

Annual Report

2000



SLOVENSKÁ SPORITEĽŇA

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Alojz Klimo: Composition, Serigraphy, 1986

Results and selected indicators

| | SKK '000 | | |
|---|-----------------|-----------------|-----------------|
| according to methodology and accounting rules applicable in the Slovak Republic | | | |
| | At 31. 12. 1998 | At 31. 12. 1999 | At 31. 12. 2000 |
| Balance sheet total | 168,618,582 | 172,818,164 | 190,836,279 |
| Balances at financial institutions | 32,420,069 | 38,548,831 | 34,620,190 |
| Loans to customers | 61,432,054 | 61,411,495 | 55,386,314 |
| Customer deposits | 141,052,872 | 142,703,261 | 157,023,971 |
| Share capital | 2,074,207 | 6,374,207 | 6,374,207 |
| Reserves and other own funds | 13,259,038 | 11,108,550 | 2,165,360 |
| Profit after taxation | 88,682 | -5,677,969 | 2,425,492 |
| Balance sheet profit | 174,371 | -5,642,287 | 2,483,921 |
| Income tax | 85,689 | 35,682 | 58,429 |
| Capital adequacy (%) | 6.6 | 9.4 | 12.1 |
| Loans/Assets | 36.4 | 35.5 | 29.0 |
| Year-end exchange rate | 43.3 SKK/ECU | 42.5 SKK/EUR | 44.0 SKK/EUR |
| Number of employees | 6,350 | 6,818 | 6,471 |
| Number of branches | 638 | 646 | 531 |
| | | | |
| under IAS | | | |
| | At 31. 12. 1998 | At 31. 12. 1999 | At 31. 12. 2000 |
| Balance sheet total | 154,518,459 | 168,332,176 | 184,452,146 |
| Loans and advances to banks | 31,629,416 | 38,548,832 | 34,620,190 |
| Loans and advances to customers | 41,379,016 | 57,073,804 | 55,566,107 |
| Customer accounts | 141,923,620 | 144,174,195 | 158,006,380 |
| Share capital | 2,074,207 | 6,374,207 | 6,374,207 |
| Reserves and other own funds | (597,583) | 1,022,552 | 6,227,627 |
| Profit (loss) after taxation | (5,010,157) | 62,814 | 4,075,478 |
| Balance sheet profit (loss) | (4,924,469) | (55,667) | 4,075,478 |
| Income tax | (85,688) | 118,481 | 0 |
| Capital adequacy (%) | | 12.9 | 30.8*/22.2** |
| Number of employees | 6,350 | 6,818 | 6,471 |
| Number of branches | 638 | 646 | 531 |
| * including subordinated debt, ** excluding subordinated debt | | | |

Foreword by the Former Chairman and President

Dear Shareholders, Dear Customers,

It is my pleasure to present this report on the results of the financial management of Slovenská sporiteľňa, a. s., over the past year.

For Slovenská sporiteľňa, a. s., the year 2000 brought the completion of its privatisation. The restructuring of its loan portfolio, initiated in 1999, culminated, as part of its 2nd stage, in a transfer of SKK 12.9 billion of classified loans as of 30 June 2000. As a result of the completion of the restructuring program, the Bank's financial indicators improved markedly and Slovenská sporiteľňa, a. s., met preset conditions for successful privatisation.

Through the publication of an offering to sell Slovenská sporiteľňa, a. s., in prominent world financial dailies on 18 July 2000, the process of privatisation itself commenced. After a thorough due diligence process by potential international investors and upon the presentation of bids on 11 December 2000, a panel of experts declared the project of Erste Bank der österreichischen Sparkassen AG for purchasing a majority equity stake in Slovenská sporiteľňa, a. s., to be the winner. Thus Slovenská sporiteľňa, a. s., has become a part of the strong international Erste Bank group, one of the largest retail banks in Europe, and in this way the profile and orientation of Slovenská sporiteľňa, a. s., have been preserved.

Slovenská sporiteľňa, a. s., completed its business at the 2000 year-end with profit of SKK 4,075 million, calculated in accordance with international accounting standards. The amount of profit has to a considerable degree been influenced by the writing down of provisions and reserves on not only non-performing loans transferred as part of the loan portfolio restructuring, but also by the finalisation of

some loan cases. Operating profit before provisions stood at SKK 1,459 million. Compared to the previous year, when an operating loss of SKK 2 billion was reported, the operating profit attained has proven the effectiveness of measures taken.

The balance sheet amount of Slovenská sporiteľňa, a. s., grew 10.0 % year-on-year, to SKK 184 billion, by which token Slovenská sporiteľňa, a. s., has strengthened its position as largest bank in the Slovak banking market. The increase in the balance sheet amount was in particular influenced by a year-on-year growth in customer accounts of 10.0 %, to the level of SKK 158 billion, which we consider as an expression of customer confidence in the Bank's restructuring process. As a result of the sizeable transfer of non-performing claims to government consolidation agencies and their replacement with claims having a zero risk weighting, there has occurred marked improvement in the quality of assets. The proportion of loss claims to total claims within the loan portfolio has dropped to 10.9 %.

Dear Shareholders, Dear Customers,

Allow me to thank you for the co-operation so far and the trust you have shown. I believe that as early as this year there will be the opportunity to see for yourselves that the choice of strategic investor, the Erste Bank financial group, has not only been to the benefit of our customers, but has also facilitated the development of the Slovak banking sector.

Dušan Jurčák

Chairperson of the Board of Directors and the President
of Slovenská sporiteľňa, a. s.
(until 4 April 2001)

Address by the Chairman of the Board and General Director

Dear Shareholders,

Through the transfer of a majority stake in what had been a state institution to a foreign shareholder, Slovenská sporiteľňa, a. s., has, on this threshold of a new millennium, started to open a new chapter of its history. The purpose of the changes, brought about through the transformation process and affecting the Bank at all levels, is to strengthen its position within the increasingly strong competition in the Slovak banking market and the Bank's full incorporation into the Erste Bank group.

