

## C. BANKING SUPERVISION





## 1. BANKING SECTOR

In 2002, the banking sector restructuring efforts began to pay dividends. Bank productivity improved, as did other financial indicators, competition in the banking market increased, notably in lending products, and the trend in compliance with prudent banking standards was also positive.

As of 31 December 2002, twenty banking entities (eighteen banks and two branch offices of foreign banks) were operating in the Slovak banking sector along with seven representative offices of foreign banks. Of these eighteen banks, three are home savings banks. Of fifteen universal banks, eight banks and one branch office of a foreign bank had a mortgage banking license (HVB Bank Slovakia, a. s., Istrobanka, a. s., Ľudová banka, a. s., OTP Banka Slovensko, a. s., Slovenská sporiteľňa, a. s., Tatra banka, a. s., UniBanka, a. s., Všeobecná úverová banka, a. s., and Československá obchodní banka, a. s., a branch of a foreign bank in Slovakia).

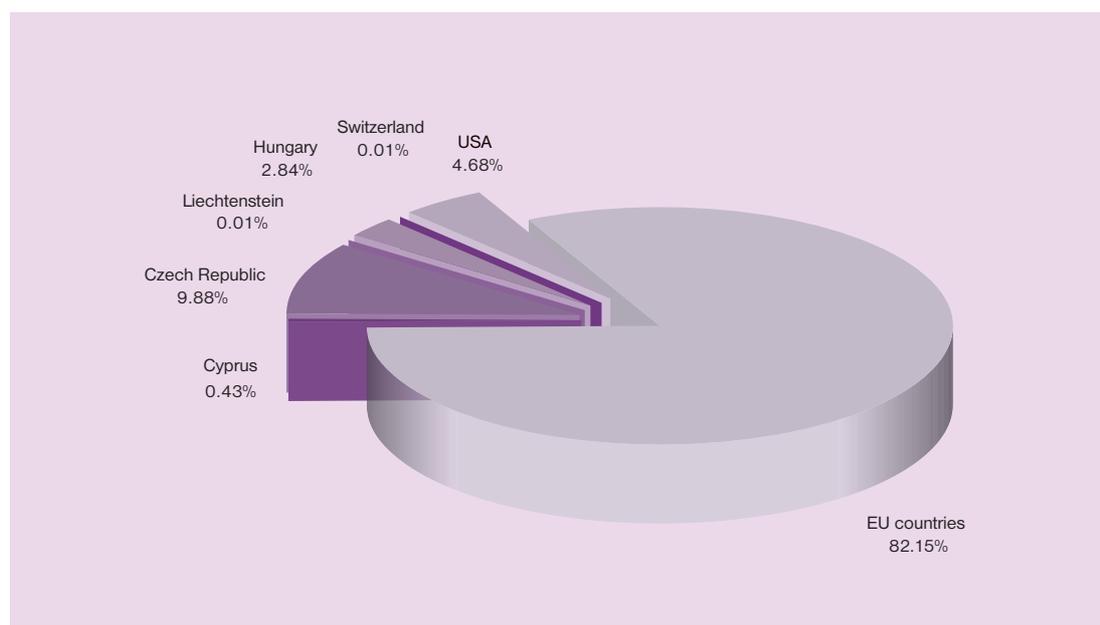
The volume of subscribed share capital of banks (excluding the NBS) decreased by Sk 14.7 billion compared to a year ago, from Sk

53.2 billion to Sk 38.5 billion. The development in share capital was influenced in particular by the dissolution of Konsolidačná banka Bratislava, š.p.ú., without liquidation, as of 31 January 2002 (Sk 13.8 billion), as well as by share capital setting off in settlement of past losses at two banks and new share issues at two other banks.

Funds provided by foreign banks to their branch offices decreased by Sk 2.1 billion from Sk 4.9 billion to Sk 2.8 billion (resulting from a change in accounting for funds provided to a branch office of a foreign bank).

The share of foreign investors in total subscribed share capital of banks and funds permanently transferred by foreign banks to their branch offices significantly increased in 2002, from 60.6% (as of 31 December 2001) to 85.3% (as of 31 December 2002). This growth was caused primarily by the sale of state-held interests in the share capital of the banks, to foreign investors and by the winding up of Konsolidačná banka Bratislava, š.p.ú.

With the approval of the National Bank of Slovakia, the Bank für Arbeit und Wirtschaft Aktiengesellschaft, Vienna, acquired 100% in the share capital of Istrobanka, a.s.



On 4 April 2002, shares in Investičná a rozvojová banka, a.s., were transferred to OTP Bank Rt. Budapest, which thus became the majority shareholder with a 95.7% stake in the bank.

The National Property Fund of the Slovak Republic announced the third tender for the sale of shares in Banka Slovakia, a. s. Of all bids presented by Banka Slovakia, the National Bank of Slovakia granted only one prior consent in January 2002 to a foreign investor – MEINL BANK Aktiengesellschaft Vienna.

Slovenská konsolidačná, a.s., a shareholder in Poštová banka, a.s., announced a tender to sell its share (55.16%) in the bank. Based on the bank's request for prior consent to disclose information subject to banking secrecy, the National Bank of Slovakia granted prior consent on four occasions in March and May 2002. Bids to buy the shares on offer were delivered in the time set by Tatra Banka, a.s., Bratislava, and Česká pojišťovna, a.s., Prague. At its 22 August 2002

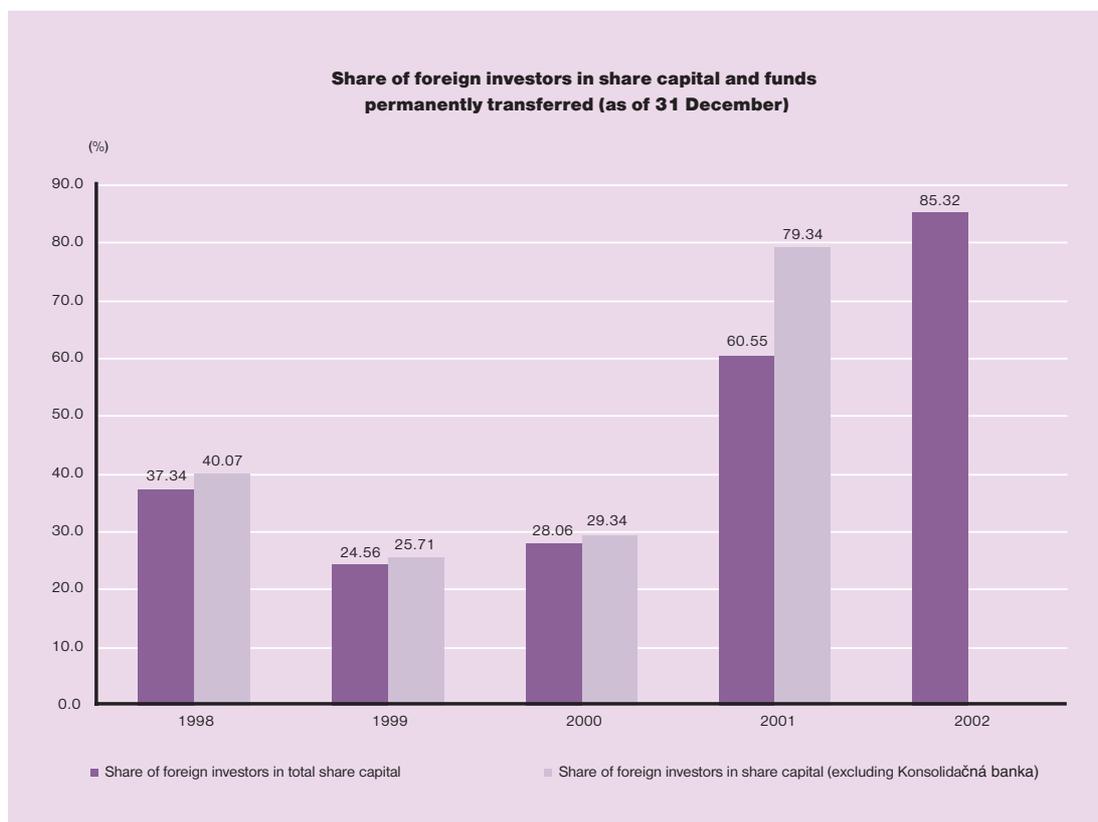
meeting, the board of directors and, subsequently, the supervisory board of Slovenská konsolidačná elected to turn down all bids in respect of the privatisation of Poštová banka due to their failure to meet required conditions.

