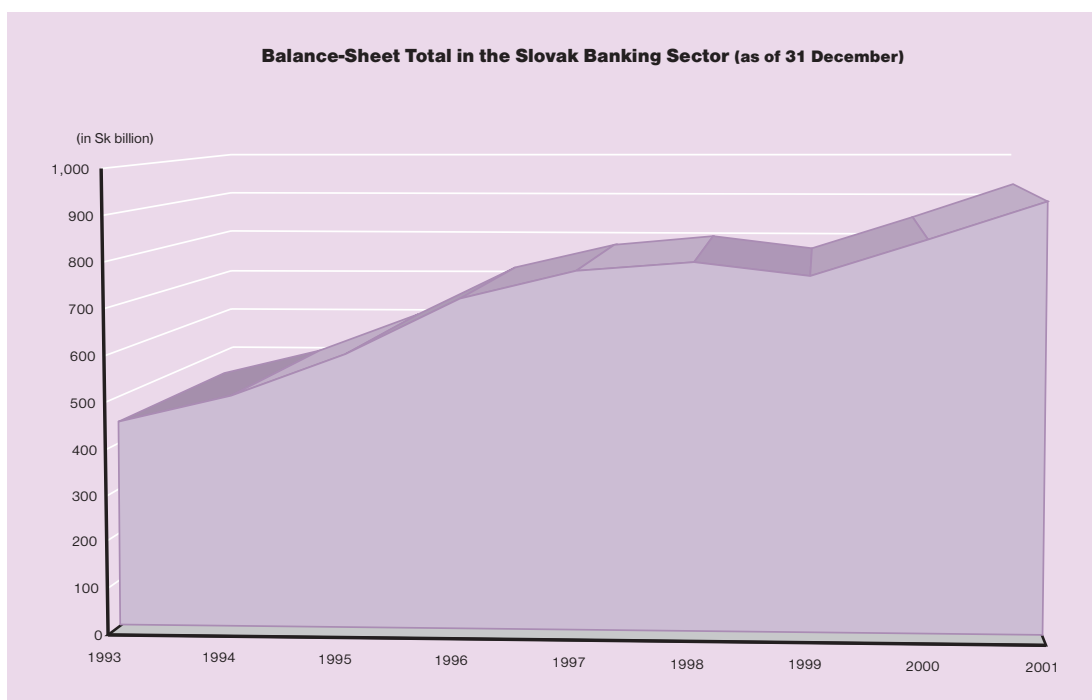
4. REINFORCEMENT OF REGULATION AND OF BANKING SUPERVISION CONDUCT

In 2001, significant changes to Slovak legislation were introduced that significantly reinforced the conduct of banking supervision.

On 23 February 2001, the National Council of the Slovak Republic passed constitutional Act

Slovak Banking Sector	31.12.2000	31.12.2001	Difference	% change
	in Sk thousand	in Sk thousand	12/01 - 12/00	12/01 - 12/00
Number of employees	22,332	21,265	-1,067	-4.78
Number of banks in Slovakia	21	19	-2	-9.52
Number of foreign bank branches in Slovakia	2	2	0	0.00
Number of foreign bank representative offices in Slovakia	10	10	0	0.00
Number of branches in Slovakia	291	302	11	3.78
Number of sub-branches in Slovakia	810	750	-60	-7.41
Number of branches in other countries	1	1	0	0.00
Number of sub-branches in other countries	1	1	0	0.00
Number of representative offices in other countries	7	4	-3	-42.86
Total assets	846,954,662	928,808,622	81,853,960	9.66
Earning assets	749,110,627	846,437,823	97,327,196	12.99
Total interbank assets	347,925,147	305,902,162	-42,022,985	-12.08
Total foreign exchange assets	155,146,071	171,926,887	16,780,816	10.82
Securities	136,464,924	251,069,631	114,604,707	83.98
Loan receivables	408,229,708	338,661,341	-69,568,367	-17.04
Of which: classified receivables	88,573,806	74,519,912	-14,053,894	-15.87
Share of classified receivables in total loans (%)	21.70	22.00	0.31	1.42
Uncovered estimated loss	11,291	7,168	-4,123	-36.52
Provisions for classified loans	69,431,148	61,474,702	-7,956,446	-11.46
Legal reserves	5,498,288	4,031,782	-1,466,506	-26.67
Equity capital	49,169,329	53,153,968	3,984,639	8.10
Own funds	115,726,128	116,611,762	885,634	0.77
Total funds - banking sector	158,219,633	166,645,557	8,425,924	5.33
Total funds - non-banking sector	596,300,597	660,864,735	64,564,138	10.83
Of which: non-anonymous deposits	312,545,469	362,934,016	50,388,547	16.12
Current profit	15,795,169	10,705,605	-5,089,564	-32.22
Current loss	11,417,609	1,634,604	-9,783,005	-85.68
Balance of profit and loss	4,377,560	9,071,001	4,693,441	107.22
Cumulative financial results	-43,383,062	-25,129,947	18,253,115	-42.07
Capital adequacy	2.44	13.35	10.91	447.13