Under these circumstances, it was hugely important to determine a vision for the new savings bank. Our common vision is that the customer becomes the focal point of our interest and Slovenská sporiteľňa, a. s., is pictured as the "first" bank in people's minds – that is, the best bank in Slovakia. Acquiring a strong position in financing small and medium-sized businesses represents a medium-term priority for the new savings bank. We want to provide our customers with a wide range of financial products and services using modern means. To offer those products

demanded by customers, which are at the same time innovative and effective. Customers can expect a personalised approach in dealing with their problems, since in belonging to the new Bank they are gaining a stable partner for the long term.

The new management's role is to raise the value of Slovenská sporiteľňa, a. s., to utilise the branch network more intensively and to selectively introduce alternative distribution channels. We consider communication as one of the key elements in achieving the successful implementation of the necessary changes, communication with customers, our own employees, the public, and the Bank's shareholders.

It is up to all of us how we shall cope with these challenging tasks. I believe that with our parent company's know-how as a support, though first and foremost, with the help of our experienced, qualified and flexible colleagues we shall be able not to only win the customer, but moreover to especially retain him, that is, persuade him. The success of our efforts will be reflected in the return on capital invested and in the higher profitability of Slovenská sporiteľňa, a. s.



Regina Ovesny-Straka

Chairperson of the Board of Directors
and the General Director of Slovenská sporiteľňa, a. s.

Address by the Chairman of the Supervisory Board

Dear Shareholders,

Erste Bank der österreichischen Sparkassen AG has acquired Slovenská sporiteľňa, a. s., something which is for us at the same time an honour and a commitment. Slovenská sporiteľňa, a. s., the largest commercial and retail bank in Slovakia, represents the main fulcrum of our strategy in Central Europe. It is important to us that customers continue to see Slovenská sporiteľňa, a. s., as a Slovak bank and one that through its services will satisfy the customers' needs to the fullest possible extent.

In the near future, as part of an extensive transformation process, our focus will be on seeing that the Bank's funds are utilised to the maximum benefit of shareholders and customers. Through a number of measures, such as the centralisation of back office functions,

enhancing the effectiveness of human resources, investing in computer technology and employee training, the effectiveness of Slovenská sporiteľňa, a. s., is to be considerably improved over the coming three years.

To almost two million customers we shall be able to present the Bank as a partner. A partner who, thanks to the improved quality of its services, will optimally satisfy the requirements of the Slovak population. In the Slovak Republic, we would like to assist in the strengthening of the middle stratum of the population, since a strong middle class is the surest guarantee of long-term and stable development of the economy. Concurrent to our own operations, we shall be supporting, as far as possible, the accession of the Slovak Republic to the European Union.

Reinhard Ortner

Chairperson of the Supervisory Board
of Slovenská sporiteľňa, a. s.

Management

By the time when this annual report reaches you, the amended composition of the management team will be as follows:

Board of Directors

Regina Ovesny-Straka
Chairman and General Director

Štefan Máj
Deputy Chairman and CFO

Peter Krutil
Member

Michael Vogt
Member

Oskar Soták
Member

Supervisory Board

Reinhard Ortner, *Chairman*

Andreas Treichl, *Deputy Chairman*

Otto Ilchmann, *Member*

Herbert Martinetz, *Member*

Johan Lassacher, *Member*

Reinhold Schuster, *Member*

Heinz Kessler, *Member*

Juraj Renčko, *Member*

Renáta Hitterová, *Member*

Ľubica Strnádová, *Member*

Juraj Stern, *Member*

Gabriel Eichler, *Member*

As at 31 December 2000, the management of Slovenská sporiteľňa, a. s., had the following members:

Board of Directors

Dušan Jurčák
Chairman and President

Štefan Máj
Deputy Chairman and First Vice-President

Zdena Gacíková
Member and Vice-President

Peter Krutil
Member and Vice-President

Károly Hodossy
Member and Vice-President

Supervisory Board

Zsolt Nyitrai, *Chairman*

Peter Huňor, *Deputy Chairman*

Zoltán Hájos, *Member*

Jozef Medved', *Member*

Juraj Renčko, *Member*

Vladimír Stanovič, *Member*

Renáta Hitterová, *Member*

Eugen Jurzyca, *Member*

Ľubica Strnádová, *Member*

Company profile

Following privatisation, Slovenská sporiteľňa, a. s., has been incorporated into a strong financial group, Erste Bank der österreichischen Sparkassen AG. It will become an aim and challenge for the Bank to maintain, and/or strengthen its dominant position in the Slovak banking market and to satisfy its customers to the full extent, respond flexibly to their requirements and to provide the customer maximum convenience. It will continue to be primarily a retail bank – a bank for the personal sector, while delivering products and services also to institutional and corporate customers. It will strive, through its activities and results, to achieve an equal standing of partnership within the whole financial group of Erste Bank der österreichischen Sparkassen AG.

History

Slovenská sporiteľňa, a. s., is a bank with the longest tradition of savings banking in Slovakia, the roots of which stretch back as far as the 19th century. Its modern history began when still a part of Československá štátna sporiteľňa (the Czechoslovak State Savings Bank) formed in 1953. From 1969 onwards it started to operate as a separate division - Slovenská štátna sporiteľňa, š. p. ú. Due to the post-1989 changes, which also translated down into the liberalisation of the financial sector, it had to face increasing competitive pressures. In 1990, it obtained a universal banking licence and broadened its services, including the segment of institutional and business customers. The philosophy of co-operation with these customers is based upon mutual effectiveness, especially with regard to long-term financing, and redirecting of financial flows of customers via current accounts and customer desk services provided by Slovenská sporiteľňa, a. s. SLSP's

involvement in the money and capital markets for securities dates back to their establishment in Slovakia in 1991. In 1994, it was transformed into a joint-stock company and started to operate under the business name of Slovenská sporiteľňa, a. s. In 1995, the foundations for a permanent orientation of Slovenská sporiteľňa, a. s., towards the primary market for both shares as well as bonds and bills of exchange were laid. All this has created the conditions for the Bank to establish itself in the position of market maker in respect of individual issues floated.