On 1 October 2002, Slovenská záručná a rozvojová banka, š. p. ú., changed to a joint-stock company (based on a decision of the Ministry of Finance of the Slovak Republic and the National Bank of Slovakia).

Two banks changed their trade names: Poľnobanka, a. s., renamed UniBanka, a. s., on 1 April 2002, and Investičná a rozvojová banka, a. s., changed to OTP Banka Slovensko, a.s., on 1 August 2002.

## 2. FINANCIAL PERFORMANCE OF THE BANKING SECTOR

Besides a modest increase in total assets, 2002 brought an improvement in several



financial indicators and a positive trend in compliance with prudent banking indicators.

*This review of developments in performance indicators of the banking sector as a whole, as of 31 December 2002, covers nineteen entities (under Article 38, paragraph 6, of Act No. 511/1992 Zb. on administration of taxes and imposts, one bank was granted an extension till 30 June 2003 in order to complete its corporate tax return, and thus its final data, for 2002).*

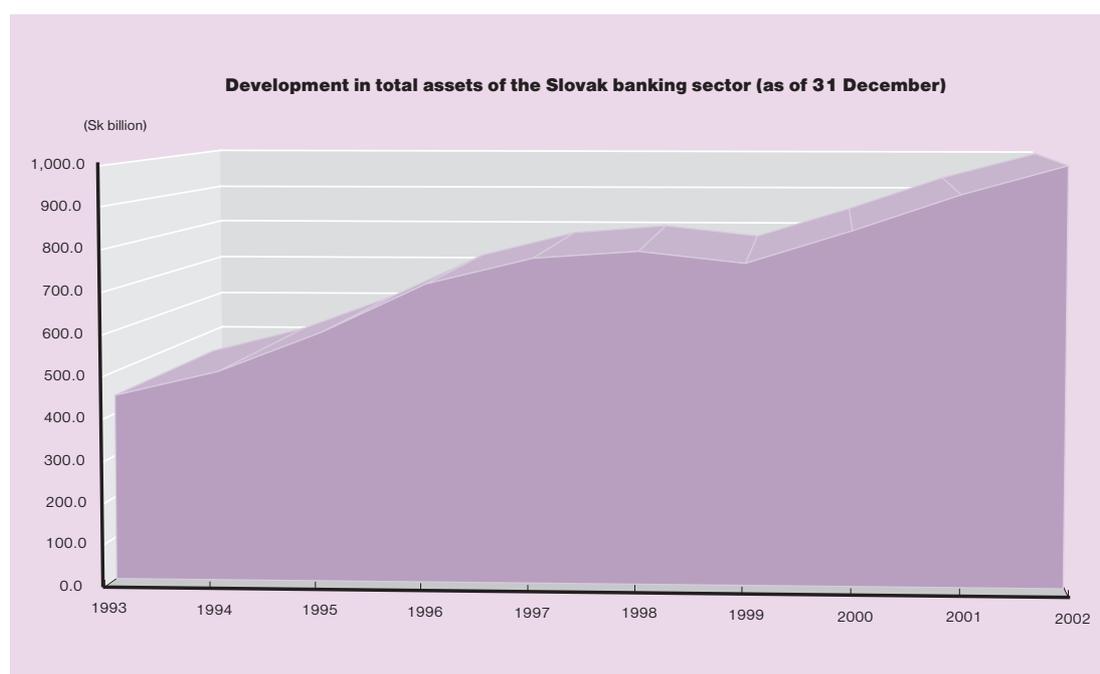
Total assets (sum of net assets) held by the nineteen banks comprising the Slovak banking industry went up by Sk 69.9 billion from year ago (up 7.53%) to Sk 998.7 billion as of 31 December 2002.

The development in total banking sector assets was influenced by growth of primary resources of Sk 25.3 billion (up 3.83%) to Sk 686.2 billion (with the impact of Konsolidačná banka being insignificant). The volume of non-anonymous deposits grew by Sk 37.1 billion (up 10.22%) to Sk 400.0 billion. Secondary resources rose by Sk 15.5 billion (up 9.30%) to Sk 182.1 billion (Konsolidačná banka reported secondary resources of Sk 12.3 billion as of 31 December 2001).

Interest-bearing assets of the banking sector increased by Sk 67.0 billion to Sk 913.4 billion. Their share in total assets as of 31 December 2002 reached 91.46%, due mainly to investment of free resources of banks in securities.

Total loan assets reported by the nineteen banks amounted to Sk 336.0 billion as of 31 December 2002. Classified loans fell by Sk 36.9 billion to Sk 37.6 billion, i.e. by 49.49%, with Sk 31.5 billion of the fall attributed to Konsolidačná banka. Manufacturing industries, trade, agriculture and the construction industry continued to account for the bulk of classified loans. Banks reported Sk 27.2 billion in provisions, taking their coverage of classified loans to 72.39% at the end of the period reviewed. The share of classified assets in total assets declined to 11.20%.

Banks reported net profits of Sk 11.8 billion for the period ending 31 December 2002. Compared to year ago, this indicates a rise of Sk 2.8 billion (up 30.43%). Two banks reported losses for the current period ending 31 December 2002 (compared with three loss-makers as at 31 December 2001).



<b>Slovak banking sector</b>	<b>31 December 2001</b>	<b>31 December 2002 <sup>1/</sup></b>	<b>Difference 12/02-12/01</b>	<b>Change in % 12/02-12/01</b>
Staff members	21,324	19,657	-1,667	-7.82
Number of banks in Slovakia	19	18	-1	-5.26
Number of branches of foreign banks in Slovakia	2	2	0	0.00
Number of representative offices of foreign banks in Slovakia	10	7	-3	-30.00
Number of branches in Slovakia	302	418	116	38.41
Number of sub-branches in Slovakia	750	602	-148	-19.73
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	4	1	-3	-75.00
Total assets in Sk '000	928,808,622	998,704,306	69,895,684	7.53
Interest-bearing assets in Sk '000	846,437,823	913,424,586	66,986,763	7.91
Total interbank assets in Sk '000	305,902,162	361,174,583	55,272,421	18.07
Total foreign exchange assets in Sk '000	171,926,887	131,040,719	-40,886,168	-23.78
Securities in Sk '000	251,069,631	296,502,381	45,432,750	18.10
Loan assets in Sk '000	338,661,341	336,001,978	-2,659,363	-0.79
thereof: classified loans in Sk '000	74,519,912	37,638,512	-36,881,400	-49.49
Share of classified loans in total loans (%)	22.00	11.20	-10.80	x
Uncovered expected loss in Sk '000	7,168	28,411	21,243	296.36
Provisions for classified loans in Sk '000	61,474,702	27,246,500	-34,228,202	-55.68
Legal reserves in Sk '000	4,031,782	3,683,037	-348,745	-8.65
Share capital in Sk '000	53,153,968	39,442,176	-13,711,792	-25.80
Own funds in Sk '000	116,611,762	95,769,476	-20,842,286	-17.87
Total resources – banking sector in Sk '000	166,645,557	182,147,578	15,502,021	9.30
Total resources – non-banking sector in Sk '000	660,864,735	686,164,324	25,299,589	3.83
thereof: non-anonymous deposits in Sk '000	362,934,016	400,016,993	37,082,977	10.22
Profit for current period in Sk '000	10,705,605	12,482,005	1,776,400	16.59
Loss for current period in Sk '000	1,634,604	650,674	-983,930	-60.19
Balance of profit and loss in Sk '000	9,071,001	11,831,331	2,760,330	30.43
Accumulated profit/loss in Sk '000	-25,129,947	21,823,541	46,953,488	-186.84
Capital adequacy	13.37	21.18	7.81	x

<b>Slovak banking sector excluding Konsolidačná banka</b>	<b>31 December 2001</b>	<b>31 December 2002 <sup>1/</sup></b>	<b>Difference 12/02-12/01</b>	<b>Change in % 12/02-12/01</b>
Total assets in Sk '000	926,579,563	998,704,306	72,124,743	7.78
Interest-bearing assets in Sk '000	845,756,090	913,424,586	67,668,496	8.00
Total interbank assets in Sk '000	305,607,471	361,174,583	55,567,112	18.18
Total foreign exchange assets in Sk '000	171,926,887	131,040,719	-40,886,168	-23.78
Securities in Sk '000	251,069,631	296,502,381	45,432,750	18.10
Loan assets in Sk '000	306,942,277	336,001,978	29,059,701	9.47
thereof: classified loans in Sk '000	43,016,528	37,638,512	-5,378,016	-12.50
Share of classified loans in total loans (%)	14.01	11.20	-2.81	x
Unsecured expected loss in Sk '000	7,168	28,411	21,243	296.36
Provisions for classified loans in Sk '000	30,346,045	27,246,500	-3,099,545	-10.21
Legal reserves in Sk '000	4,017,625	3,683,037	-334,588	-8.33
Share capital in Sk '000	39,403,029	39,442,176	39,147	0.10
Own funds in Sk '000	102,390,990	95,769,476	-6,621,514	-6.47
Total resources – banking sector in Sk '000	154,345,557	182,147,578	27,802,021	18.01
Total resources – non-banking sector in Sk '000	660,863,528	686,164,324	25,300,796	3.83
thereof: non-anonymous deposits in Sk '000	362,934,016	400,016,993	37,082,977	10.22
Profit for current period in Sk '000	10,567,847	12,482,005	1,914,158	18.11
Loss for current period in Sk '000	1,634,604	650,674	-983,930	-60.19
Balance of profit and loss in Sk '000	8,933,243	11,831,331	2,898,088	32.44
Accumulated profit/loss in Sk '000	7,511,642	21,823,541	14,311,899	190.53
Capital adequacy	19.75	21.18	1.43	x

1/ sum for the nineteen entities

### **3. EXERCISE OF BANKING SUPERVISION AND EVALUATION OF PRUDENT BANKING**

The principal task and mission of banking supervision is to promote the stability and sound development of banks and the banking system, and to protect depositor interests. In 2002, seven on-site examinations were carried out at six banks.

The Banking Supervision Division of the National Bank of Slovakia has ruled on 135 cases, as part of its licensing operation, including rulings on discontinued proceedings, proceedings involving violations of law or remedial measures.

The key regulatory instruments applied by the banking supervisor include the rules of prudent banking and limits established by them.

Capital adequacy of the Slovak banking sector increased by 1.43% from a year ago to 21.18%. All banks met the capital adequacy limit throughout 2002.

In 2002, we saw an improvement in compliance with credit exposure limits. As of 31 December 2002, only one bank failed to meet the limits on non-banking entities and on concentration of assets by persons with a special relationship to a bank. The limits on banking entities and on net credit exposure were observed by all banks.

The monthly liquidity limit (ratio of monthly assets to liabilities, which must not fall below 1.0) and the limit on the ratio of fixed and non-liquid assets to own funds and reserves (must not be higher than 1.0) were fulfilled by all banks.

The limits laid down by an NBS decree on unsecured foreign exchange positions were also observed by all banks as of 31 December 2002.

### **4. INTERNATIONAL CO-OPERATION AND CO-OPERATION WITH DOMESTIC INSTITUTIONS**

In 2002, Memoranda of Understanding were signed with peer institutions in Germany, Hungary, France, Czech Republic, and Italy.

In addition, bilateral agreements on co-operation in banking supervision were signed between the National Bank of Slovakia and the Financial Market Authority (information exchange in consolidated supervision, co-ordination of activities and co-operation in supervisory activities) and the Police Corps Presidium of the Slovak Interior Ministry (reciprocal information exchange in the discharge of duties in banking supervision by the NBS and by the Financial Police Authority in detecting illegal financial operations and preventing money laundering).

In 2002, bilateral co-operation between the U.S. Office of the Comptroller of the Currency and the National Bank of Slovakia was started on the basis of Letters of Understanding on co-operation of supervisory authorities in information exchange.