Banking Sector excluding Konsolidačná banka	31.12.2000	31.12.2001	Difference	% change
	in Sk thousand	in Sk thousand	12/01 - 12/00	12/01 - 12/00
Total assets	834,037,808	926,579,563	92,541,755	11.10
Earning assets	739,359,190	845,756,090	106,396,900	14.39
Total interbank assets	346,721,301	305,607,471	-41,113,830	-11.86
Total foreign exchange assets	155,146,071	171,926,887	16,780,816	10.82
Securities	136,464,924	251,069,631	114,604,707	83.98
Loan receivables	368,694,649	306,942,277	-61,752,372	-16.75
Of which: classified receivables	56,473,028	43,016,528	-13,456,500	-23.83
Share of classified loan receivables in total loans (%)	15.32	14.01	-1.30	-8.50
Estimated uncovered loss	11,291	7,168	-4,123	-36.52
Provisions for classified loans	38,470,793	30,346,045	-8,124,748	-21.12
Legal reserves	5,331,586	4,017,625	-1,313,961	-24.64
Equity capital	46,812,390	39,403,029	-7,409,361	-15.83
Own funds	120,277,991	102,390,990	-17,887,001	-14.87
Total funds - banking sector	123,460,346	154,345,557	30,885,211	25.02
Total funds - non-banking sector	596,184,865	660,863,528	64,678,663	10.85
Of which: non-anonymous deposits	312,545,469	362,934,016	50,388,547	16.12
Current profit	15,795,169	10,567,847	-5,227,322	-33.09
Current loss	4,016,473	1,634,604	-2,381,869	-59.30
Balance of profit and loss	11,778,696	8,933,243	-2,845,453	-24.16
Cumulative financial results	-10,606,715	7,511,642	18,118,357	-170.82
Capital adequacy	12.48	19.72	7.24	58.01



No. 90, amending and supplementing the Constitution of the Slovak Republic No. 460/1992 Zb. as amended. This constitutional act amended the wording of Article 56 of the Constitution of the Slovak Republic and reinforced the independence of the National Bank of Slovakia as the central bank of the Slovak Republic. The Constitution accords the NBS the right to make legislative initiatives.

An amendment to Act of the National Council of the Slovak Republic No. 566/1992 Zb. on the National Bank of Slovakia and the new Banking Act No. 483/2001 Z.z. of 5 October 2001, effective as of 1 January 2002, were also passed. On the basis of authorising provisions of the new Banking Act, the National Bank of Slovakia prepared in the first phase, 6 draft decrees and 1 directive, in co-operation with the Ministry of Finance of the SR, which were approved on December 2001 by the Bank Board of the National Bank of Slovakia.

In addition to the above Acts and secondary legislation, other new Acts on the protection of deposits and on bankruptcy and settlement and a new Act on securities and investment services were passed and became effective. These are

directly related to the conduct of banking activities. The Act on financial market supervision was discussed by the National Council of the SR, and an amendment to the Act on Protection Against the Laundering of the Proceeds of Criminal Activities was drawn up.

Another important step influencing the strengthening of regulation and particularly the conduct of banking supervision was the implementation of basic tasks within the approved Long-term Development Plan for Banking Supervision adopted with respect to compliance with conditions agreed with international institutions (the World Bank and the International Monetary Fund). In addition to the implementation of organisational changes regarding banking supervision, these included the approval of the Declaration on the Role of Banking Supervision and the Ethical Codex for Banking Supervision Employees. Other tasks began to be progressively implemented, particularly in the areas of personnel reinforcement within banking supervision, risk evaluation of banks, and the preparation of inspection procedures for integrated banking supervision for the support of the implementation of a proactive approach regarding banking supervision as a part of its new strategy.

Legal Standards

An amendment to the Act on the National Bank of Slovakia, which came into effect on 1 May 2001, allows, in relation to banking supervision in Article 36 and Article 37, the independence of procedure and decision-making at the first level of banking supervision. Individual banking supervision operations such as the granting of licenses and other decision-making activities, and off-site and on-site banking supervision were precisely and unambiguously specified. The most important changes included the cancellation of state supervision of banking and the unambiguous definition of the powers and responsibilities of banking supervision. A further benefit of the amendment is the harmonisation of Slovak legislation with European Union law.

Another legal standard adopted in 2001 was Act No. 483/2001 Z.z. on Banks and on the Amendment and Supplementation of Certain Acts. The objective of this Act is the reinforcement of the position of the National Bank of Slovakia with regard to the conduct of banking supervision, harmonisation of Slovak banking legislation with the relevant European Union directives, and harmonisation with World Bank and International Monetary Fund recommendations. It also stipulates the requirements for bank and foreign bank branch operations, including requirements regarding their prudential conduct of business, and increases the personal responsibility of members of supervisory boards and statutory bodies of banks in the event of adverse economic circumstances at banks. The Act includes a legislative framework for banking supervision on a consolidated basis. It creates conditions for prompt corrective actions at problem banks, for instance with regard to the inappropriate reduction of capital adequacy at a bank and is more specific about forced administration issues. It stipulates stricter requirements for bank auditors regarding co-operation with the National Bank of Slovakia.

On 9 November 2001, the National Council of the Slovak Republic passed Act No. 492/2001,

amending and supplementing Act of the NR SR No. 118/1996 Z.z. on deposit protection and on the amendment and supplementation of certain acts as amended. The Act became effective as of 1 December 2001, except for Chapter I, subsection 4 of the provision of Article 3, paragraph 3, subsection c) and Chapter I, subsection 17 of the provisions in Article 9, paragraph 2, subsection b) that will become effective on the day of the validity of the agreement of the accession of the SR to the European Communities and to the European Union.

On 9 November 2001, the National Council of the Slovak Republic passed Act No. 566/2001 on securities and investment services and on the amendment and supplementation of certain acts (the Securities Act). The Act established a new state body – the Financial Market Authority – as a state supervisory body for capital markets and insurance, and also regulates the authorisation and procedure of this body with regard to state supervision. The authority reports to the Slovak Government, presenting activity reports for the previous calendar year together with an analysis of the current state of Slovakia's capital markets and insurance sector. Pursuant to the law, the Authority co-operates with the Ministry of Finance of the SR to develop and implement financial policy, in particular with regard to capital market and insurance sector analysis, and development and generally binding legal regulations of the same.

On 3 October 2001, the National Council of the Slovak Republic passed Act No. 500/2001 Z.z., amending and supplementing the Commercial Code as amended by subsequent regulations. The new Act harmonises Slovak legislation with basic community regulations regarding company law with regard to medium-term priorities. The Act further protects the rights of creditors and other third persons involved in trade and commerce, the protection of the partners of capital companies against potential abuse of their position by statutory bodies and supervisory bodies of capital companies. The Act precisely specifies the conditions and procedure of company bodies with

regard to merger, amalgamation or split of companies and reinforces the protection for creditors of a company and of minority shareholders.

Secondary Legislation

The specific conduct of banking supervision is implemented by means of secondary standards – decrees on prudential conduct of banking business that specify the requirements and framework for the performance of banking operations. The rules on prudential banking are currently included in decrees that were issued on the basis of authorising provisions in Act No. 21/1992 on banks; their content has been adapted to harmonise Slovak legislation with European Union law and with the principles of effective conduct of banking supervision issued by the Basle Committee on Banking Supervision. In 2001, pursuant to the above, the following amended NBS decrees became effective: on limitations on unsecured currency positions of banks, on capital adequacy of banks, on liquidity rules for banks and branches of foreign banks, on disclosure of information by banks and branches of foreign banks, on rules for the limitation of a concentration of bank's property against other entities, on disclosure of information by banks and branches of foreign banks, on the rules concerning limitations on banks' exposures to other entities, and a decree concerning the presentation of information by banks and branches of foreign banks to the National Bank of Slovakia.

In 2001, decrees were drawn up in connection with the adopted Act No. 483/2001 Z.z. on Banks, stipulating the requirements for the following:

- the granting of a banking license,
- the granting of a banking license for a foreign bank for the conduct of banking activities via its branch in the Slovak Republic,
- the registration of a foreign bank representative office or a similar foreign financial institution conducting banking activities,
- an application of a bank for prior approval of the establishment of a foreign branch,
- an application of a bank for prior approval pursuant to Article 28, para. 1 of Act No. 483/2001 Z.z. on banks and on the amendments and the supplementation of certain acts,
- on required disclosures in notifications in order to identify other persons having a special relationship to a bank or a branch of a foreign bank due to their relationship with the reporting person,
- the directive of the NBS and the MF SR on the Register of Mortgages, and the Position and Activities of a Mortgage Controller and his Representative
- and a new decree specifying the prescribed contents of a detailed audit-report for banks and branches of foreign banks,

by which was also fulfilled one of the conditions aimed at harmonisation with the 25 core principles for banking supervision established by the Basle Committee on Banking Supervision.