Slovenská sporiteľňa, a. s., Market Position

We can today state that Slovenská sporiteľňa, a. s., is currently one of the strongest commercial banks in Slovakia, holding a full foreign exchange licence and an authorisation to transact mortgage banking business. It has the largest share of the market for deposits, the most extensive network of outlets of its own and a dominant position in issuing bank payment cards. Slovenská sporiteľňa, a. s., provides its customers with a wide range of products and services, from traditional current accounts, through various types of pass-books, time deposits and payments services, loans, to the latest electronic banking services.

Marketing

Last year the Bank's innovativeness and progressiveness was to be seen in its offer of new products, with several of them being introduced to the Slovak banking market for the first time. These encompassed a banking and insurance product, a protected consumer loan, set up in co-operation with the Cardif Slovakia insurance company. In its offer of bank pay-

ment cards, Slovenská sporiteľňa, a. s., has included the VISA Excelent charge card. An offer of loan products has been extended to include an overdraft facility on a giro account – the personal loan.

Slovenská sporiteľňa, a. s., is a bank that sensitively perceives not only the world of finance, but also those walks of life not directly related to money. For many years now it has been administering its own collection of works of art, and sharing it with the public through organising its own exhibitions. It is aware of the need to promote education for young people, assist socially weaker citizens, as well as to support the cultural and sporting activities of the Slovak nation, something evidenced by the lucrative sponsorship events of Slovenská sporiteľňa, a. s.

Privatisation of Slovenská sporiteľňa, a. s.

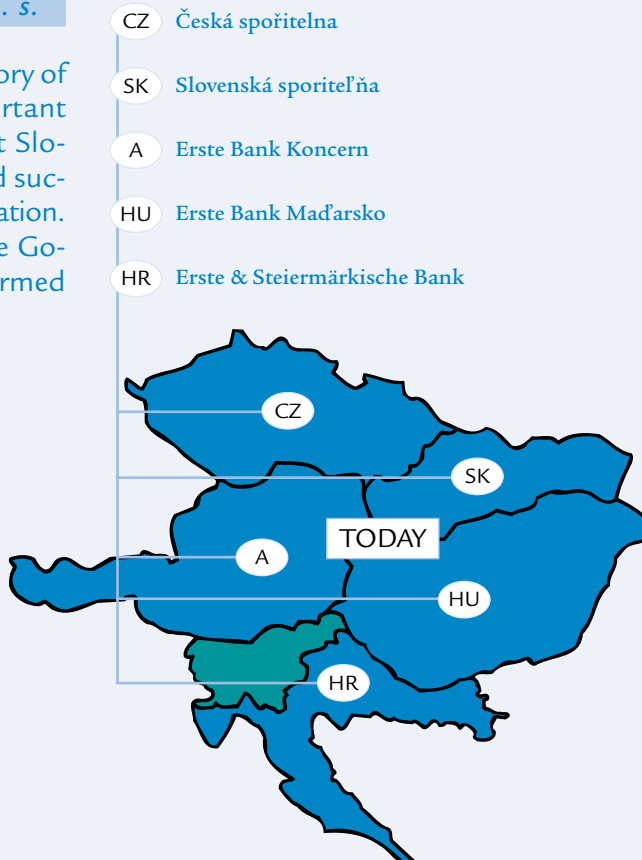
The year 2000 was recorded in the history of Slovenská sporiteľňa, a. s., as an important milestone, since it was in this year that Slovenská sporiteľňa, a. s., commenced and successfully completed the process of privatisation. At its session of 20 December 2000, the Government of the Slovak Republic confirmed

that Erste Bank der österreichischen Sparkassen AG would become the new majority holder of 87.18 % of the shares of Slovenská sporiteľňa, a. s. With its privatisation, Slovenská sporiteľňa, a. s., has become a part of one of the strongest financial groups in Central and Eastern Europe.

ERSTE BANK – the new owner of Slovenská sporiteľňa, a. s.

Die Erste österreichische SparCasse was established in 1819. Today's Erste Bank der österreichischen Sparkassen AG, currently the second largest bank group in Austria, came into existence in 1997 when the bank merged with GiroCredit. With more than 8 million custo-

Die Erste österreichische SparCasse



mers, Erste Bank is a leading retail bank group in Central Europe. A savings bank with the longest tradition in Austria and a leading bank in the deposit sector, Erste Bank is a bank of excellence for a broad base of customers from among natural persons, offering full banking and advisory services.

Erste Bank is the largest private company listed on the Vienna Stock Exchange, and a leading retail bank not only in the domestic market, but also in the neighbouring countries of Central Europe: the Czech Republic, Hungary, Croatia, Slovenia and Slovakia.

As of 31 December 2000, the Erste Bank group had approximately 1 080 branches and 23,800 employees, of which roughly two thirds

were located outside Austria. As of 31 December 2000, Erste Bank held customer deposits of EUR 28 billion (40.5 % of the total assets of Erste Bank) under IAS and its total capital amounted to EUR 3.9 billion.

Through the purchase of Slovenská sporiteľňa, a. s., Erste Bank has become a leading retail bank also in the Slovak Republic and has enlarged the retail customer base of the Erste Bank group by a further 1.8 million customers. At the same time, it gained access to a strong brand, as well as to the largest base of bank retail customers and distribution network in Slovakia. In this way, Erste Bank has consolidated its position as a leader in retail banking in Central Europe.

Slovak Economy in 2000

In 2000, the Slovak economy continued to stabilise. Openness of the economy increased, which was reflected positively in economic growth. Slovakia was accepted into the OECD and its future integration into the EU came to be significantly closer. Nevertheless, the process of economic restructuring slowed due to a difference of opinion within the government coalition.

Gross domestic product

In 2000, the real gross domestic product rose 2.2 %. There was recorded an amelioration of the fall in domestic demand, whereas GDP was saved by the favourable development of foreign trade. Poor domestic demand (a decrease of 1.2 %) was chiefly due to a lower final household consumption that had responded to a decline in real wages caused by price deregulation. However, during the last quarter of 2000, a rapid growth of retail sales was recorded, which resulted in a 2.4 percent increase in the final household consumption.

On the supply side, the share of services in the generation of GDP grew to 41.7 %. A positive development was also recorded by industrial production, which grew by 5.5 % year-on-year. The share of the private sector in GDP generation reached 83.5 %.

Inflation

In 2000, average annual inflation stood at 12.0 % and was in particular influenced by administrative deregulation measures of the Government. As a result, the inflation rate grew by almost 6.0 % over the first two months of 2000. Inflationary pressures from both the supply and demand sides were considerably limited given the high rate of unemployment and decline in real wages.

Unemployment

High unemployment is still the gravest problem for the Slovak economy. At the end of 2000, the unemployment rate reached as high as 18.8 %, with unemployment being characterised by severe regional disparities – notably depending on the inflow of direct foreign investment. Demand for unskilled labour, which accounted for more than 30.0 % of the unemployed, dropped considerably.

Outlook of the Slovak economy in the year 2001

In 2001, the Slovak economy is expected to grow more significantly, to be helped notably by a revival in domestic demand. Already, the year-end figures for 2000 indicate an increase in household consumption and this trend is expected to continue despite persistently high unemployment. On the other hand, foreign demand will not be as favourable as in 2000, given the slow-down in the economic growth in eurozone countries. According to our estimates, the Slovak economy could achieve real growth of 3.2 % in 2001.

Slovak Foreign Exchange Market

The Slovak koruna has had a relatively successful year. It fluctuated within the band of 41.5 – 44.0 SKK/1 EUR against its reference currency (EUR). Despite still low liquidity, a partial improvement over the year 1999 could be observed in 2000, which goes also to the credit of a greater number of foreign banks listing an exchange rate for the Slovak koruna.

Throughout the year, the koruna performed much worse against the American dollar. The

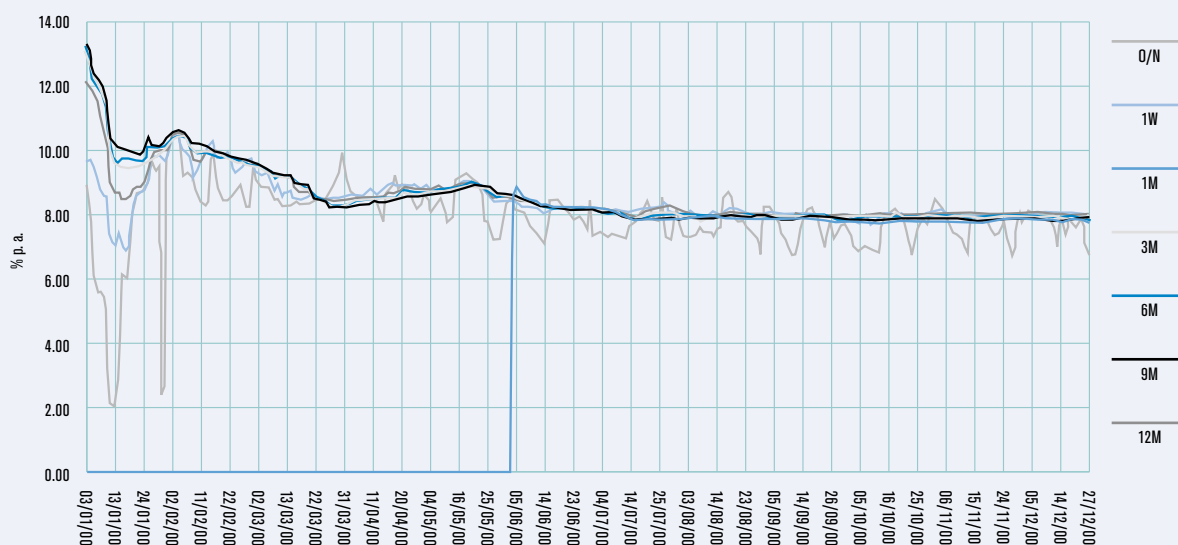
EUR/SKK in 2000



slide of the reference currency, euro, against the dollar caused the USD/SKK exchange rate to gradually rise from 41.0 to as much as 48.0

at the close of 2000, with a high for the dollar value of 52.7 being recorded in the final days of October.

BRIBOR



Slovak Money Market

In the 2000 year, the money market in Slovakia was marked by a historical change which took the form of a revision of the monetary instruments of the National Bank of Slovakia. These changes in the monetary policy tools lay in the introduction of qualitative performance in the form of interest rates announcements. This translated down in a dramatic decrease in interest rates both in the money and capital markets. Stabilisation of the interest curve for maturities of up to one year was also observed, which created room for forming a benchmark for maturities of up to ten years.

During the course of the year, the National Bank of Slovakia responded to the stable development of inflation several times by gradually reducing rates announced for overnight transactions down to as low as 9.5 % for refinancing transactions and 6.5 % for sterilisation trans-

actions, as well as by lowering the threshold rate for standard two-week repo tenders to 8.3 %. These changes in key rates caused a general decline in interest rates for all maturities.

Position of Slovenská sporiteľňa, a. s., in the Slovak Foreign Exchange and Money Markets

With an overall share of the interbank money market of 17.6 %, Slovenská sporiteľňa, a. s., maintained its leading position also in 2000. Its dealers executed deposit transactions in the Slovak koruna worth more than SKK 1,940 billion and in foreign currencies a total of SKK 942 billion. Turnover in swap transactions for 2000 amounted to almost SKK 354 billion. Slovenská sporiteľňa, a. s., repeatedly recorded a growth in the interbank foreign exchange market, having executed foreign exchange transactions worth more than SKK 254 billion.

Selected macroeconomic indicators

| Indicator | Unit of measurement | 1998 | 1999 | 2000 |
|-------------------------------|---------------------|---------|---------|---------|
| Real GDP growth | % | 4.1 | 1.9 | 2.2 |
| GDP at constant prices | billion SKK | 750.8 | 815 | 887 |
| Imports | billion SKK | 461 | 468 | 591 |
| Exports | billion SKK | 378 | 424 | 548 |
| Current account deficit / GDP | % | 10.4 | 5.4 | 3.7 |
| Inflation (yearly average) | % | 6.7 | 10.6 | 12 |
| Registered unemployment rate | % | 15.6 | 20.1 | 18.8 |
| Average nominal wage | SKK | 10,003 | 10,782 | 11,430 |
| NBS foreign exchange reserves | billion USD | 2.9 | 2.9 | 4.1 |
| Total gross foreign debt | billion USD | 10.6 | 10.5 | 10.8 |
| Fiscal deficit / GDP | % | 4.8 | 3.7 | 3.6 |
| Year-end exchange rate | | 43.3 | 42.5 | 44.0 |
| | | SKK/ECU | SKK/EUR | SKK/EUR |

Management report

Retail Customers

Deposits

The development of koruna and F/X deposits in the retail sector was positive in 2000. Several measures, adopted in order to stabilise the sources of funds, yielded positive results. In 2000, the volume of deposits recorded a growth on the previous year of almost 7.5 %.

Passbooks

Traditionally, the greatest share of sources of funds was held in passbooks with a notice period. Almost 47.0 % of total funds, held in koruna passbooks by depositors, were deposited in these passbooks. Their proportion, however, continues to gradually decrease, especially in favour of the product "Capital passbook", for which a more than 52 percent growth in time deposits was recorded over the previous year.

Current accounts

The development of giro accounts may be described as upward, with a growing number

of both accounts and amounts deposited. Over the course of the year, an almost 5 percent net increase in the number of accounts was recorded. Giro accounts continued to be a product that, in terms of the scope of services provided and the number of operations executed, ranked among the products most used by the personal sector. In 2000, more than 151 million accounting operations were executed via giro accounts.

Term deposit accounts

As of 31 December 2000, Slovenská sporiteľňa, a. s., managed more than 35 thousand term deposit accounts for the retail sector, with the volume of funds totalling SKK 6.8 billion.

Foreign exchange deposits

The volume of F/X deposits with Slovenská sporiteľňa, a. s., has been steadily growing over the last three years, reaching SKK 13,553,715 thousand at the end of 2000, representing an increase of 3.0 %.

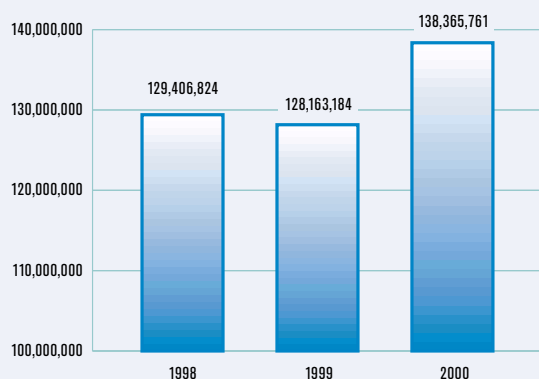
SKK '000

Retail deposits by volume

| | 1998 | 1999 | 2000 |
|---------------------------------|--------------------|--------------------|--------------------|
| SKK passbooks | 94,519,423 | 98,703,911 | 106,271,218 |
| SKK accounts (current and term) | 22,259,551 | 16,287,424 | 18,540,828 |
| Foreign exchange deposits | 12,627,850 | 13,171,849 | 13,553,715 |
| Retail customers total | 129,406,824 | 128,163,184 | 138,365,761 |

As regards the structure of deposits, koruna passbooks held the greatest share, 76.8 %, and koruna accounts (current and time) accounted for 13.4 % and 9.8 % of total deposits by retail customers.

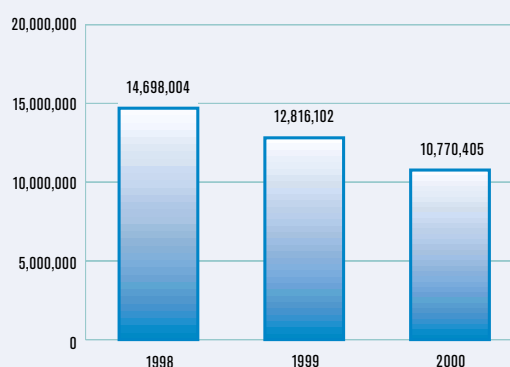
*Retail deposits F/X and SKK deposits total
(SKK '000)*



Retail customer loans

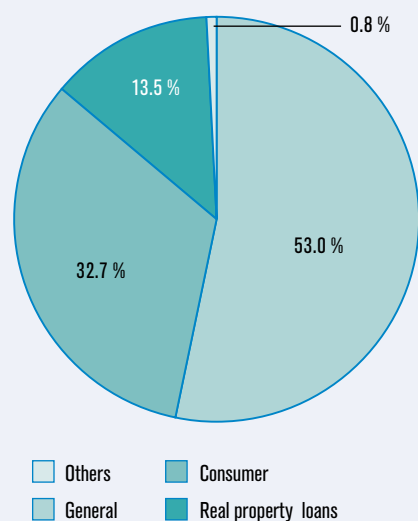
As of 31 December 2000, the volume of loans made to the retail sector totalled SKK 10,770,405 thousand. This represented a reduction of 2,045,697 thousand on the previous year. This trend can also be attributed to a reduced volume of social loans made prior to 2000 totalling SKK 831,560 thousand. On the whole it is possible to say that an adequate volume of newly made loans was achieved. Despite a decrease in the amount of loans made, Slovenská sporiteľňa, a. s., recorded a mild revival at the close of the year 2000. This positive turnaround was unambiguously facilitated by the adopted innovation in making loans, the essential element of which was that the monitoring of the purpose for which a loan is used was abandoned and the structure by maturity was determined. Another factor having a positive impact on this trend was the option of insuring a loan against unforeseen

*Retail loans by volume
(SKK '000)*



circumstances and ensuring its repayment by concluding an insurance policy.

*Structure of retail customer loans
as of 31 December 2000*



Mortgage loans

A specific type of retail loan, in particular owing to its restricted designated purpose and maturity period, is that of mortgage loans. Slovenská sporiteľňa, a. s., started making

mortgage loans to the retail sector on the basis of a license from the National Bank of Slovakia from 1 July 1999. Since the introduction of this product, mortgage loans with a total volume of SKK 332.5 million had been approved as of 31 December 2000. The greatest number of mortgage loans were provided for the purchase of an apartment, however, in terms of the volume of loans made, mortgage loans for construction purposes prevailed.

The quality of the mortgage loan portfolio is evidenced by the value of security in the form of domestic real property that on average was almost 234.0 %, compared to the legally required 167.0 % of the amount of loan made.

Institutional and Corporate Customers

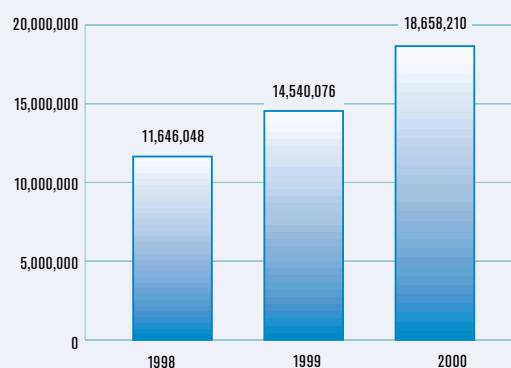
Deposits

The balance of current accounts maintained in Slovak koruna was relatively unstable throughout the 2000 year, which is typical of this type of products. This was first and foremost influenced by the nature of these funds, the financial standing of business entities and an effort to expediently invest temporarily available financial resources in the form of time deposits.

The range of products and services offered by Slovenská sporiteľňa, a. s., drew upon customer

needs, while also taking into account above-standard requirements that were reflected in individual terms of trade. As of 31 December 2000, an increase of 28.9 % was achieved for funds held in current accounts over the 1999 year.

*Corporate deposit accounts
in SKK and F/X total (SKK '000)*



As far as foreign exchange products for businesses are concerned, the product range was dominated by foreign exchange accounts denominated in foreign currencies. An increase of more than 170 % on the previous year was recorded for deposits in this type of account. The popularity of foreign exchange accounts was also helped by the option of having time deposits maintained at different maturities.

SKK '000

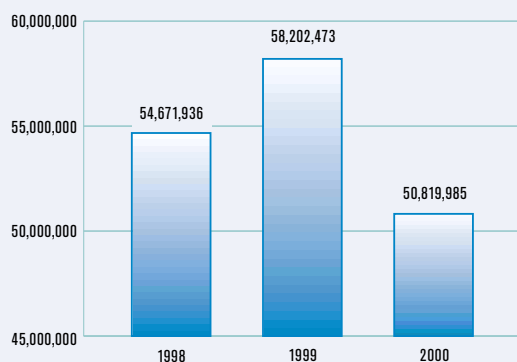
Institutional customer deposits

| Institutional customer accounts | 1998 | 1999 | 2000 |
|---------------------------------|-------------------|-------------------|-------------------|
| SKK accounts | 11,131,368 | 13,823,060 | 17,815,980 |
| F/X accounts | 514,680 | 717,016 | 842,230 |
| Total | 11,646,048 | 14,540,076 | 18,658,210 |

| Loan volumes | | |
|--------------|------------|------------|
| 1998 | 1999 | 2000 |
| 54,671,936 | 58,202,473 | 50,819,985 |

SKK '000

Volume of loans to institutional customers



Loan products

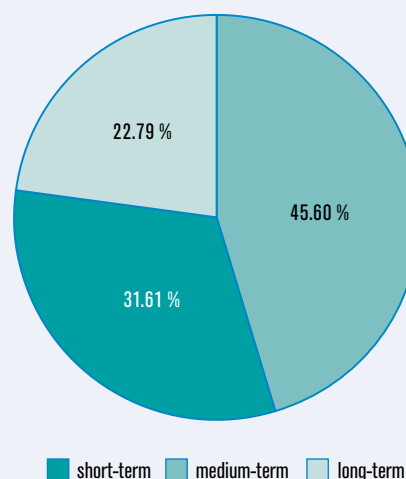
At the end of 2000, the amount of corporate loans stood at SKK 50.8 billion, accounting for 26.6 % of the Bank's balance sheet total. Of this amount, 30 billion comprised loans made to Slovenská konsolidačná, a. s., secured by state guarantee, and which have been transformed into government bonds. Historically the balance of loans was reduced against the previous year, with the decrease being 12.7 %. Their share of the balance sheet amount dropped by 7.0 % on the previous year.

The balance and structure of the loan portfolio was over the course of 2000 influenced by the 2nd stage of pre-privatisation restructuring of selected banks, as approved by the Slovak Government. Through the accomplishment of the 2nd stage of the Bank's pre-privatisation restructuring, the process of getting Slovenská sporiteľňa, a. s., ready for privatisation was completed at the close of 2000. Due to the assign-

ment of a risky portion of the loan portfolio totalling SKK 12.9 billion to Slovenská konsolidačná, a. s., in consideration for SKK 9.6 billion, qualitative characteristics of the Bank's loan portfolio were significantly improved compared to the opening balance for the year.

The vast majority of the Bank's loan portfolio (SKK 47.2 billion, i.e. 92.9 %) was used to promote business plans within the sector of

Maturity structure of loan portfolio as of 31 December 2000



non-financial organisations. At the end of the year, loans to the government sector totalled SKK 1.5 billion and loans worth SKK 1.3 billion were made to the sole trader sector.

The loan portfolio restructuring also influenced the structure of loans in terms of their maturities. A look at the age structure of the loan portfolio of Slovenská sporiteľňa, a. s., will reveal that the largest share of total loans, namely 45.6 %, was held by mid-term loans. At the end of 2000, short-term loans accounted for 31.6 % and long-term loans for 22.8 % of the total volume of loans.

The transfer of loans to Slovenská konsolidačná, a. s., as part of the Bank's restructu-

ring, as well as a prudent approach to making new loans, with a focus on the customer's financial standing and repayment of loans, finally showed also in a decrease in both koruna and F/X portions of the loan portfolio.

Trade finance

Slovenská sporiteľňa, a. s., executes trade operations for its customers, where, based on the specific customer's needs, it proposes a suitable method for financing and hedging business contracts both in Slovakia and in other countries.

One of the most important forms of foreign trade finance is represented by a documentary letter of credit. In 2000, Slovenská sporiteľňa, a. s., recorded an increase of 15.0 % for documentary letters of credit, with financing via documentary collections falling by 20.0 %. In the recent period, the Bank has recorded a transition to clean payments as a result of a long-term co-operation between business partners and a geographic orientation of customers of Slovenská sporiteľňa, a. s., towards the EU markets.

Domestic and Foreign Payments

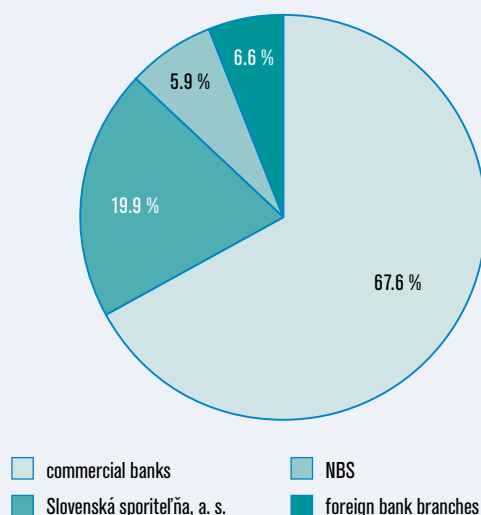
For several years now, an increase in electronic fund transfers has been observed in Slovenská sporiteľňa, a. s., with SLSP holding a dominant position in domestic interbank payments that are executed via Bankové zúčtovacie centrum Slovenska (the Bank Clearing Center of Slovakia, BZCS, a. s.). In 2000, Slovenská sporiteľňa, a. s., had a 19.9 % share of the total number of items processed.

Similarly to the number of items, also the total volume of funds cleared via the interbank domestic payments system has increased, 30.8 % up from the year 1999. An increase in the number of items was also recorded by Slovenská sporiteľňa, a. s., in the intrabank payments

system, where the number of items processed grew by 23.7 % in 2000.

Foreign payments are executed by Slovenská sporiteľňa, a. s., via its own nostro accounts held in various currencies, which make it possible for it to effectively clear commercial clean payments, documentary payments and collections between customers and their business partners all around the world. In 2000, the volume of payments to other countries increased by 12.0 % on the year.

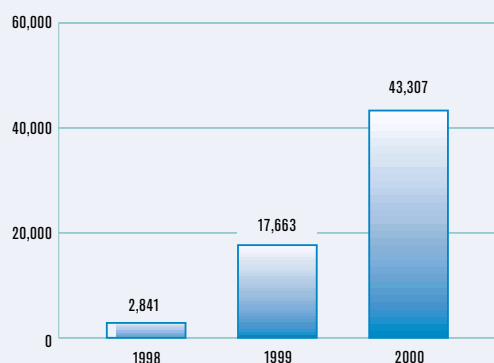
Slovenská sporiteľňa, a. s., percentage share of BZCS, a. s., transactions in 2000



Electronic Banking

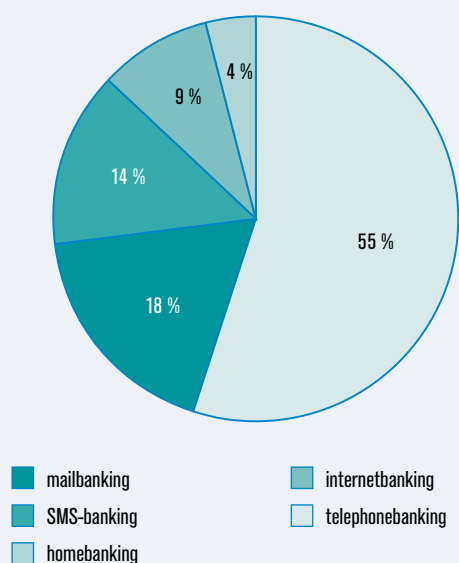
Banking today is marked by a global trend of increasingly large scale introduction of modern banking information technologies. They are a prerequisite for making banking operations more efficient. Slovenská sporiteľňa, a. s., monitors these trends and offers its customers the possibility of managing their accounts remotely via a comprehensive package of electronic banking services, from which the customer may choose according to his own needs.

Number of customers using electronic banking services



The use of electronic banking services has won great popularity among individual customers, which is documented by the growth of the number of customers using these services. Customers make use of the option of active access to their accounts in the form of internet banking and telephone banking, as well as of passive services of mail banking and SMS-banking.

Structure of electronic banking services used in 2000



The number of customers employing such services grew by 181 % in the year 2000, with customers using them to access more than 51 thousand accounts, 182 % more than in 1999.

By means of active electronic banking services, customers executed payments in the amount of more than SKK 170 million (an increase of more than 120 % on 1999), as to the number of payments, these increased by 240 % compared to 1999, to more than 13,000 payments made in 2000.

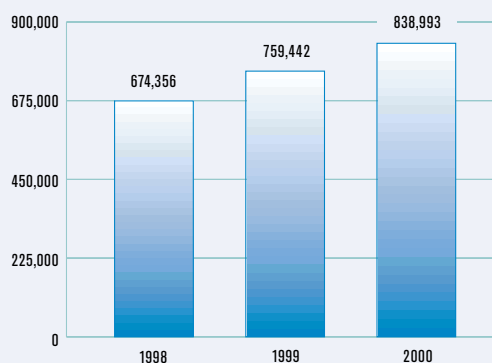
Institutional and corporate clientele notably prefers the use of home banking service, which enables convenient account management. In 2000, this option was used by 1,804 customers with access to more than 4,500 accounts. Both the number of customers and the number of accounts managed equally rose by 32 %.

Bank Cards

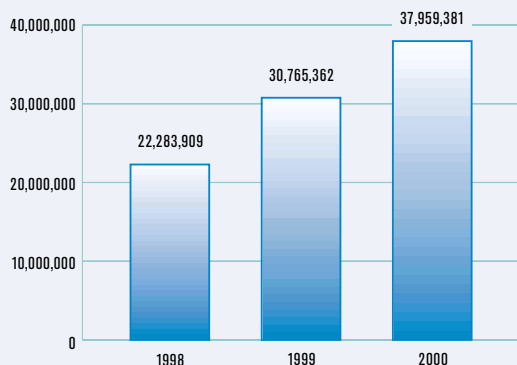
Slovenská sporiteľňa, a. s., holds an important position in terms of bank cards and services connected with their provision.

As of 31 December 2000, almost 827 thousand valid bank cards were registered to be held by its customers, almost 10.0 % more than in 1999. The proportion of giro accounts, to which payment cards have been issued for

Number of cards



*Volume of transactions executed via ATMs
of Slovenská sporiteľňa, a. s., (SKK '000)*



customers, is approaching 96.0 %. Of the total number of bank payment cards in Slovakia, cards issued by Slovenská sporiteľňa, a. s., accounted for as many as 50.0 % at the close of the year 2000, as compared with 49.2 % at the end of 1999.

In 2000, Slovenská sporiteľňa, a. s., continued to extend its network of ATMs and POS terminals. The number of automatic teller machines stood at 383 at the year-end, accounting for 35.7 % of the Slovak market. More than 23.3 million operations were executed via ATMs of Slovenská sporiteľňa, a. s., which is 47.2 % of all transactions performed via ATMs in Slovakia. In terms of the volume of transactions, Slovenská sporiteľňa, a. s., had a 46.0 % share, in monetary terms, almost SKK 38 billion.

During the course of the year 2000, the number of POS terminals of Slovenská sporiteľňa, a. s., increased by almost 33.0 %, reaching 1,845, which is more than 28.0 % of the number of all POS terminals in Slovakia. In 2000, more than 1,670 thousand transactions in the total amount of more than SKK 2.15 billion were executed. In terms of their number, transactions executed via POS terminals of Slovenská sporiteľňa, a. s. thus account for 29.6 % of the total and 31.4 % of the total value of transactions executed.

Investment Banking

Investment banking services of Slovenská sporiteľňa, a. s., in 2000 were oriented towards the representation of customers in the primary and secondary markets for securities, operations with promissory notes in the primary and secondary markets, trading in eurobonds in foreign capital markets, paying out yields from bond issues and carrying out activities in connection with the assignment of claims to Slovenská konsolidačná, a. s., in the 2nd stage of pre-privatisation restructuring.

In representing customers in the securities market, the main focus was on primary issues of government bonds and repo tenders of the National Bank of Slovakia. Slovenská sporiteľňa, a. s., represented both Slovak and foreign customers in such issues. The traded volume totalled SKK 2.5 billion.

The paying out of yields from bond issues also continued in 2000, where Slovenská sporiteľňa, a. s., acted in the capacity of administrator. All in all, yields from 11 bond issues were paid out, with the total amount of yields paid out being SKK 2.48 billion.

In 2000, Slovenská sporiteľňa, a. s., deepened its active involvement in the primary and secondary markets for eurobonds. Slovenská sporiteľňa, a. s., participated in the primary issue of eurobonds by Slovenské elektrárne, a. s., which in total amounted to SKK 4.1 billion.

In 2000, Slovenská sporiteľňa, a. s., purchased bonds worth SKK 25.5 billion in the primary market for government bonds, which accounted for 36.7 % of the total amount of bonds issued, with an average yield of 9.4 %. Another activity in the capital market consisted of trading in bonds of the Fond národného majetku Slovenskej republiky (the National Property Fund of the Slovak Republic) totalling SKK 1.25 billion.

When it came to the secondary market, Slovenská sporiteľňa, a. s., turned out to be one

Share of Slovenská sporiteľňa, a. s., in the total trading volume of the Bratislava Stock Exchange in 2000

in %

Price-setting deals

| Shares | Bonds |
|--------|-------|
| 2.1 | 2.2 |

Direct deals

| Shares | Bonds |
|--------|-------|
| 4.4 | 9.7 |

Repo deals

| Shares | Bonds |
|--------|-------|
| 0.1 | 0.0 |

of the most active members of the Burza cenných papierov v Bratislave (the Bratislava Stock Exchange). The Bank's share of the trade volume transacted via continual trading and direct deals at the Bratislava Stock Exchange reached 7.6 %. This outcome was mainly due to direct bond trading, where the market share of Slovenská sporiteľňa, a. s., stood at 8.8 %. The Bank actively represented its customers also in respect of secondary market operations.

The total volume of such trading was SKK 3.2 billion.

In 2000, promissory notes of thirteen resident and non-resident issuers denominated in Slovak koruna and foreign currencies were issued via Slovenská sporiteľňa, a. s., with a total turnover of SKK 20 billion. The average balance of the commercial paper issued as of 31 December 2000 amounted to SKK 3.2 billion.

Overview of the Participations in Selected Companies

| