



SLOVENSKÁ  
SPORITEĽŇA

ANNUAL REPORT  
2019



SLOVENSKÁ  
SPORITEĽŇA

*To be a man means to remind oneself each and every day  
that I must at every moment recreate my relationship to the environment,  
reassess and reconsider everything that is by chance and inevitable.  
Such a strenuous undertaking means to be constantly in action, as only  
omnipresent activity gives the name of a man to the creator in question.  
The purpose of such activity does not, however, lie in productivity,  
but on the contrary is redemption and in itself the end.*

Emil Filla

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# Results and Selected Indicators

	As at 31 Dec. 1996 SKK '000	As at 31 Dec. 1997 SKK '000	As at 31 Dec. 1998 SKK '000	As at 31 Dec. 1999 SKK '000
Balance sheet total	172,855,548	179,941,785	168,618,582	172,818,164
Balances with financial institutions	45,219,947	36,267,097	32,420,069	38,548,831
Loans to customers	58,966,316	62,898,347	61,432,054	61,411,495
Deposits by customers	147,540,604	151,431,038	141,052,872	142,703,261
Share capital	2,074,207	2,074,207	2,074,207	6,374,207
Reserves and other equity capital	9,971,802	12,909,271	13,259,038	11,108,550
Profit after taxation	401,555	79,552	88,682	- 5,677,969
Capital adequacy ratio (%)	8.3	7.4	6.6	9.4
Balance sheet profit	401,555	112,459	174,371	- 5,642,287
Income tax	0	32,907	85,689	35,682
Loans / Assets (%)	34.1	35.0	36.4	35.5

	As at 31 Dec. 1996	As at 31 Dec. 1997	As at 31 Dec. 1998	As at 31 Dec. 1999
Number of employees	7,021	6,317	6,350	6,818
Number of affiliate branches	668	646	638	646

*This data has been compiled in accordance with methodological and accounting rules applicable in the Slovak Republic.*



# *Foreword by the Chairman of the Board of Directors and the President of Slovenská sporiteľňa, a. s.*



Dear Shareholders, Dear Customers,

allow me to present to you the results of operations of Slovenská sporiteľňa, a. s. for 1999.

The revitalization process in the banking sector of the Slovak Republic was initiated in 1999. Due to a failure to address the problems of the banking sector, the status of the loan portfolio and financial performance of state-owned banks in particular deteriorated to the point where the government of the SR itself had to start dealing with the issues. Also in Slovenská sporiteľňa, a. s. the consequences of imperfect legislation as well as of inadequate ethics in the business environment were fully evident. The first step was the capitalization of the bank, which took the form of an increase in the share capital of SKK 4.3 billion. By this token, the share capital

of Slovenská sporiteľňa, a. s. reached SKK 6.374 billion. The Ministry of Finance became a new majority shareholder in the bank. The second step was the implementation of the first stage of pre-privatization restructuring of the loan portfolio, under which loans with a value of SKK 22.8 billion were transferred to Konsolidačná Banka, š.p.ú. and a specialized agency Slovenská Konsolidačná, a. s. As a result of these steps, conditions for observing the rules of prudence were improved and the proportion of bad debt in the total assets was decreased substantially. This is a necessary precondition for the successful privatization of the bank, which will provide for immediate return on the funds invested in restructuring.

Persisting problems in the Slovak economy adversely affected the growth of unemployment and consequently, also the level of savings held at banks. Despite these negative trends we exerted increased effort to halt the decline in primary deposits. In the second half of the year the situation became stable and towards the end of the year personal deposits in Slovenská sporiteľňa, a. s. increased slightly, reaching a level of SKK 115 billion, and thus accounting for more than 40 % of primary deposits in the banking sector as a whole. The balance sheet of Slovenská sporiteľňa, a. s. grew to SKK 172.8 billion, and so the bank was able to maintain its position of the Slovakia's largest bank. The growth in the balance sheet total was also influenced by the acquisition of Priemyselná Banka, a. s., Košice in December 1999. By making this move Slovenská sporiteľňa, a. s. resolved its claims against this bank, which were difficult to recover on the one hand, and on the other hand ensured the safe management of deposits held for Priemyselná Banka, a. s. customers, and in this way it significantly contributed to stabilization in the banking sector.

In 1999, Slovenská sporiteľňa, a. s. made a loss of SKK 5.678 billion. These operating results are the consequence mainly of raising provisions and reserves to cover existing risks related to the credits extended over the past years to a maximum extent. The appropriateness of such action was also confirmed in the auditor's final report. We are aware that the results of operations are not very flattering. This must however be accepted as a matter of fact and the restructuring process must be applied to provide for the overall recovery of the bank and improvement in its performance so that next years' revenues fully cover this year's loss.



Strengthening competition in the field of banking services and the introduction of new technologies bring about convenience for customers and place greater demands on banks. Also in 1999 Slovenská sporiteľňa, a. s. continued the trend of improving the quality of service, widening the range of products on offer and introducing new technologies. 10 June 1999 went down in the history of not only Slovak, but also world banking. On this day, the first international payment transaction using the chip card Eurocard/Mastercard issued by Barclays Bank was executed via the POS terminal of Slovenská sporiteľňa, a. s. In the second half of 1999 we were the second bank in Europe to start issuing payment cards with chip technology for our customers. Another notable product, which we offered to our customers, were mortgage loans for the personal sector. With the state subsidy to interest on such mortgage loans, this type of borrowing became more accessible source of real estate financing for many inhabitants of Slovakia.

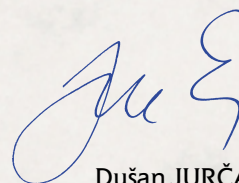
The distribution network of the bank comprised 646 affiliate branches across the whole territory of Slovakia, including the affiliate branches of what was formerly Priemyselná Banka, a. s. In line with the restructuring process we also launched an internal reorganization of the bank, under which we aim to gradually optimize the distribution network by cancelling some or, on the other hand, strengthening other selected affiliate branches. All these changes are carried out with the needs of our customers in mind, but also in order to increase the cost effectiveness of services and reduce the bank's operating costs.

During the course of 1999, we undertook an extensive inventory of information systems in connection with the transition to the year 2000. We can now state that the effort and resources spent were not in vain and they enabled Slovenská sporiteľňa, a. s. to not only make a smooth and trouble free transition to the year 2000, but also the measures and procedures adopted may in future be applied as crisis plans to any emergency situation.

Slovenská sporiteľňa, a. s. has entered into the most challenging year in its history. Unavoidable is the further transfer of a portion of non-performing assets, in order to complete the process of restructuring and preparing favourable conditions for the entry of a strategic investor. Our participation in a strong international financial group is a guarantee of not only the import of sophisticated technologies and know-how, but also of our entry into advanced financial markets.

Dear Customers, Dear Shareholders,

May I thank you on behalf of all the employees of Slovenská sporiteľňa, a. s. for the trust shown and the co-operation so far. I believe that soon after the bank's revitalization, you will yourselves, on the basis of your own experience, confirm the course which your bank took in 1999 was the right one.



Dušan JURČÁK

Chairman of the Board of Directors  
and President of Slovenská sporiteľňa, a. s.



# *Slovak Economy in the Year 1999*

■ 1999 was marked by stabilisation in the Slovak economy. Following the 1998 election, the new government took action to reduce the high deficit in the current account of the balance of payments and the balance of trade deficit. Its January and July packages contained economic measures to increase regulated prices, excise duties and administrative fees, raise the bottom rate of VAT and introduce an import surcharge. The high rate of GDP growth over the past three years, unsustainable in structural terms, was slowed and the revitalization of state-owned banks was started. A positive feature is that the government pursued these unavoidable steps aimed at establishing equilibrium in the economy even at the cost of a mild decrease in the standard of living of some strata of the population.

■ Slovakia was invited to pre-accession talks with the EU. Also, it drew nearer to becoming a member of the OECD and has clearly defined its ambition to become a member of NATO. This orientation of Slovakia towards membership in integration groupings has partially renewed investor confidence and is reflected in an improved rating of the country's prospects. Although as a result of a wide coalition spectrum reforms have advanced at a slower pace than expected, the economic development decidedly took the right course.

## **Gross Domestic Product**

■ In 1999, real GDP rose by 1.9 %. The decelerated growth was mainly caused by a lower generation of capital goods, which dropped by 18.2 %. Real household consumption went up 0.5 %. The decline in domestic demand was partially compensated for by the favourable development of foreign trade. On the supply side especially notable was the decline in construction and industrial output. The share of the private sector in the GDP generation reached 84.3 %. It is important that despite the stabilisation measures the Slovak economy did not fall into a recession. In comparison with 1998 there was a shift in the structure of GDP. Economic growth was no longer driven unhealthily by domestic demand, and at the same time, foreign demand grew by over 8 %.

## **Inflation**

■ The annual inflation rate (as measured by the consumer price index) for 1999 averaged 10.6 %. The level of prices in December 1999 was 14.2 % higher than in December 1998. This growth in the inflation rate was brought about by measures taken by the government, particularly the much delayed deregulation, the introduction of import surcharges and an increase in the VAT rate. In December 1999, the level of prices of industrial products rose by 3.8 % on a year-on-year basis, but agricultural prices were on average continuously falling compared to the previous year.

## **Balance of Trade**

■ The reformist action taken by the government also significantly influenced the development of foreign trade. In 1999, exports grew 11.8 %, with the import growth rate dropping to 1.6 %. The balance of trade deficit dropped to SKK 45.7 billion, which means that the government managed to meet its goal of reducing the foreign trade deficit by half. The level of exports was affected by the boom in EU countries, to which as much as 60 % of Slovakia's exports were directed (the figure for 1998 being 56 %). In terms of the commodity structure, the increased exports of higher added value products was a very positive achievement. The decelerated growth of imports was caused by both declining domestic demand and the reintroduction of import surcharges in July. The fact that over the course of the reform period the Slovak economy did not fall into recession - as did for example the Czech Republic - is attributable mainly to the favourable development of foreign trade.

## **Unemployment**

■ Economic restructuring proceeded hand in hand with a temporary growth in unemployment. In 1999, the registered unemployment rate exceeded 19 %. This, however, did not reflect the real status, as the rate of unemployment as measured by a labour force sample survey stood at only 16.2 %. This implies that the number of those registered as unemployed at labour offices is at least 3 % greater than in reality. Of all sectors of the economy, the number of employed grew only in the sectors of education and in the category trade, hotels and restaurants.



## SELECTED MACROECONOMIC INDICATORS FOR THE SLOVAK REPUBLIC IN 1998 – 1999

		1998	1999
GDP at constant prices	SKK bn	612.7	624.5
GDP at current prices	SKK bn	717.4	779.3
Imports	SKK bn	460.7	468.0
Exports	SKK bn	377.8	422.3
Inflation (yearly average)	%	6.7	10.6
Registered unemployment rate	%	16.4	19.2
Average nominal wage	SKK	10,003	10,782
NBS foreign exchange reserves	USD bn	2.9	3.4
Total gross foreign debt	USD bn	11.8	10.5
State budget deficit	SKK bn	-19.2	-14.7





*Imrich Weiner – Král: SACRE COEUR*



## DEVELOPMENT OF THE KORUNA INTERBANK MARKET OVER THE YEAR 1999

■ The situation in interbank market was less than simple at the beginning of 1999. The National Bank of Slovakia (NBS) was adopting its fundamental document on monetary policy, i.e. the Monetary Programme for 1999, in a situation where there was only a provisional budget, and this partly delayed the effect of some procedures till 1 April 1999. As a result of the package of economic measures, adopted by the government of the SR in order to stabilise the fiscal and monetary position of the country, which on 19 June led the NBS to specify the details of its monetary programme, the 1999 year was essentially divided into two stages of equal length. In the second half of the year, market participants had to face extremely challenging tasks, such as price stabilisation and transition to the year 2000.

■ As regards interest rates, the first two months of 1999 were characterised by an even yield curve. The interest rate fluctuated around 17 to 18 %. Only interest rates on deposits with the shortest maturity fell outside this range. These deposits exhibited marked volatility, especially with deadlines approaching for meeting the required minimum reserves - at which time interest rates almost approached zero.

■ A more significant decline in interest rates in March was brought about by a change in the attitude of the Ministry of Finance of the SR (MF SR). A zero volume of government bonds, accepted for trading in the first March auction, together with a low volume of Treasury bills (T-bills) accentuated surplus liquidity in the banking sector. Banks responded appropriately, lowering the rate of interest on interbank deposits. The Ministry of Finance by publishing maximum volumes and fixed prices for such issues starting from mid-March gave rise to a decline in the yields required by investors. This concurrently led to a decreased value of money at longer maturities, where the interest rate at 6 months' maturity reached the level of 15 %. After four years, the MF SR managed to issue three-year government bonds in the volume of SKK 3.37 billion, with a yield averaging 16.79 %.

■ As from 1 April 1999, the prescribed RMR rate was reduced from 9 to 8 %, which also showed in the lower absolute amount of funds deposited by commercial banks with the NBS. The reduction amounted to about SKK 3 billion. A new method for calculating the required minimum reserves had an adverse effect, as deposits of foreign banks accepted by resident banks were included in the RMR calculation base. Thus banks, holding a part of the RMR in SKK, with counter entries represented by foreign exchange liabilities, had to bear exchange rate risks.

■ Long delays in the introduction of measures by the Slovak government in its drive to achieve economic stability resulted in sudden turbulence in the money and foreign exchange markets in the second half of May. Despite the proclaimed goal in monetary policy of maintaining currency stability by achieving an adequately low inflation rate, the course of action taken by the NBS in this period was a reflection of the recognition of presumption that any efforts to concurrently meet external and internal objectives (i.e. the level of exchange rate and prices) would inevitably fail. The development of public finances together with a short-lived uncertainty about the outcome of the Presidential election translated into a rapid decrease in the exchange rate of the koruna. Despite the NBS interventions, the koruna devalued to as low as SKK 48.3 against the euro. In an effort to stabilise the exchange rate, the NBS limited the supply of liquidity to the banking sector, which showed in a rapid growth of the prices of deposits. It was the money market that fell victim again. For the first time since the fluctuation band for the koruna was cancelled in October 1998, the NBS did not fix the reference interest rate BRIBOR for the period of 4 working days (from 19 to 25 May 1999). During the course of this period, interest rates on funds with shorter maturities were in excess of 50 %. A decisive role in reversing the adverse development in the money market was played by the NBS. Were it not for its active involvement, any restoration would not have been realised. During the course of June,



the NBS made regular refinancing interventions on biweekly bases. Interest rates over this period fluctuated within the range of 16 to 17 % across the whole yield curve. On 9 June 1999, the MF SR managed to issue five-year government bonds in foreign markets, which for the first time were denominated in euros. The initial issue amount of EUR 350 million was later extended by two tranches of EUR 50 and 100 million, thus raising the issue of eurobonds to the final EUR 500 million. The interest rate ranged between 4.15 and 4.44 % above the base rates for German government securities Bunds. Yields gained from the eurobond issue helped to bridge the expected sudden demand for refinancing the state budget deficit and government debt. Due to the adjustment of interest rates in the summer months, brought about by a marked surplus of liquidity in the market, the rates accepted in auctions for government bonds were squeezed below 16 % on average. Contrary to the previous years, such rates were fully in line with the prices quoted in the interbank market.

■ Towards the end of 1999, high volatility in prices for maturities up to one month occurred due to the specific behaviour of different groups of banks. The tense situation in the market was also partly caused by the NBS wrongly assessing the situation prior to the start of the last RMR period. Financial institutions were not willing to sell the amount of funding demanded by the market. A considerable imbalance regarding the distribution of liquidity within the banking sector, with a substantial proportion of resources being concentrated in one of the largest Slovak banks, led to a growth in the interest rates on deposits with maturities up to one month by as much as 20 %. The situation was stabilised only after refinancing interventions by the NBS and after sufficient amounts of surplus resources had accumulated in the sector.

## DEVELOPMENT OF THE INTERBANK FOREIGN EXCHANGE MARKET OVER THE YEAR 1999

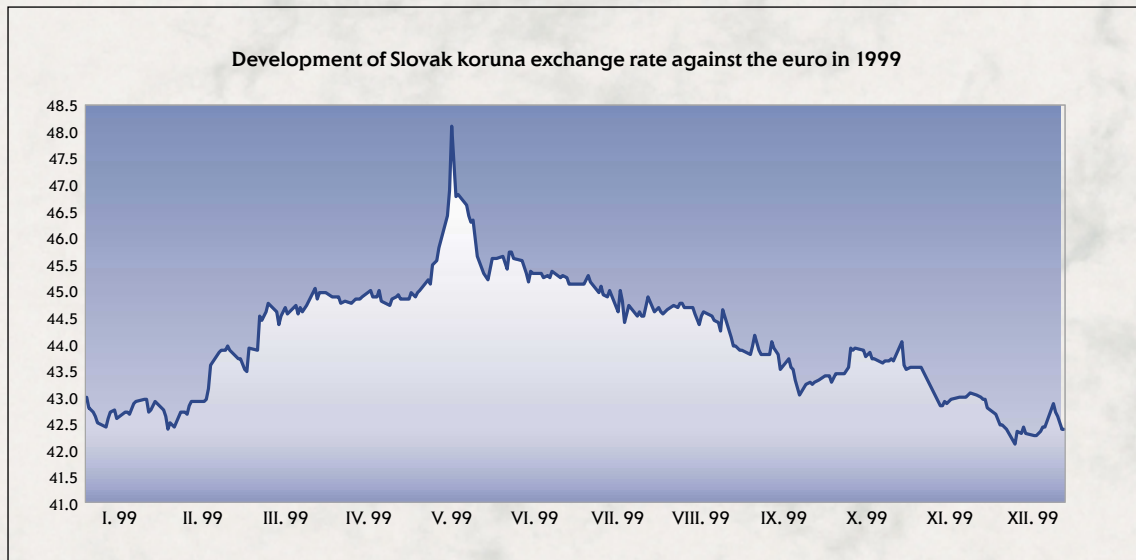
■ During the course of the past year, the Slovak koruna experienced marked fluctuations on the foreign exchange market. The cause of these movements were both domestic and external factors. The beginning of 1999 was marked by a general weakening of exchange rates of the currencies of emerging markets all over the world. The subsiding Russian crisis and the economic problems of countries of South America added to a generally larger distrust of investors towards investment in the emerging economies of Central Europe. The instability was also significantly aggravated by the Kosovo conflict. During the course of the first quarter, the Slovak koruna weakened considerably. This was also tied up with the growth of the American dollar in the global foreign exchange market. The strengthening of the dollar against the euro by 15 %, which was indicative of the strength of the expanding American economy, also caused a 15 % rise in the dollar exchange rate against the koruna.

■ The failure to elect a head of the state in the first round of the Presidential election, along with a deterioration in macroeconomic indicators, resulted in the May crisis in the domestic foreign exchange and money markets. It was mainly foreign investors, who took advantage of the high exchange rate and high interest rates to engage in short-term speculations. It was exactly between the first and second rounds of the Presidential election in May 1999, when the koruna recorded its lowest value. The exchange rate of 48.2 SKK/1 EUR and 45.2 SKK/1 USD implied an index of the koruna of 1.31, which meant a 31 % depreciation compared to the former midrate within the



fluctuation band. Thanks to a President being elected in the second round of the election and in particular thanks to the adoption of measures to stabilise the economy, the situation gradually calmed down and the koruna revalued.

■ The still high demand of the state for funds earmarked for the repayment of obligations of the previous government and the deregulation of prices in the summer of 1999 limited the possibilities of a lowering of interest rates in the interbank market. An increased demand by foreign banks for investments in Slovak crowns led to a permanent decrease in interest rates and an increased value of the crown in the foreign exchange market. A similar situation also occurred in the neighbouring countries of Central Europe. Investment increased after the end of the conflict in the former Yugoslavia, affecting the value of currencies in this region. The Czech koruna, the Polish zloty, along with the Slovak koruna all strengthened significantly. This happened despite the fact that - apart from the growth of the balance of trade deficit being slowed down - no significant improvement in terms of macroeconomic indicators was noted in the neighbouring countries. In September the



Slovak currency reached its strongest position in the second half of the year, with a value of 43.0 SKK/1 EUR. Due to further strengthening of the dollar in the world foreign exchange market, the exchange rate for the American dollar did not record such a marked decline, and it did not fall below the level of 40.2 SKK/1 USD. Also, Slovakia's rating was changed in this period - from a negative one, which Slovakia received under the previous government, to one recording stable prospects. This was assisted by positive signals from Europe and improved political stability, which overrode negative trends such as the growth in unemployment, the decline in construction output, and suchlike. The Slovak koruna was further gaining in strength. The level of capital expenditure was limited by the problem of the year 2000, over which time many banks postponed their capital projects until the following year.

■ The reclassification of Slovakia to the first group of candidate countries trying to gain accession to the EU at the Helsinki summit gave rise to a further wave of purchases of the Slovak koruna. The NBS therefore intervened for the first time directly in the foreign exchange market to bring the value of the koruna to 42.15 SKK/1 EUR. This was the greatest value the koruna attained over the course of the whole of 1999. Statements of NBS representatives indicated that an exchange rate below the level of 42.3 SKK /1 EUR was undesirable.



# *Top Management of Slovenská sporiteľňa, a. s.*



## BOARD OF DIRECTORS

Dušan JURČÁK  
Chairman of the Board,  
President

Zdena GACÍKOVÁ  
Director,  
Vice-President

Štefan MÁJ  
Vice-Chairman of the Board,  
First Vice-President

Peter KRUTIL  
Director,  
Vice-President

Károly HODOSSY  
Director,  
Vice-President

## **SUPERVISORY BOARD**

Ladislav SKLENÁR (until 7 Dec. 1999)

Zsolt NYITRAI (from 7 Dec. 1999)

Peter HUŇOR

Zoltán HÁJOS

Jozef MEDVEĎ

Juraj RENČKO

Vladimír STANOVIČ

Margita CSILLAGOVÁ (until 4 Oct. 1999)

Lýdia ŠKUBÁKOVÁ (until 4 Oct. 1999)

Marián VALKO (until 4 Oct. 1999)

Renáta HITTEROVÁ (from 4 Oct. 1999)

Eugen JURZYCA (from 4 Oct. 1999)

Ľubica STRNÁDOVÁ (from 4 Oct. 1999)



*Report by the Management of Slovenská sporiteľňa, a. s.***1. COMMERCIAL BANKING****1.1. PERSONAL SECTOR****1.1.1. DEPOSITS**

■ The downward trend in koruna deposits held by the personal sector continued also in 1999. However, the measures taken in order to stabilise deposits yielded several positive results. The decline in the amount of deposits was substantially minimised and amounted to only 1.5 %.

■ Traditionally, the greatest proportion of koruna deposits is held in passbook accounts with a notice period. More than 49 % of our customers' funds were deposited in such passbook accounts. Their proportion was gradually declining, to the benefit of a new product, the Capital Passbook. More than SKK 23 billion was concentrated in term deposits available under this new product. The stabilization of deposits was also facilitated by the introduction of another new product - namely Trio Saving, a combination of a passbook and an insurance policy. Despite the fact that a decline of the funds deposited in demand passbooks was recorded also in 1999, there was a tendency for a smooth transfer of these funds to new products.

■ The development of giro accounts in 1999 can also be characterized as stable, with an increasing number of accounts and deposited amounts. As at 31 December 1999, Slovenská sporiteľňa, a. s. maintained more than 820,000 of these accounts. Almost 94,000 new giro accounts were opened. The amount of deposits rose by more than SKK 200 million compared to 1998. Giro accounts are now one of the most heavily used products - ranked by the range of services provided and the number of transactions executed. In 1999, more than 156 million accounting transactions were executed via giro accounts, which is almost 190 accounting transactions per account per annum. As at 31 December 1999 Slovenská sporiteľňa, a. s. maintained more than 66,000 term deposit accounts, with an average balance of more than SKK 120,000. Customers had the option of depositing their funds in term deposits with an early withdrawal and maturities of 3, 6, 12 and 24 months or in term deposits without an early withdrawal and maturities of 7, 30 and 90 days or 6, 12 and 24 months.

■ In September 1999, a new product called Rental Saving was put into use. It is an account, which is managed in two phases: the stage of saving and the stage of rent payments. At its termination, the customer is in addition paid a one-off saved amount. Customers have the option of choosing from among a combination of a three-year saving cycle and rent payment, or five years of saving and five years of rent payment. The number of accounts maintained in this product had a constantly growing trend.

■ 1999 was very successful year for Slovenská sporiteľňa, a. s. also regarding payment cards. The greatest change occurred due to the introduction of chip technology employed in Maestro cards. Slovenská sporiteľňa, a. s. was the first bank in the region of Central and Eastern Europe to launch debit and credit chip cards in which the EMV standard is applied. The project was carried out in co-operation with the companies Europay International and BULL. On 10 June 1999, the first international transaction in the world using a chip was conducted via an EFT/POS terminal of Slovenská sporiteľňa, a. s. A Eurocard/Mastercard card issued by Barclays Bank was used to make the payment. In this way, the interoperability of the system was verified and course to be followed by all card issuers in the future was set.

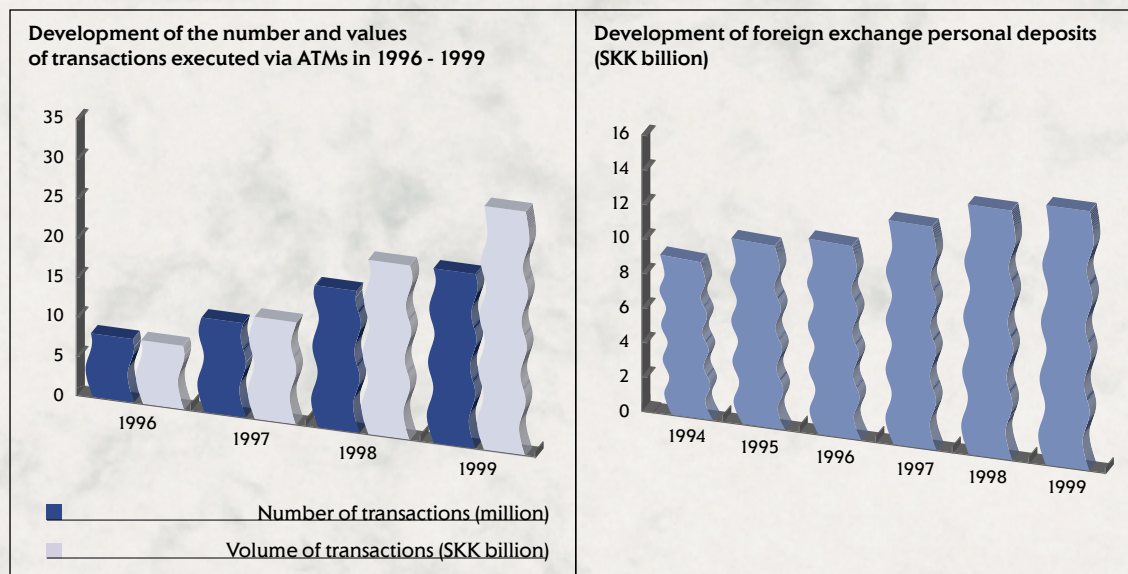
■ During the course of 1999, Maestro Business cards started to be issued to legal entities. This created room for extended use of easily accessible and at the same time safe cards by legal entities. Such cards are issued directly together with a legal entity's current account.



■ A breakthrough project, which started to be implemented in November 1999, was the issuing of the first co-branded card in Slovakia. This club card, Škoda Card, carries the logos of Slovenská sporiteľňa, a. s. and the Škoda Auto Slovensko car company. A holder of this card will get a more advantageous loan or better leasing terms and conditions when purchasing a car, and a number of other benefits in the form of discounts provided on refueling, motor car insurance, lower prices charged on services provided by service stations and for tyres purchased.

■ In 1999, Slovenská sporiteľňa, a. s. strengthened its position in the Slovak market in payment cards. The overall number of cards issued over 1999 grew by almost 13 % on the previous year. The proportion of giro account holders, to whom payment cards are issued as well, is near 85 %. The market share of Slovenská sporiteľňa, a. s., in terms of the total number of cards issued in Slovakia, reached almost 49 %. Customers could use their cards over the network of 356 ATMs, thus representing more than a one third share of the total number of ATMs in Slovakia. The same share Slovenská sporiteľňa, a. s. held in the installation of EFT/POS terminals with merchants. In 1999 their network was extended by more than 64 %. Customers could execute their cashless transactions through the total number of 1 390 EFT/POS terminals. This trend is supported by an almost two-fold Y-o-Y increase of the share of cashless transactions in the total number of transactions, i. e. from 4.4 % in 1998 to 7.2 % in 1999.

■ Steady growth was recorded of deposits made in foreign currencies by retail (individual) customers. They comprised deposits made in foreign exchange passbooks, foreign exchange accounts and foreign exchange term deposits. An important step concerning the range of products in freely convertible currencies offered was taken by Slovenská sporiteľňa, a. s. in its introduction of a comprehensive product line in euro, the new European currency, observing international standards for translating the euro currency to the EMU currencies. Customers whose accounts are held in EMU currencies automatically have the option of trouble-free transfer of their account to the





euro currency, while maintaining the consistency of electronic funds transfer to foreign countries. The interest customers have in the euro currency is documented by a steady growth in the number of such accounts, of which Slovenská sporiteľňa, a. s. managed more than 4,700 as at 31 December 1999.

■ The amount of foreign exchange funds managed on behalf of retail customers grew by almost 5 % year on year. During the course of 1999, interest in foreign exchange passbooks and management of term deposits (which has become common) increased. In October 1999 Slovenská sporiteľňa, a. s. extended the range of foreign exchange term deposits offered by introducing Tercia and Sexta term deposits without an early withdrawal facility. More than 6,000 customers showed interest in these products.

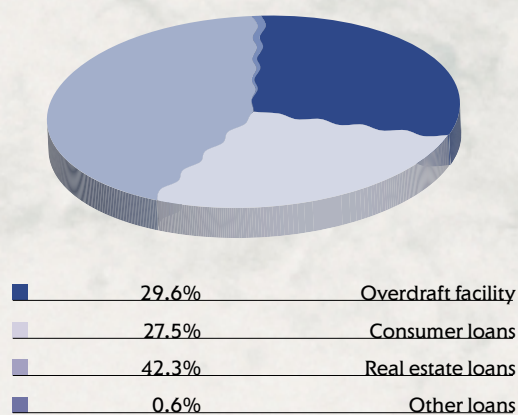
■ Liberalization of foreign exchange legislation has made it possible to reduce the amount and number of foreign exchange transactions conducted in cash. Customers made more extensive use of the option of cash-free purchases of foreign currencies, as well as cash-free payments made abroad, using payment cards. Slovenská sporiteľňa, a. s. recorded growing demand for travellers' cheques in foreign currencies. This was facilitated by the extended offer of travellers' euro cheques of different denominations.

### 1.1.2. LOANS

■ Slovenská sporiteľňa, a. s. has a long tradition of making loans to the personal sector. The bank provides three main types of credit: overdrafts, consumer credit and real estate credit. The share of Slovenská sporiteľňa, a. s. in loans provided to the personal sector in the Slovak Republic is 35.5 %.

■ Besides commercial loans, Slovenská sporiteľňa, a. s. had a considerable volume of so-called social borrowing, granted in the pre-1990 period at a preferential interest rate of up to 3 % p.a., in its portfolio. With a view to accelerating the repayment of such loans, Slovenská sporiteľňa, a. s. at the close of 1999 launched a scheme, under which it offered to release from part of the debt those

Structure of personal loans lent  
as at 31 December 1999





customers who settle the outstanding balance in one lump sum payment. This scheme contributed to a decrease of SKK 535 million in the total volume of such loans.

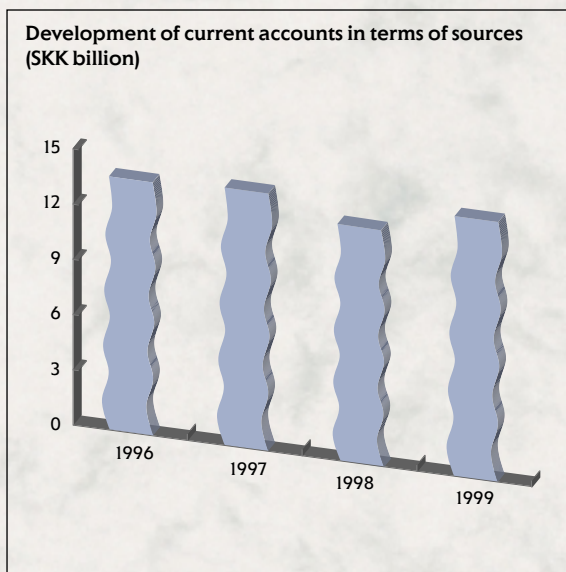
### 1.1.3. MORTGAGE LOANS

■ Slovenská sporiteľňa, a. s. is one of the first banks in Slovakia to have been granted a license by the NBS for providing mortgage loans to the personal sector. Since 1 July 1999 Slovenská sporiteľňa, a. s. started to provide this new type of loan intended for the purchase, construction, or changes to completed structures and the maintenance of real estate within Slovakia and have a range of maturity of not less than 5 and no more than 30 years. A customer may use the funds gained under the mortgage loan for both residential and non-residential purposes on the condition that these are not related to business activity. In 1999, Slovenská sporiteľňa, a. s. provided mortgage loans at an interest rate of 13.25 %. All applicants for mortgage loans, eligible under the Amendment to the Act on Banks of 11 October 1999, can receive a reduction to this commercial rate as the government guaranteed a subsidy of 6 % on loans made in 1999, which will apply over the whole life of the loan. The loans made in 1999 were mainly for purchasing an apartment or family house. The amount lent was on average SKK 650 thousand, with an average maturity of 15 years.

## 1. 2. ENTREPRENEURIAL SECTOR

### 1.2.1. DEPOSITS

■ There was a wide fluctuation in current account balances, which is characteristic of this type of products. These balances were mainly influenced by the state of business and its financial position to date and an effort to place temporarily free funds in the more advantageous form of term deposits, which a customer normally uses to operate his business when such deposits fall due. In creating offers





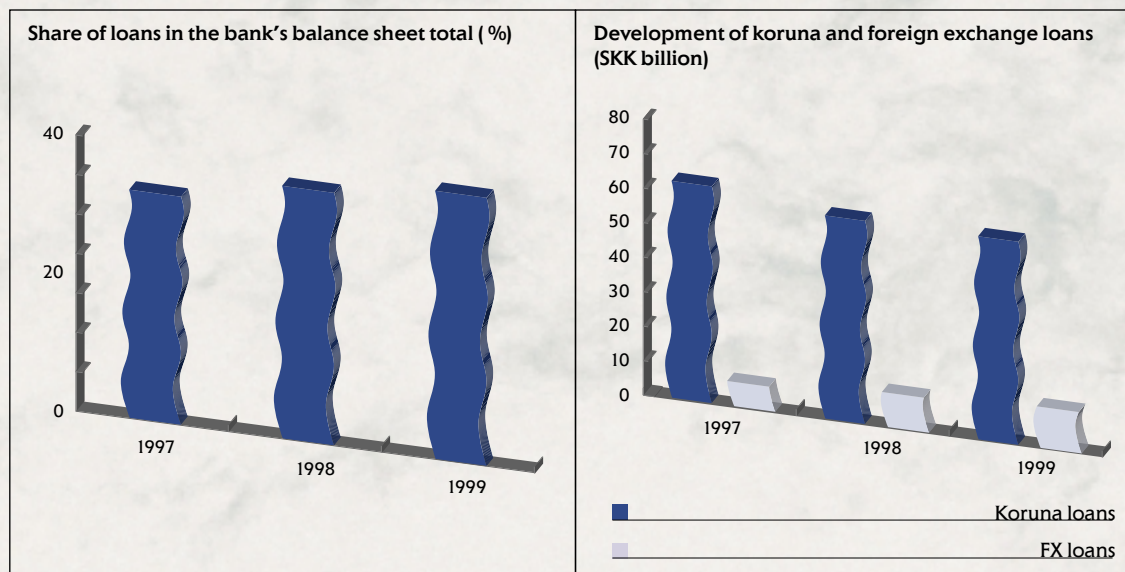
from the range of products these customers' more demanding requirements were also taken into account by the offer of individual terms and conditions. This was favourably reflected in the amount of funds retained. By 31 December 1999, 24 % growth in current accounts had been recorded compared with 1998.

■ In 1999, the range of foreign exchange products offered to businesses was dominated by foreign exchange accounts. Business persons trading with entities in foreign countries, in particular with the EMU countries, started to use the benefits associated with the maintenance of their accounts in euro. The simple maintenance of such an account and transactions in the 11 EMU currencies and in euro, with the application of internationally determined translation coefficients, together with a swift execution of payments, led to increasing confidence on the part of business persons. The popularity of foreign exchange accounts for businesses was ameliorated by the option of holding term deposits with differing maturities. Foreign exchange liabilities of businesses rose almost 40 % on the figure for 1998.

■ Regarding foreign exchange services, businesses were showing increasing interest in purchasing foreign exchange through Slovenská sporiteľňa, a. s. Also there was increasing demand for travellers' cheques in foreign currencies to be used for business trip purposes by the employees of these businesses. Foreign currencies also continued to be purchased from business entities. In one segment only - namely travel agencies and exchange offices - did such purchases reach the value of SKK 1.33 billion.

## 1. 2. 2. LOANS

■ At the turn of 1999, the status and composition of the loan portfolio was significantly influenced by two main factors. The first was that Slovenská sporiteľňa, a. s. underwent principal restructuring of its loan portfolio initiated by the government. It's high risky loan portfolio with a value of SKK 22.8 billion was transferred partly to Konsolidačná Banka, š.p.ú. and partly to Slovenská Konsolidačná, a. s. This step substantially raised the quality of the bank's loan portfolio.





The second important factor was the purchase of Priemyselná Banka, a. s., Košice, and the inclusion of its loan portfolio. After taking these steps, the structure of the loan portfolio, taken as a whole, was improved compared to its initial status.

■ By the end of 1999, the value of loans amounted to SKK 58.2 billion, which accounted for 33.7 % of the bank's balance sheet position. The balance of loans increased over time, with growth being 6.5 %. The share of loans in the balance sheet rose by 1.3 points year on year.

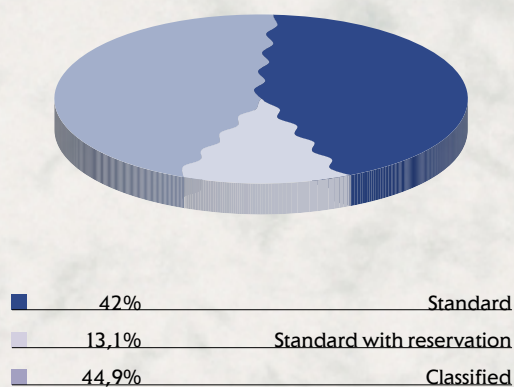
■ The largest share of the loan portfolio of Slovenská sporiteľňa, a. s., i.e. SKK 50.4 billion, was used to further business plans. The loans made to Konsolidačná banka, š.p.ú. Bratislava, provided funding to support restructuring and helped to improve the structure of loans guaranteed by the government.

■ Loans made by Slovenská sporiteľňa, a. s. to further business activities abroad totalled SKK 2.7 billion.

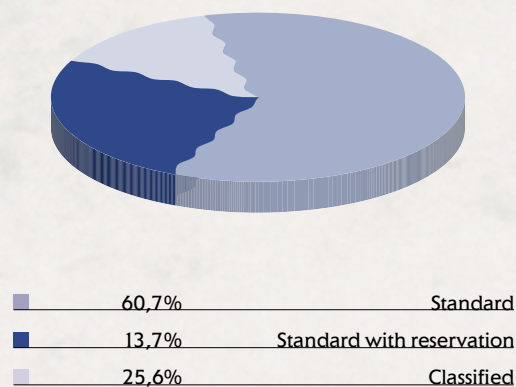
■ Funds obtained through the repayment of koruna loans were to a greater extent used to further export activities via the provision of short-term foreign exchange loans. Their total amount rose by 13.8 % over the course of the last year.

Type of loans	Opening balance as at 1 Jan. 1999	As at 31 Dec. 1999	Change
Standard loans	16,445,744	32,899,626	16,453,882
Standard loans with reservation	8,849,282	9,455,059	605,777
Classified loans	29,376,910	15,847,788	-13,529,122
<b>Total loans</b>	<b>54,671,936</b>	<b>58,202,473</b>	<b>3,530,537</b>

Quality of loan portfolio of Slovenská sporiteľňa, a. s. prior to restructuring



Quality of loan portfolio of Slovenská sporiteľňa, a. s. following restructuring



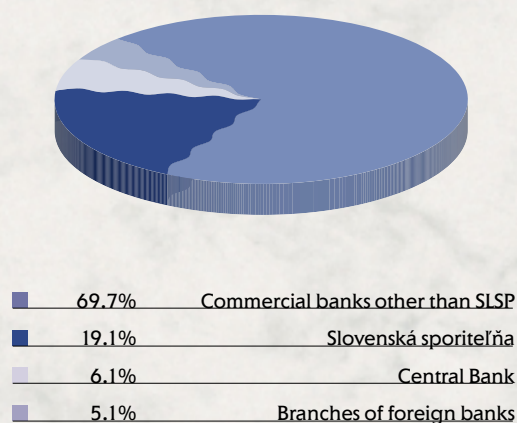


## 2. PAYMENTS

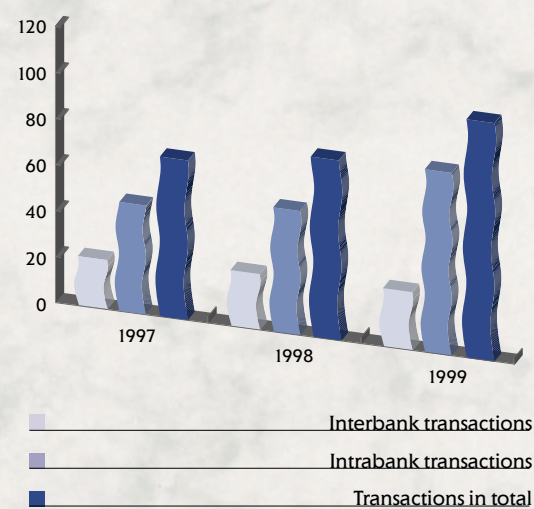
### DOMESTIC PAYMENTS

- Compared to 1998, Slovenská sporiteľňa, a. s. recorded an increase of 4.8 % in the number of transactions processed in 1999. Overall, 25,079,870 transactions were processed via BZCS, a. s., which means a 19.1 % share in the total number of BZCS transactions processed.
- In 1999, a total of 104,013,220 electronic fund transfers were processed by the computer centre of Slovenská sporiteľňa, a. s. Interbank payments accounted for 24 % of the total number of transactions processed.

Percentage share of Slovenská sporiteľňa, a. s. in BZCS transactions in 1999



Overview of volume of executed transaction (SKK mil.)



- 14,336,643 of interbank transactions processed in 1999 were initiated by Slovenská sporiteľňa, a. s. Compared to 1998, the number of these transactions processed grew by 4 % in 1999.
- In 1999, the number of incoming transactions from other financial institutions and the volume of payments processed to the credit of our customers grew by 6 % compared with 1998.
- 78,933,350 intrabank payment transactions were processed in 1999. Their number increased by 46 % compared with 1998. This was significantly influenced by the changed system for processing compatible media.

### 2. 2. INTERNATIONAL PAYMENTS

- In 1999, Slovenská sporiteľňa, a. s. executed foreign payments for its customers via 33 nostro accounts. All payments vis-à-vis the EMU countries were executed exclusively in the single currency euro, to which were tailored also the software applications of the SWIFT system.
- The volume of movements resulting from customer and dealer operations via nostro accounts fell to 41.3 % compared to 1998 and the number of transactions dropped to 86.6 %. This decline was due to a lower trading activity in the financial market. Taken as a whole, 57 % of transactions were executed in USD, 14.5 % in EUR, 9 % in GBP and 8.5 % in CZK.
- The volume of international collections was 19.1 % higher than the volume of outgoing international payments. Thus customers of Slovenská sporiteľňa, a. s. have maintained pro-export orientation also in 1999.



■ More than 96 % of foreign payments were executed via clean payments. Only 4 % were executed via documentary transactions.

■ In the field of trade financing, Slovenská sporiteľňa, a. s. recorded 24 % growth in documentary letters of credit, with a concurrent 40 % decline in documentary collection. Export was mainly directed towards the EU countries (mostly to Italy and Germany), Czech Republic and Macedonia. Among the most traded commodities were machinery, steel products, heat-resistant materials, wood and textiles. The greatest volumes were imported from the Czech Republic, the EU countries, China and Hong Kong.

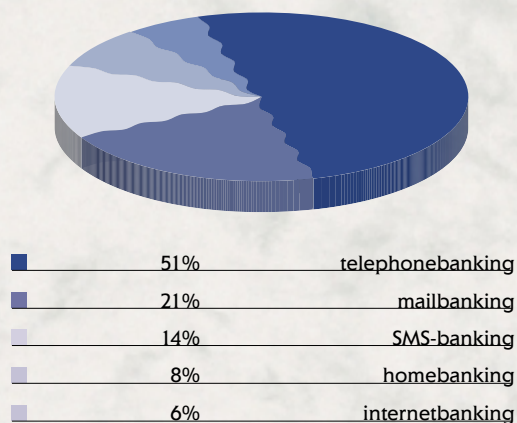
■ The number of loro accounts maintained in Slovenská sporiteľňa, a. s. in 1999 stood at 129. A total of 53 domestic and foreign correspondent banks have opened loro accounts there. Domestic banks mostly used their accounts for cash transactions involving notes denominated in freely convertible currencies and SKK via the branch network of Slovenská sporiteľňa, a. s. Foreign banks used their accounts mainly to carry out trading in the money and foreign exchange interbank markets.

## 2. 3. ELECTRONIC BANKING

■ Banking nowadays is characterized by the global trend of the increasingly massive introduction of modern banking technologies. These are a prerequisite for increasing the efficiency of banking transactions. Following these trends, Slovenská sporiteľňa, a. s. offers its customers the possibility of distance management of their accounts using a comprehensive package of electronic banking services, from which each customer may choose those that best suit his needs.

■ The use of electronic banking services is constantly increasing. The promising future of these services is documented by the fact that each month the number of customers using the telephone-banking service, internetbanking, mailbanking and SMS-banking is increasing by almost 20 % on average. The number of customers, in particular businesses using the homebanking service, grew by 83.6 % compared to the year 1998.

Structure of electronic banking services utilised in 1999





### 3. INVESTMENT BANKING

■ In 1999, the focus of the investment banking section was on trading in securities for own account of Slovenská sporiteľňa, a. s. Trading was in both Slovak and foreign primary and secondary securities markets. Slovenská sporiteľňa, a. s. carried out such activities as dealing on behalf of customers in the primary and secondary securities markets, placement of primary issues of securities, exercise of mortgage debenture rights, paying off yields from bond issues. Staff of the investment banking section provided financial consultancy and prepared regular publications giving analysis of the Slovak economy and of various companies.

■ The investment banking section, operating in the capital market, was forced to downscale its activity related to bond issues and meet the financial requirements of its customers through commercial paper schemes. These schemes totalled SKK 14.3 billion in 1999. As at 31 December 1999, the balance of commercial paper issues in the bank's portfolio amounted to SKK 4.35 billion. In 1999, the volume of trading in the primary government bond market carried out by brokers employed in the investment banking section amounted to SKK 14.371 billion, which represents 23.5 % of the total amount of issued bonds.

■ As regards the secondary market, Slovenská sporiteľňa, a. s. was one of the most active members of Burza Cenných Papierov Bratislava (the Bratislava Stock Exchange, BCPB), with its share of the total turnover being 12.9 %.

■ One of special services provided by this section was the exercise of mortgage debenture rights on securities in the name of Slovenská sporiteľňa, a. s. and on behalf of the customer.

Share of Slovenská sporiteľňa, a. s. in the total turnover of BCPB in 1999 (in %)

Price-setting contracts		Direct deals		REPO operations	
Shares	Bonds	Shares	Bonds	Shares	Bonds
0.6	1.2	7.5	15.9	0	2.2

### 4. STRATEGY AND MARKETING

■ Slovenská sporiteľňa, a. s. transacted business within the scope of a full banking license, with priority orientation on retail banking, i.e. accepting primary deposits, providing services to the personal sector and their subsequent investment in secure assets. In addition to its traditional customers, Slovenská sporiteľňa, a. s. aimed at widening its customer base in the segments of wealthy retail and wholesale customers. An organizational transition from product-oriented to customer-oriented bank was prepared in line with the given strategy of the bank.

■ A major determinant of the further development of Slovenská sporiteľňa, a. s. is the ongoing process of restructuring, recapitalisation and subsequent privatisation of the bank.

■ The main objective which Slovenská sporiteľňa, a. s. pursued in all of its marketing activities in 1999, was to satisfy the needs of customers to the greatest extent, sales support of existing and newly-introduced products and, last but not least, the creation of an image for the bank, which is



viewed by customers as a bank that although is traditional, is however able to adapt to new trends and technologies. Another objective pursued was to maintain a prominent position in the banking market. This was evident also from its marketing support for chip technology, electronic banking, mortgage loans, payment cards and other purpose oriented activities. Co-operation between Slovenská sporiteľňa, a. s. and strong partners such as Škoda Auto Slovensko, s. r. o. helped to raise the attractiveness of products and services offered, which as a result can be provided to our clients under more advantageous business terms.

## 5. HUMAN RESOURCES, ORGANIZATION AND INFORMATION TECHNOLOGY

■ In 1999, human resources management recorded a marked qualitative shift, which was due to the whole range of requirements related to restructuring, streamlining of the network of affiliate branches and preparation of changes in the organizational structure, improvement of the quality of services, raising motivation and increasing the effectiveness of the management of organizational units. Policy issues related to the further improvement of personnel management were addressed under the PHARE project in co-operation with experts from Lloyd's TSB. This co-operation had a positive impact on the preparation of strategy for Slovenská sporiteľňa, a. s. for the years 2000 to 2003.

■ As a part of its social welfare scheme, comprehensive preparatory work was undertaken to introduce into Slovenská sporiteľňa, a. s. a system of supplementary pension insurance.

■ The bank's position in the market and its prospects depend above all else on the quality of its human potential, systematic and comprehensive development of its employees. That is why Slovenská sporiteľňa, a. s. continuing in 1999 paid great attention to educating and training its employees. In its approach, mainly relying on in-house training, Slovenská sporiteľňa, a. s. incorporated the principles of life-long learning. Its essence is based on the recognition that the acquisition of knowledge in a rapidly changing professional environment cannot be concluded at one point in time. What this means for employees of Slovenská sporiteľňa, a. s. is that from the time of their recruitment they are engaged in a system of education and training under which their needs concerning their professional development are monitored and satisfied. In this way they are given the opportunity for long-term professional and personal growth, which is targeted at and individually tailored to their career and qualifications profile. Slovenská sporiteľňa, a. s. thus gets employees who are more confident in their positions at work and are able to flexibly handle the increasingly challenging requirements of banking practice. Another benefit derived from the implemented educational system is the motivation of people, who consider the investment the bank makes in their education as their own personal benefit. In this way, thanks to the human resources development, professional growth also contributes to an individual's personal growth.

■ In 1999, initial changes were introduced in the network of affiliate branches and restructuring of the current distribution network was commenced. All affiliate branches of Slovenská sporiteľňa, a. s. were assessed in terms of their cost effectiveness and sustainability. The whole process is scheduled for completion in the first half of 2001.



■ In 1999, like elsewhere in the world, one of the main tasks of the information technology division of Slovenská sporiteľňa, a. s. was to prepare the bank for a trouble-free transition to the year 2000. This meant that modules of the new information systems needed to be completed. After they were put in operation, the original information system was fully replaced. Thanks to this step, Slovenská sporiteľňa, a. s. was not forced any longer to invest in costly modifications of outdated technologies and all effort could be concentrated on a thorough verification of the proper functioning of the new information system at expected critical dates. At the same time, procedures to be followed in the event of the crisis scenario of the external power supply failing were prepared and tested. The concerted effort resulted in the information system of Slovenská sporiteľňa, a. s. having a smooth and problem free transition to the year 2000, with all banking services being fully provided. An important internal activity of the IT division, was, as part of the bank's restructuring program, to reorganize its own structure in line with well established trends in the optimum management of innovation, administration, operation and security of information systems. Keeping track of modern trends in banking and their subsequent application in the conditions of Slovenská sporiteľňa, a. s. and the development of all types of electronic banking formed an inseparable part of the division's activities.

## 6. SPONSORSHIP

■ Slovenská sporiteľňa, a. s. is aware of its important standing in the Slovak economy. At the same time it realizes that it must prove its strength also by its attitude towards those who are weaker and powerless. Sponsorship, as a form of manifesting such help thus became an inseparable part of the bank's day-to-day operation. In 1999, the bank focused its assistance on charity, healthcare, the schooling system and education, science, culture and sports. Among the most important projects which Slovenská sporiteľňa, a. s. supported in 1999 were:

- the Leukaemia Foundation oncological project promoting bone marrow transplantations;
- support lent to the Association for Helping the Children's Oncology;
- the project for preventing and early diagnosis of diabetes;
- out-of-school education and utilization of leisure time of young people promoted by the civic association KON-TIKI;
- the publication of a book on the history and services of the University Library celebrating the eightieth anniversary of its existence;
- the publication of a booklet on the occasion of the 75th Annual International Peace Marathon in Košice;
- support to physically handicapped sportsmen through the Handicapped sport club and support to wheelchair bound tennis players.



## 7. SUMMARY OF INTERESTS HELD BY SLOVENSKÁ SPORITELŇA, A. S. IN SELECTED COMPANIES

### AS OF 31 DECEMBER 1999

Name of company	Stake in the share capital (%)
Sporing, a. s.	100.00
Devín-Istria, d.o.o. Ičići	100.00
Univerzálna Banková Poistovňa, a. s.	46.40
Prvá Stavebná Sporiteľňa, a. s.	35.00
Slovenská Konsolidačná, a. s.	19.00
Bankové Zúčtovacie Centrum Slovenska, a. s.	13.49
Burza Cenných Papierov Bratislava, a. s.	10.98
Sporofin, a. s.	10.00



**8. NETWORK OF BRANCHES OF SLOVENSKÁ SPORITELŇA, A. S.**

Branch	Address	Number of affiliates
<b>Regional branch Bratislava</b>	<b>Námestie SNP 18</b>	<b>33</b>
City branch Pezinok	Šancova č. 2	20
<b>Regional branch Trnava</b>	<b>Hlavná 28</b>	<b>19</b>
City branch Dunajská Streda	Hlavná 23	17
City branch Galanta	Hlavná 38, Šaľa	25
City branch Senica	Štefánikova 1408/58	17
<b>Regional branch Trenčín</b>	<b>Nám. Svätej Anny 3148</b>	<b>19</b>
City branch Považská Bystrica	Námestie A. Hlinku 26	9
City branch Prievidza	Námestie slobody 12	8
<b>Regional branch Nitra</b>	<b>Farská 48</b>	<b>32</b>
City branch Komárno	Palatinova 33	30
City branch Levice	Mlynská 6	33
City branch Nové Zámky	Ernestova bašta 2	40
City branch Topoľčany	Stummerova 6	18
<b>Regional branch Banská Bystrica</b>	<b>Ul. 29. augusta č. 34</b>	<b>15</b>
City branch Lučenec	Novohradská 8	19
City branch Rimavská Sobota	Francisciho 3	11
City branch Veľký Krtíš	SNP 39	19
City branch Zvolen	Námestie SNP 6/88	17
City branch Žiar nad Hronom	Námestie Matice slovenskej 19	23
<b>Regional branch Žilina</b>	<b>Námestie Ľ. Štúra č. 3</b>	<b>10</b>
City branch Čadca	Palárikova 24	9
City branch Dolný Kubín	Hviezdoslavovo nám. č. 39	14
City branch Liptovský Mikuláš	Štúrova 1	15
City branch Martin	Osloboditeľov 9	12
<b>Regional branch Prešov</b>	<b>Masarykova 10</b>	<b>11</b>
City branch Bardejov	Partizánska ulica 2850	7
City branch Humenné	Námestie slobody 13/25	9
City branch Poprad	Štefánikova 15	15
City branch Stará Ľubovňa	Levočská 7	3
City branch Svidník	Centrálna 812/13	2
City branch Vranov nad Topľou	Námestie slobody 998	4
<b>Regional branch Košice</b>	<b>Štúrova 5</b>	<b>28</b>
City branch Košice	Štúrova 27	0
City branch Michalovce	Námestie slobody 15	11
City branch Rožňava	Šafárikova 22	8
City branch Spišská Nová Ves	Štefánikovo nám. č. 3	16
City branch Trebišov	Štefánikova 1755	10





*Imrich Weiner – Kráľ: BOSMANY*





*Imrich Weiner-Kráľ: A SELF-PORTRAIT*



*Independent Auditors' Report  
and the Financial Statements*









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## Independent Auditors' Report

### To the Shareholders of Slovenská sporiteľňa, a.s.

We have audited the accompanying balance sheet of Slovenská sporiteľňa, a.s. ("the Bank") as at 31 December 1999, the related profit and loss account, statement of changes in shareholders' equity and cash flow statement for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended 31 December 1998 were audited by another auditor, whose report, dated 15 May 1999, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Slovenská sporiteľňa, a.s. at 31 December 1999, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended in accordance with International Accounting Standards.

*KPMG*

Bratislava  
12 May 2000



KPMG Slovensko spol. s r. o., a company  
incorporated under the Slovak Commercial Code, is  
a member of KPMG International, a Swiss association.



## BALANCE SHEET

### YEAR ENDED 31 DECEMBER 1999

	Notes	1999 SKK '000	1998 SKK '000
<b>Assets</b>			
Cash and balances at the Central Bank	3	14,438,094	13,178,067
Treasury bills and other similar bills	4	3,799,366	9,585,158
Loans and advances to banks	5	38,548,832	31,590,071
Loans and advances to customers	6	57,073,804	48,772,000
Debt securities	8	34,284,985	35,774,412
Shares in subsidiary undertakings	9	191,720	484,817
Shares in associated undertakings	10	861,741	771,211
Equity shares	11	768,097	1,357,244
Tangible fixed assets	12	8,612,486	8,549,404
Intangible fixed assets	13	745,506	833,825
Other assets	14	5,371,952	1,123,495
Prepayments and accrued income		3,635,593	3,140,031
<b>Liabilities</b>		<b>168,332,176</b>	<b>155,159,735</b>
Deposits by banks	15	8,524,948	4,740,959
Customer accounts	16	144,174,195	141,923,620
Provisions for off balance sheet and other risks	21	1,197,696	-
Other liabilities	17	3,152,482	2,476,528
Accruals and deferred income		1,702,512	1,237,370
		158,751,833	150,378,477
Subordinated loan	18	3,381,280	2,953,041
		162,133,113	153,331,518
<b>Share Capital and Reserves</b>			
Share capital	19	6,374,207	2,074,207
Reserves	20	(175,144)	(245,990)
		6,199,063	1,828,217
		168,332,176	155,159,735
<b>Off balance sheet items</b>	21	21,530,900	17,196,612

The notes on pages 36 to 55 form part of these financial statements.



## PROFIT AND LOSS ACCOUNT

### YEAR ENDED 31 DECEMBER 1999

	Notes	1999 SKK '000	1998 SKK '000
Interest receivable and similar income arising from debt securities	22	15,822,407	16,683,208
Interest payable	23	(13,855,686)	(14,225,683)
<b>Net interest income</b>		<b>1,966,721</b>	<b>2,457,525</b>
Fees and commissions receivable		1,489,096	1,406,825
Fees and commissions payable		(356,374)	(312,776)
Dealing (losses)/ profits		(238,538)	1,637,052
Income from associated undertakings		219,661	188,928
Other income		149,010	1,027,308
<b>Operating income</b>		<b>3,229,576</b>	<b>6,404,862</b>
Administrative expenses	24	(4,017,300)	(4,321,925)
Depreciation and amortisation		(1,213,387)	(1,360,269))
<b>Operating expenditure</b>		<b>(5,230,687)</b>	<b>(5,682,194)</b>
<b>Operating (loss)/profit before provisions</b>		<b>(2,001,111)</b>	<b>722,668</b>
Provisions for bad and doubtful debts	25	8,055,771	(4,820,113)
Provisions for off balance sheet and other risks		(1,197,696)	-
Other provisions	26	(2,749,363)	(827,024)
Impairment loss on goodwill	13	(2,163,268)	-
		<b>1,945,444</b>	<b>(5,647,137)</b>
<b>Operating loss before taxation</b>		<b>(55,667)</b>	<b>(4,924,469)</b>
Taxation	27	118,481	(85,688)
<b>Profit/(loss) after taxation</b>		<b>62,814</b>	<b>(5,010,157))</b>

The notes on pages 36 to 55 form part of these financial statements.



# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

## YEAR ENDED 31 DECEMBER 1999

	Share Capital SKK '000	Profit and Loss Account SKK '000	Legal Reserve Fund SKK '000	Risk Fund SKK '000	Capital Funds SKK '000	Total SKK '000
At 1 January 1998	2,074,207	450,735	2,395,503	502,164	1,276,201	6,698,810
Transfers / allocations	-	193,857	3,978	-	(58,271)	139,564
Loss for 1998	-	(5,010,157)	-	-	-	(5,010,157)
At 1 January 1999	2,074,207	(4,365,565)	2,399,481	502,164	1,217,930	1,828,217
Increase in share capital	4,300,000	-	-	-	-	4,300,000
Revaluation	-	-	-	-	8,032	8,032
Transfers	-	(4,434)	4,434	-	-	-
Profit for 1999	-	62,814	-	-	-	62,814
At 31 December 1999	6,374,207	(4,307,185)	2,403,915	502,164	1,225,962	6,199,063

The notes on pages 36 to 55 form part of these financial statements.



## CASH FLOW STATEMENT

### YEAR ENDED 31 DECEMBER 1999

	Notes	1999 SKK '000	1998 SKK '000
<b>Cash Flows from Operating Activities</b>			
Profit before changes in operating assets and liabilities	28	920,090	3,402,100
(Increase)/decrease in loans and advances to banks		(3,789,984)	1,195,148
(Increase)/decrease in loans and advances to customers		(246,033)	1,710,747
Decrease/(increase) in debt and equity securities		814,271	(1,572,562)
Increase in other assets		(5,632,688)	(379,220)
Increase in prepayments and accrued income		(495,562)	(608,561)
Increase/(decrease) in deposits by banks		3,783,989	(234,283)
Increase/(decrease) in customer accounts		2,250,575	(10,222,607)
Increase/(decrease) in other liabilities		794,435	(20,085)
Increase/(decrease) in accruals and deferred income		465,142	(75,470)
<b>Net cash used in operating activities</b>		<b>(1,135,765)</b>	<b>(6,804,793)</b>
<b>Cash Flows from Investing Activities</b>			
Purchase of debt securities		(245,417)	-
Purchase of equity shares		(151,708)	-
Sale/(purchase) of shares in subsidiary undertakings		67,501	(314,757)
Purchase of shares in associated undertakings		(42,994)	-
Dividends received from associated undertakings		93,503	66,034
Purchase of tangible fixed assets		(1,058,977)	(888,058)
Proceeds on disposal of tangible fixed assets		6,446	-
Acquisition of net liabilities of Priemyselná banka		(2,163,268)	-
Purchase of software		(202,020)	-
<b>Net cash from investing activities</b>		<b>(3,696,934)</b>	<b>(1,136,781)</b>
<b>Cash Flows from Financing Activities</b>			
Proceeds from issuance of share capital		4,300,000	-
<b>Net cash used in financing activities</b>		<b>4,300,000</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(532,699)</b>	<b>(7,941,574)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>40,285,587</b>	<b>48,227,161</b>
<b>Cash and Cash Equivalents at End of Year</b>	29	<b>39,752,888</b>	<b>40,285,587</b>

The notes on pages 36 to 55 form part of these financial statements.



# Notes to the Financial Statements

## 1. General Information

### **Business**

Slovenská sporiteľňa, a. s., ('the Bank') is a long-established Slovak bank which is wholly-owned by the state.

The principal activities of the Bank are the provision of a wide range of banking and financial services to commercial, financial and private customers in the Slovak Republic.

The Bank operates through a network of 646 branches throughout Slovakia.

### **Financial Restructuring**

In preparation for privatisation, the following steps were implemented during the year to restructure and improve the financial position of the Bank:

- (i) On 7 December 1999, the fully paid share capital of the Bank was increased by the issue of 43 ordinary shares at a nominal value of SKK 100 million each, giving rise to total proceeds of SKK 4.3 billion. As a consequence, at 31 December 1999, the capital adequacy ratio of the Bank, calculated in accordance with National Bank of Slovakia regulations, amounted to 9.44 %, exceeding the minimum requirement of 8 %.
- (ii) Effective 27 December 1999, the Bank assigned bad and doubtful loans, including accrued interest, at a gross value of SKK 20.4 billion to Slovenská konsolidačná, a. s. ('SK'), a company established for the purpose of collecting such claims. The consideration was settled from the proceeds of a loan provided by the Bank to SK. Repayment of the loan by SK is guaranteed by the state (see also note 6).
- (iii) Also effective 27 December 1999, the Bank assigned bad and doubtful loans, including accrued interest, at a gross value of SKK 2.4 billion to Konsolidačná banka, š.p.ú. ('KBB'), the state-owned financial institution. The consideration was settled from the proceeds of a loan provided by the Bank to KBB and repayment is guaranteed by the state (see also note 5).

Before privatisation, it is intended that a further assignment of classified claims will be made by the Bank.

### **Acquisition of Priemyselná banka, a. s. Košice**

On 16 December 1999, the Bank acquired the assets, liabilities and business of Priemyselná banka, a. s. Košice ('PB'), a bank which had been placed under Administration by the National Bank of Slovakia on 19 October 1999.

Under the terms of the agreement with the Administrator, the Bank agreed to pay a nominal consideration of SKK 1. The fair value of the net liabilities assumed amounted to SKK 2.163 million (see below), giving rise to goodwill of SKK 2.163 million.



## 1. General Information (continued)

In the opinion of the directors, no significant future economic benefits are expected from this acquisition other than will be created by the Bank itself. Accordingly, a full impairment loss has been recorded in the 1999 profit and loss account to reduce the recoverable value of goodwill to nil.

The fair value to the Bank of the net liabilities assumed was computed as follows:

	Book Value SKK mil	Adjustments SKK mil	Fair Value SKK mil
<b>Assets</b>			
Cash and NBS balances	251	-	251
Loans to banks	160	(47) (a)	113
Loans to customers	9,162	(1,408) (a)	7,754
Debt securities	1,416	(58) (b)	1,358
Equity shares	844	(361) (b)	483
Fixed assets	876	(744) (c)	132
Other assets	1,309	(490) (a)	819
	14,018	(3,108)	10,910
<b>Liabilities</b>			
Due to banks	6,770	-	6,770
Customer accounts	4,542	-	4,542
Other liabilities	1,536	-	1,536
Off balance sheet liabilities	-	225 (d)	225
	12,848	225	13,073
<b>Net assets/(liabilities)</b>	<b>1,170</b>	<b>(3,333)</b>	<b>(2,163)</b>

The principal adjustments made to book values were as follows:

- (a) Provisions for losses on non-recoverable loans and other receivables.
- (b) Adjustments to shares and bonds to reflect fall in underlying value.
- (c) Property valuation adjustments (SKK 704 million) and provision for write-down of obsolete software (SKK 40 million).
- (d) Provision for guarantee provided in respect of a company since placed in bankruptcy.



## 2. Accounting Policies

The significant accounting policies adopted by the Bank are as follows:

### (a) Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards ('IAS') and under the historical cost basis of accounting, as modified by the inclusion of certain items at fair value.

Consolidated accounts, incorporating the financial statements of the subsidiary companies have not been prepared because the impact would not be significant.

The comparative figures have been reclassified, where necessary, on a basis consistent with those for the current period.

The financial statements are reported in Slovak Crowns (SKK) and all amounts are presented in thousands, except where otherwise stated.

### (b) Foreign currencies

Transactions denominated in foreign currencies are translated into Slovak Crowns at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities, and commitments for the purchase and sale of foreign currencies, are translated at the rates of exchange ruling on the balance sheet date. All resulting gains and losses are recorded in dealing profits in the profit and loss account.

### (c) Provisions for bad and doubtful debts

Loans and advances to customers are stated net of provisions for bad and doubtful debts.

Specific provisions are made for identified doubtful loans following detailed appraisal of the loan portfolio. In addition, general provisions are made to cover losses which are present in the loan portfolio but which have not yet been specifically identified.

General provisions are also made to cover latent but unidentified losses arising from off balance sheet and other risks.

### (d) Debt and equity securities

Debt and equity securities comprise trading securities and investment securities.

Trading securities are marketable securities that are acquired and held with the intention of resale in the short term. Trading securities are stated at fair value.

Investment securities are acquired for yield or capital growth purposes and are usually held to maturity. Debt and equity securities classified as investment securities, including government securities, are stated at cost. Premiums or discounts on acquisition are amortised on a straight line basis over the period to maturity. Provision is made for any permanent diminution in value.

### (e) Repurchase and reverse repurchase agreements

Securities sold under repurchase agreements are retained within either the investment or trading portfolios and accounted for accordingly. The related repurchase obligation is included in liabilities. Securities held under reverse repurchase agreements are included in other assets.

The difference between the sale and repurchase price is accrued evenly over the life of the transaction and credited or charged to the profit and loss account as interest receivable or interest payable.

### (f) Shares in subsidiary undertakings

Shares in subsidiary undertakings are stated at cost less provision for any permanent diminution in value.

### (g) Shares in associated undertakings

Shares in associated undertakings are stated at acquisition cost plus the Bank's share of post-acquisition results.



**(h) Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is not provided on land. On other fixed assets, it is provided on a straight line basis over the expected remaining useful lives as follows:

	Rates
Buildings	1.50 % first year 2.50 % subsequent years
Furniture, fittings and equipment	3.40 % - 28.60 %
Motor vehicles	14.20 % first year 28.60 % subsequent years

Depreciation commences when assets are first put into use.

**(i) Leased assets**

Assets held under finance leases are capitalised at the estimated present value of future minimum lease payments, derived by discounting at the interest rate implicit in each lease. The related liability is stated net of lease rentals and advances already paid.

Interest on finance leases is charged to profit and loss account so as to produce a constant periodic rate of charge on the remaining balance of the obligation under each lease.

**(j) Software**

Software is included in intangible fixed assets and stated at cost less accumulated amortisation. Amortisation is provided on a straight line basis over the expected remaining useful life at the following rates:

	Rates
Software	5.00 % First year 10.00 % Second year 28.33 % Subsequent years

**(k) Goodwill**

Goodwill, which represents the excess of the purchase consideration for an interest in a business over the fair value of the identifiable assets and liabilities acquired, is stated net of accumulated amortisation and accumulated impairment losses.

Goodwill is amortised on a straight line basis over the period in which economic benefits are expected to arise.

Impairment losses are recognised in the profit and loss account in the period in which there has been a decline in the recoverable value of goodwill.

**(l) Interest, fees and commissions**

Interest, fees and commissions are recognised in the period in which they are earned or incurred.

**(m) Income tax**

Income tax on the profit for the year comprises current tax and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, together with any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



**(n) Cash and cash equivalents**

Cash and cash equivalents comprise cash, balances with the National Bank of Slovakia, treasury bills and loans and advances to banks with original maturity of up to three months.

**3. Cash and Balances at the Central Bank**

	1999 SKK '000	1998 SKK '000
Cash in hand	3,839,792	3,206,471
Balances with the National Bank of Slovakia	10,598,302	9,971,596
	<u>14,438,094</u>	<u>13,178,067</u>

Balances with the National Bank of Slovakia ('NBS') includes SKK 10.3 billion (1998: SKK 9.8 billion) required as a compulsory minimum reserve under NBS regulations.

**4. Treasury Bills and Other Similar Bills**

	1999 SKK '000	1998 SKK '000
Treasury bills and other similar bills issued by: Slovak Government	<u>3,799,366</u>	<u>9,585,158</u>

**5. Loans and Advances to Banks**

	1999 SKK '000	1998 SKK '000
Repayable on demand	1,281,552	749,321
Other loans and advances by contractual maturity:		
- 3 months or less	20,233,876	16,773,041
- 1 year or less but over 3 months	14,011,032	10,497,709
- 5 years or less but over 1 year	5,183,077	4,400,000
- over 5 years	-	-
	<u>40,709,537</u>	<u>32,420,071</u>
Specific provisions	<u>(2,160,705)</u>	<u>(830,000)</u>
	<u>38,548,832</u>	<u>31,590,071</u>

The increase in specific provisions during the year includes SKK 506.4 million which arose on the acquisition from Priemyselná banka.

Loans and advances to banks includes a loan of SKK 2.4 billion to Konsolidačná banka, š.p.ú., (see also note 1). Interest is charged at 10.3 % per annum and repayment is by one lump sum on 31 January 2001. The loan is secured by a guarantee issued by the Slovak Ministry of Finance. In addition to this loan, there are further advances to KBB totalling SKK 2.2 billion which are unsecured.

Other credit risk concentrations in loans and advances to banks include total amounts receivable of SKK 10.2 billion, with varying maturities, from two Slovak banks.



## 6. Loans and Advances to Customers

	1999 SKK '000	1998 SKK '000
Repayable on demand	-	-
Other loans and advances to customers by contractual maturity:		
- 3 months or less	310,942	1,921,221
- 1 year or less but over 3 months	14,385,436	12,992,074
- 5 years or less but over 1 year	33,649,942	21,140,780
- over 5 years	23,047,304	33,950,742
	<u>71,393,624</u>	<u>70,004,817</u>
General and specific bad and doubtful debt provisions (note 7)	<u>(14,319,820)</u>	<u>(21,232,817)</u>
	<u>57,073,804</u>	<u>48,772,000</u>

Loans and advances were made to the following categories of customers:

	1999 SKK '000	1998 SKK '000
Non-financial services companies	50,402,483	42,690,674
Individuals and households – Slovak resident	16,291,120	22,220,384
Non-resident companies and individuals	2,699,780	3,250,551
Government	1,682,732	1,494,553
Financial services companies	4,105	243,716
Non-profit organisations	2,463	29,784
Other	310,941	75,155
	<u>71,393,624</u>	<u>70,004,817</u>

Loans to non-financial services companies includes a loan of SKK 20.4 billion to Slovenská konsolidačná, a. s. (see also note 1). Interest is charged at 10.3 % per annum and repayment is by one lump sum on 31 January 2001. The loan is secured by a guarantee issued by the Slovak Ministry of Finance.

Loans and advances were made to customers in the following countries:

	1999 SKK '000	1998 SKK '000
Slovak Republic	68,693,844	66,754,266
Other	2,699,780	3,250,551
	<u>71,393,624</u>	<u>70,004,817</u>



## 7. Provisions for Bad and Doubtful Debts

The movements on the provisions for bad and doubtful debts were as follows:

	1999 SKK '000	1998 SKK '000
At 1 January 1999	21,232,817	16,551,214
Provision for the year (note 25)	7,583,086	4,681,603
Recoveries (note 25)	(17,483,034)	-
Acquisition from Priemyselna banka	2,986,951	-
At 31 December 1999	14,319,820	21,232,817

The recoveries arise mainly from the assignment of classified claims, as explained in note 1. The charge for the year is described in note 25.

## 8. Debt Securities

	1999 SKK '000	1998 SKK '000
Investment securities:		
Slovak banks	140,192	-
Slovak corporate	105,225	-
	245,417	-
Trading securities at market value:		
Slovak Government	26,359,357	26,964,805
Slovak banks	2,182,812	2,616,082
Other Slovak corporate	4,850,677	5,700,705
Foreign banks	550,791	-
Russian Government	83,581	-
Municipalities	12,350	492,820
	34,039,568	35,774,412
	34,284,985	35,774,412

At 31 December 1999, the market value of investment securities was SKK 234 million.

## 9. Shares in Subsidiary Undertakings

Name	Activity	Holding		Cost	
		1999 %	1998 %	1999 SKK '000	1998 SKK '000
Sporing, a. s.	Hotel	100.0	100.0	383,440	373,200
G.U.T., a. s. Martin	Property investment	-	71.0	-	77,160
Devin Istria d.o.o. Croatia	Hotel	100.0	100.0	33,876	34 457
				417,316	484,817
Provisions for losses				(225 596)	-
				191,720	484,817



## 10. Shares in Associated Undertakings

	1999 SKK '000	1998 SKK '000
Shares at cost	581,956	538,962
Share of post acquisition results and reserves	358,407	232,249
	940,363	771,211
Provisions for losses	(78,622)	-
Share in net assets	861,741	771,211

The Bank has the following associates:

Name	Activity	Holding		Cost	
		1999 %	1998 %	1999 SKK '000	1998 SKK '000
Prvá stavebná sporiteľňa, a. s.	Mortgage banking	35.0	35.0	360,500	360,500
Univerzálna banková poisťovňa, a. s.	Insurance	46.4	34.0	142,600	105,400
Satel, a. s. Poprad	Hotel	42.3	39.0	78,622	73,062
ZAO Subrogation	Debt collection	49.0	-	234	-
				581,956	538,962

All companies are incorporated in Slovakia except ZAO Subrogation, which is incorporated in the Russian Federation.

## 11. Equity Shares

	1999 SKK '000	1998 SKK '000
<i>Investment</i>		
Shares at cost (unlisted)	542,150	393,934
Provisions for losses	(332,437)	(99,304)
	209,713	294,630
<i>Trading</i>		
Shares at market value	558,384	1,062,614
	768,097	1,357,244

The increase in the provisions for losses includes SKK 90.2 million which arose on the acquisition from Priemysel'na banka.



## 12. Tangible Fixed Assets

	Land and Buildings SKK '000	Furniture Fittings & Equipment SKK '000	Motor Vehicles SKK '000	Assets not yet in use SKK '000	Total SKK '000
<b>Cost</b>					
At 1 January 1999	6,203,696	6,188,385	153,005	780,404	13,325,490
Additions	-	17,144	-	909,516	926,660
Acquisition from Priemysel'na banka	592,854	485,676	20,094	105,700	1,204,324
Disposals	(84,950)	(256,013)	(6,792)	-	(347,755)
Transfers	638,383	721,838	922	(1,361,143)	-
At 31 December 1999	7,349,983	7,157,030	167,229	434,477	15,108,719
<b>Depreciation</b>					
At 1 January 1999	598,216	4,029,266	148,604	-	4,776,086
Charge for the year	224,980	696,100	1,968	-	923,048
Acquisition from Priemysel'na banka	567,185	484,728	20,094	-	1,072,007
Disposals	(73,006)	(195,127)	(6,775)	-	(274,908)
At 31 December 1999	1,317,375	5,014,967	163,891	-	6,496,233
<b>Net book value:</b>					
At 31 December 1999	6,032,608	2,142,063	3,338	434,477	8,612,486
At 31 December 1998	5,605,480	2,159,119	4,401	780,404	8,549,404

## 13. Intangible Fixed Assets

	Software SKK'000	Goodwill SKK'000	Assets not yet in use SKK'000	Total SKK'000
<b>Cost</b>				
At 1 January 1999	1,581,133	-	-	1,581,133
Additions	470	2,163,268	201,550	2,365,288
Acquisition from Priemysel'na banka	116,652	-	-	116,652
Transfers into use	201,550	-	(201,550)	-
Disposals	(430)	-	-	(430)
At 31 December 1999	1,899,375	2,163,268	-	4,062,643
<b>Amortisation and impairment losses</b>				
At 1 January 1999	747,308	-	-	747,308
Charge for the year	290,339	-	-	290,339
Impairment loss	-	2,163,268	-	2,163,268
Acquisition from Priemysel'na banka	116,652	-	-	116,652
Disposals	(430)	-	-	(430)
At 31 December 1999	1,153,869	2,163,268	-	3,317,137
<b>Net book value:</b>				
At 31 December 1999	745,506	-	-	745,506
At 31 December 1998	833,825	-	-	833,825

See also note 1, Acquisition of Priemysel'na banka.



**14. Other Assets**

	1999 SKK '000	1998 SKK '000
Other receivables	4,469,163	1,123,495
Provisions	(1,915,128)	-
	<u>2,554,035</u>	<u>1,123,495</u>
Amounts receivable under repurchase agreements	<u>2,817,917</u>	-
	<u>5,371,952</u>	<u>1,123,495</u>

Other receivables includes certain claims and other assets acquired from Priemyselná banka totalling SKK 2,353 million against which provisions of SKK 1,016 million have been made (SKK 531 million in provisions on acquisition).

**15. Deposits by Banks**

	1999 SKK '000	1998 SKK '000
Repayable on demand	315,167	377,380
Other deposits by banks with contractual maturity:		
– 3 months or less	6,384,488	3,651,810
– 1 year or less but over 3 months	688,000	711,769
– 5 years or less but over 1 year	540,667	-
– over 5 years	596,626	-
	<u>8,524,948</u>	<u>4,740,959</u>

**16. Customer Accounts**

	1999 SKK '000	1998 SKK '000
Repayable on demand	39,268,442	40,673,492
Other deposits with agreed maturity dates or periods of notice, by contractual maturity:		
– 3 months or less	39,676,257	23,947,682
– 1 year or less but over 3 months	33,410,277	38,192,885
– 5 years or less but over 1 year	29,631,911	37,054,836
– over 5 years	2,187,308	2,054,725
	<u>144,174,195</u>	<u>141,923,620</u>

**17. Other Liabilities**

	1999 SKK '000	1998 SKK '000
Withholding tax on deposit interest	1,157,617	1,317,569
Bonds	700,000	-
Other liabilities	1,294,865	1,158,959
	<u>3,152,482</u>	<u>2,476,528</u>

The bonds were issued in June 1996 by Priemyselná banka, a. s., and comprise 7,000 bonds at a nominal value of SKK 100,000 each. Interest is payable twice annually, in June and December, at a rate of 10.4 % per annum. All bonds will mature in June 2000.



## 18. Subordinated Loan

	1999 SKK '000	1998 SKK '000
Subordinated loan	3,381,280	2,953,041

The Bank obtained an unsecured and subordinated loan of US\$ 80 million from Bankers Trust Luxembourg SA ('BT') in December 1996. The loan from BT was funded from a fiduciary issue of US\$ 80 million Subordinated Floating Rate Notes due 2006.

The loan is repayable in whole in December 2006. However, up to December 2001, providing certain specified conditions exist and appropriate approvals are obtained, the Bank may repay the full loan amount. In and after December 2001, the Bank may, solely with the approval of the National Bank of Slovakia, repay the full loan amount. Any early repayments must be made on one of the two interest payment dates each year. The Bank has also undertaken not to purchase any of the Floating Rate Notes until after December 2001.

Interest on the loan is at a rate equal to LIBOR plus 1.25 % per annum until December 2001 and LIBOR plus 3.0 % thereafter.

In the event of the liquidation of the Bank, the loan will rank for payment behind the claims of the depositors and all other creditors but ahead of shareholders.

## 19. Share Capital

	1999 SKK '000	1998 SKK '000
Authorised, issued and fully paid:		
2,074,207 ordinary shares of SKK 1,000 each	2,074,207	2,074,207
43 ordinary shares of SKK 100,000,000 each	4,300,000	-
	6,374,207	2,074,207

The 43 ordinary shares of SKK 100 million each were issued on 7 December 1999 in order to strengthen the Bank's capital base. See note 1.

## 20. Reserves

	Profit and Loss Account SKK '000	Legal Reserve Fund SKK '000	Risk Fund SKK '000	Capital Funds SKK '000	Total SKK '000
At 1 January 1999	(4,365,565)	2,399,481	502,164	1,217,930	(245,990)
Dividend for 1998 (a)	-	-	-	-	-
Revaluation	-	-	-	8,032	8,032
Transfers (b)	(4,434)	4,434	-	-	-
Profit for 1999	62,814	-	-	-	62,814
At 31 December 1999	(4,307,185)	2,403,915	502,164	1,225,962	(175,144)

(a) The General Meeting of Shareholders held on 27 May 1999 resolved that no dividends be paid from the statutory profit for the year ended 31 December 1998.



(b) The General Meeting also approved the transfer to Legal Reserve Fund of SKK 4.4 million from 1998 profit. Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The Bank is obliged to contribute an amount to the fund each year which is not less than 5 % of its annual net profit (calculated in accordance with Slovak accounting regulations) until the aggregate amount reaches a minimum level equal to 20 % of the issued share capital. The Legal Reserve Fund is not available for distribution to shareholders.

The Risk Fund was established in April 1994 to cover general banking risks. The Fund can be increased by annual allocations from distributable profits up to a maximum of 0.5 % of net profit. The Risk Fund is not readily available for distribution to shareholders.

Capital Funds consist mainly of a statutory fund amounting to SKK 1.18 billion which was created from distributable profits to strengthen the Bank's capital base. The statutory fund may be terminated and transferred back to distributable profits if the Bank's share capital or legal reserve fund is increased. Such termination requires the approval of the Supervisory Board.

## 21. Off Balance Sheet Items

	1999 SKK '000	1998 SKK '000
Contingent liabilities:		
Guarantees	2,802,056	1,900,892
Irrevocable letters of credit	33,611	-
Commitments:		
Confirmed credit lines	222,101	111,222
Other:		
Foreign currency contracts	18,473,132	15,184,498
	<u>21,530,900</u>	<u>17,196,612</u>

Losses which are present in the off balance sheet exposures but which have not been specifically identified are covered by the general provisions for off balance sheet and other risks.

## 22. Interest Receivable and Similar Income Arising from Debt Securities

	1999 SKK '000	1998 SKK '000
Interest receivable and similar income arising from:		
Loans and advances to banks	4,573,363	5,287,778
Loans and advances to customers	7,071,790	7,924,592
Debt securities	4,177,254	3,470,838
	<u>15,822,407</u>	<u>16,683,208</u>

## 23. Interest Payable

	1999 SKK '000	1998 SKK '000
Deposits by banks	701,604	1,151,268
Customer accounts	12,830,933	12,855,043
Securities	323,149	219,372
	<u>13,855,686</u>	<u>14,225,683</u>



## 24. Administrative Expenses

	1999 SKK '000	1998 SKK '000
Employee costs:		
Wages and salaries	1,529,288	1,423,121
Social insurance	518,646	526,973
	2,047,934	1,950,094
Other operating expenses	1,969,366	2,371,831
	4,017,300	4,321,925

The average number of employees during the year was 6,359 including 477 previously employed by Priemyselná banka (1998: 6,297).

## 25. Provisions for Bad and Doubtful Debts

	1999 SKK '000	1998 SKK '000
The charge for the year comprised:		
Increase in provision (note 7)	7,583,086	4,681,603
Recoveries (note 7)	(17,483,034)	-
Bad debts written off	1,844,177	138,510
	(8,055,771)	4,820,113

## 26. Other Provisions

	1999 SKK '000	1998 SKK '000
Charge for the year:		
Other assets	1,384,231	-
Loans and advances to banks	824,289	827,024
Equity securities : investment	142,881	-
Shares in subsidiary undertakings	225,596	-
Shares in associated undertakings	73,062	-
Other	99,304	-
	2,749,363	827,024

## 27. Taxation

	1999 SKK '000	1998 SKK '000
<i>Income tax:</i>		
Current tax	-	-
Deferred tax credit / (charge)	118,481	(85,688)
	118,481	(85,688)



The accounting loss before taxation is reconciled to the loss for taxation purposes as follows:

	1999 SKK '000	1998 SKK '000
Loss before taxation	(55,667)	(4,924,469)
Creation of non-deductible provisions	10,340,147	8,123,040
Release of non-taxable reserves	(10,338,229)	(1,133,574)
Non-deductible expenses	4,141,544	2,374,270
Non-taxable income from government securities	(4,366,403)	(4,659,941)
Other non-taxable items	(425,816)	(3,606,089)
<b>Tax loss</b>	<b>(704,424)</b>	<b>(3,826,763)</b>

Under Article 34 of the Income Tax Act 1992, as amended, the Bank, as a company with majority state ownership, is not permitted to carry forward tax losses for utilisation against future taxable profits.

## 28. Profit before Changes in Operating Assets and Liabilities

	1999 SKK '000	1998 SKK '000
Operating loss before taxation	(55,667)	(4,924,469)
Adjustments for:		
Depreciation and amortisation	1,213,387	1,360,269
Loss on disposal of fixed assets	66,401	-
Provisions for bad and doubtful debts	(8,055,771)	4,820,113
Provisions for off balance sheet and other risks	1,197,696	-
Other provisions	2,749,363	827,024
Impairment loss on goodwill	2,163,268	-
Revaluation loss on trading securities	1,432,835	1,337,611
Income from associated undertakings	(219,661)	(188,928)
Unrealised exchange rate loss	428,239	170,480
	<b>920,090</b>	<b>3,402,100</b>

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## 29. Cash and Cash Equivalents

	1999 SKK '000	1998 SKK '000
Cash and balances at the Central Bank (note 3)	14,438,094	13,178,067
Treasury bills and other similar bills (note 4)	3,799,366	9,585,158
Loans and advances to banks with original maturity up to 3 months (note 5)	21,515,428	17,522,362
	<b>39,752,888</b>	<b>40,285,587</b>



### 30. Assets and Liabilities Denominated in Foreign Currencies

The Bank had the following foreign exchange positions at 31 December 1999:

	Euro SKK '000	US Dollar SKK '000	Czech Crown SKK '000	Other SKK '000	Slovak Crown SKK '000	Total SKK '000
<b>Assets</b>						
Cash and balances at Central Bank	484,079	259,905	134,089	116,210	13,443,811	14,438,094
Treasury bills	-	-	-	-	3,799,366	3,799,366
Loans and advances to banks	2,132,540	3,100,732	25,217	507,097	32,783,246	38,548,832
Loans and advances to customers	4,783,537	5,830,218	1,620	169,272	46,289,157	57,073,804
Debt securities	1,114,491	208,635	-	-	32,961,859	34,284,985
Shares in subsidiary undertakings	-	-	-	-	191,720	191,720
Shares in associated undertakings	-	-	-	-	861,741	861,741
Equity shares	-	-	147,431	1,831	618,835	768,097
Other assets	295,869	1,464,333	371	9,882	3,601,497	5,371,952
Prepayments and accrued income	36,694	75,003	2	211	3,523,683	3,635,593
	<b>8,847,210</b>	<b>10,938,826</b>	<b>308,730</b>	<b>804,503</b>	<b>138,074,915</b>	<b>158,974,184</b>
<b>Liabilities</b>						
Deposits by banks	859,584	222,170	236,736	54,922	7,151,536	8,524,948
Customer accounts	7,318,056	6,127,727	379,549	644,036	129,704,827	144,174,195
Other liabilities	53,527	19	11,831	3,399	3,083,706	3,152,482
Accruals and deferred income	59,017	52,772	1,248	693	1,588,782	1,702,512
Subordinated loans	-	3,381,280	-	-	-	3,381,280
	<b>8,290,184</b>	<b>9,783,968</b>	<b>629,364</b>	<b>703,050</b>	<b>141,528,851</b>	<b>160,935,417</b>

The Bank had the following foreign exchange positions at 31 December 1998:

	Euro SKK '000	US Dollar SKK '000	Czech Crown SKK '000	Other SKK '000	Slovak Crown SKK '000	Total SKK '000
<b>Assets</b>						
Cash and balances at Central Bank	370,670	143,820	135,540	71,589	12,456,448	13,178,067
Treasury bills	-	-	-	-	9,585,158	9,585,158
Loans and advances to banks	2,098,657	4,273,314	13,247	226,657	24,978,196	31,590,071
Loans and advances to customers	5,401,174	4,618,765	585	456,173	38,295,303	48,772,000
Debt securities	-	-	-	-	35,774,412	35,774,412
Shares in subsidiary undertakings	34,458	-	24,700	1,565	424,094	484,817
Shares in associated undertakings	-	-	-	-	771,211	771,211
Equity shares	-	109,216	510,884	-	737,144	1,357,244
Other assets	386,562	5,946	1	31,888	699,098	1,123,495
Prepayments and accrued income	105,620	55,869	57,014	20,461	2,901,067	3,140,031
	<b>8,397,141</b>	<b>9,206,930</b>	<b>741,971</b>	<b>808,333</b>	<b>126,622,131</b>	<b>145,776,506</b>
<b>Liabilities</b>						
Deposits by banks	374,446	85,733	159,932	77,099	4,043,749	4,740,959
Customer accounts	7,073,040	5,109,913	518,500	677,234	128,544,933	141,923,620
Other liabilities	44,278	39,380	1	27,559	2,365,310	2,476,528
Accruals and deferred income	81,620	72,165	8,509	11,084	1,063,992	1,237,370
Subordinated loans	-	2,953,041	-	-	-	2,953,041
	<b>7,573,384</b>	<b>8,260,232</b>	<b>686,942</b>	<b>792,976</b>	<b>136,017,984</b>	<b>153,331,518</b>



### 31. Related Party Transactions

The Bank did not enter into any significant transactions during the year with directors or senior management, their close relatives or companies in which they have a substantial interest.

Balances outstanding with associated undertakings at year end were as follows:

	1999 SKK '000	1998 SKK '000
Loans and advances to banks	402,412	-
Other assets	1,232,594	-
Deposits by banks	1,577,898	863,768
Customer accounts	100,645	42,453

*Transactions during the year with associates were as follows:*

Interest received and receivable	33,595	527
Interest paid and payable	53,311	107,263

### 32. Maturity Analysis

The remaining period to maturity of monetary assets and liabilities at 31 December 1999 was as follows:

	Up to 1 month SKK '000	1 month to 3 months SKK '000	3 months to 1 year SKK '000	1 year to 5 years SKK '000	Over 5 years SKK '000	Not Specified SKK '000	Total SKK '000
<b>Monetary assets</b>							
Cash and balances at Central Bank	14,438,094	-	-	-	-	-	14,438,094
Treasury bills	-	2,099,366	1,700,000	-	-	-	3,799,366
Loans and advances to banks	19,602,258	4,558,851	11,374,796	3,013,077	-	2,160,555	40,709,537
Loans and advances to customers	1,700,563	3,634,631	9,647,322	30,896,527	6,947,764	18,566,817	71,393,624
Debt securities	-	2,487,223	17,615,629	13,870,255	-	311,878	34,284,985
Shares in subsidiary undertakings	-	-	-	-	-	417,316	417,316
Shares in associated undertakings	-	-	-	-	-	940,363	940,363
Equity shares	-	-	-	-	-	1,100,534	1,100,534
Other assets	118,893	2,817,917	303,484	-	-	4,046,786	7,287,080
Prepayments and accrued income	78,808	81,516	3,097,063	35,104	-	343,102	3,635,593
	<u>35,938,616</u>	<u>15,679,504</u>	<u>43,738,294</u>	<u>47,814,963</u>	<u>6,947,764</u>	<u>27,887,351</u>	<u>178,006,492</u>
<b>Monetary liabilities</b>							
Deposits by banks	5,652,593	1,402,898	421,363	631,605	416,489	-	8,524,948
Customer accounts	55,416,588	30,694,422	23,736,129	34,304,663	22,393	-	144,174,195
Other liabilities	1,290,536	619,287	-	-	-	1,242,659	3,152,482
Accruals and deferred income	994,765	61,101	250,522	236,780	-	159,344	1,702,512
Subordinated loans	-	-	-	-	3,381,280	-	3,381,280
	<u>63,354,482</u>	<u>32,777,708</u>	<u>24,408,014</u>	<u>35,173,048</u>	<u>3,820,162</u>	<u>1,402,003</u>	<u>160,935,417</u>



### 32. Maturity Analysis (continued)

The remaining period to maturity of monetary assets and liabilities at 31 December 1998 was as follows:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Not Specified	Total
	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000	SKK '000
<b>Monetary assets</b>							
Cash and balances at Central Bank	13,178,067	-	-	-	-	-	13,178,067
Treasury bills	1,510,000	8,075,158	-	-	-	-	9,585,158
Loans and advances to banks	16,314,449	6,022,260	8,983,360	1,100,000	-	2	32,420,071
Loans and advances to customers	2,757,006	4,226,133	11,022,328	10,443,181	9,730,220	31,825,949	70,004,817
Debt securities	-	1,705,512	17,233,299	14,923,916	249,346	1,662,339	35,774,412
Shares in subsidiary undertakings	-	-	-	-	-	484,817	484,817
Shares in associated undertakings	-	-	-	-	-	771,211	771,211
Equity shares	-	-	-	-	-	1,456,548	1,456,548
Other assets	1,023,506	-	-	-	-	99,989	1,123,495
Prepayments and accrued income	147,902	52,599	2,714,867	-	-	224,663	3,140,031
	<b>34,930,930</b>	<b>20,081,662</b>	<b>39,953,854</b>	<b>26,467,097</b>	<b>9,979,566</b>	<b>36,525,518</b>	<b>167,938,627</b>
<b>Monetary liabilities</b>							
Deposits by banks	3,290,691	1,200,268	250,000	-	-	-	4,740,959
Customer accounts	42,224,120	31,954,636	31,563,468	34,145,501	2,035,895	-	141,923,620
Other liabilities	2,476,528	-	-	-	-	-	2,476,528
Accruals and deferred income	778,801	107,226	17,810	282,670	-	50,863	1,237,370
Subordinated loans	-	-	-	-	2,953,041	-	2,953,041
	<b>48,770,140</b>	<b>33,262,130</b>	<b>31,831,278</b>	<b>34,428,171</b>	<b>4,988,936</b>	<b>50,863</b>	<b>153,331,518</b>

### 33. Financial Instruments

The Bank uses a wide range of financial instruments. A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Examples include loans, deposits, debt securities and equity shares.

Derivatives are also financial instruments which are so-called because their value is derived from the value of an underlying instrument, index or reference rate. The principal categories of derivatives are forwards, including futures, options and swaps.

The main derivative financial instruments used by the Bank during the year were forward foreign exchange contracts and foreign exchange swaps which were entered into to manage foreign exchange risk.

#### Risks Associated with Financial Instruments

The use of financial instruments generally involves the assumption or transfer of risk. The main types of risks are credit risk, market risk (including interest rate risk and foreign exchange risk) and liquidity risk.

The Bank assigns the highest priority to risk management and has established clear and comprehensive risk policies, procedures and control systems, which are reviewed regularly by the Board of Directors.

#### Credit Risk

Credit risk is the risk that a borrower or counterparty will fail to honour their contractual obligations. Credit risk is controlled through a structure involving the risk management department, the credit committee and the Board of Directors.



The Bank's procedures for managing credit risk include the establishment of concentration limits by borrower, counterparty and product. Credit appraisal procedures are performed before individual borrower and counterparty limits are approved and collateral is obtained to reduce credit risk. The Bank also continually monitors performance of the portfolio to ensure that prompt action can be taken to minimise potential losses.

### ***Interest Rate Risk***

Interest rate risk is the potential impact on the value of financial assets and liabilities arising from changes in market interest rates.

Most of the financial instruments used reprice within relatively short time periods.

The average effective interest rates for financial assets and liabilities at 31 December 1999 were:

	Slovak Crown	Other
Loans and advances to banks	15.56 %	3.61 %
Loans and advances to customers	9.43 %	8.30 %
Debt securities	11.92 %	6.69 %
Deposits by banks	13.51 %	5.51 %
Customer accounts	10.09 %	3.02 %
Subordinated loan	-	6.57 %

The average effective interest rates for financial assets and liabilities at 31 December 1998 were:

	Slovak Crown	Other
Loans and advances to banks	16.91 %	8.05 %
Loans and advances to customers	10.73 %	7.60 %
Debt securities	12.88 %	6.68 %
Deposits by banks	17.47 %	8.61 %
Customer accounts	9.36 %	3.40 %
Subordinated loan	-	7.13 %

### ***Foreign Exchange Risk***

Foreign exchange risk arises from the impact on the value of financial assets and liabilities from changes in foreign exchange rates.

The policy of the Bank is to maintain minimal net exposures to foreign exchange risk. Limits are set for individual foreign currencies and the Bank also uses forward foreign currency contracts to hedge balance sheet positions.

Assets and liabilities denominated in foreign currencies are set out in note 30.

### ***Liquidity Risk***

Liquidity risk is the risk that there will be insufficient funds to meet normal operating requirements. Liquidity risk is managed as part of the Bank's asset and liability management process. Procedures include the regular monitoring of the timing of future cash flows on a currency-by-currency basis. The remaining maturity of assets and liabilities at the balance sheet date is set out in note 32.



### 34. Fair Values

Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The estimated fair values of the Bank's financial assets and liabilities at year end were as follows:

	Carrying Value 1999 SKK '000	Fair Value 1999 SKK '000	Carrying Value 1998 SKK '000	Fair Value 1998 SKK '000
<b>Financial assets</b>				
Cash and balances at Central Bank	14,438,094	14,438,094	13,178,067	13,178,067
Treasury bills	3,799,366	3,799,366	9,585,158	9,585,158
Loans and advances to banks	38,548,832	38,482,951	31,590,071	31,545,282
Loans and advances to customers	57,073,804	57,073,804	48,772,000	48,772,000
Debt securities	34,284,985	34,273,568	35,774,412	35,774,412
Shares in subsidiary undertakings	191,720	191,720	484,817	484,817
Shares in associated undertakings	861,741	861,741	771,211	771,211
Equity shares	768,097	768,097	1,357,244	1,357,244
<b>Financial liabilities</b>				
Deposits by banks	8,524,948	8,153,843	4,740,959	4,740,959
Customer accounts	144,174,195	143,828,749	141,923,620	140,857,156
Subordinated loan	3,381,280	3,381,280	2,953,041	2,953,041

The following methods and assumptions were used in estimating the fair values of the Bank's financial assets and liabilities:

#### **Cash and Balances at the Central Bank**

The fair values of cash and balances with central banks approximate to the book values.

#### **Loans and Advances to Banks**

The fair value of current account balances approximates to their carrying amount. As the Bank's term placements generally reprice within relatively short time periods, it is reasonable to use book value as an approximation of fair value.

#### **Loans and Advances to Customers**

Loans and advances are stated net of specific and general provisions for non-recoverable amounts.

#### **Debt and Equity Securities**

Trading securities are stated at fair value. The quoted market prices for investment securities are set out in note 8. Equity shares held for investment purposes are stated net of provisions for non-recoverable amounts.



**Deposits by Banks**

The fair value of current accounts with other banks approximates to book value. For amounts owed by banks with a remaining maturity of less than one year, it is also reasonable to use book value as an approximation of fair value. The fair values of other deposits by banks are calculated by discounting the future cash flows using current interbank rates.

**Customer Accounts**

The fair values of current accounts and term deposits with a remaining maturity of less than one year approximate their carrying amounts. The fair values of other customer accounts are calculated by discounting the future cash flows using current deposit rates.

**Subordinated Loan**

As the subordinated loan reprices every six months, the book value is considered to approximate the fair value.

**35. Reconciliation to Slovak Statutory Financial Statements**

The profit after taxation and total assets prepared under Slovak accounting regulations and reported in the statutory financial statements can be reconciled to these financial statements prepared under IAS as follows:

	Loss after Taxation SKK '000	Total Assets SKK '000
Reported under Slovak accounting regulations	(5,677,968)	172,818,164
Reclassification of provisions	-	(4,851,493)
Accounting for associates	30,467	358,407
Revaluation of trading securities	190,979	190,814
Transfer of deferred income on treasury bills	-	(183,716)
Reversal of prior year provisions created under IAS	5,154,043	-
Reversal of deferred tax	154,161	-
Reversal of interest income recognised in previous year	211,132	-
Reported under IAS	62,814	168,332,176





SLOVENSKÁ  
SPORITEĽŇA

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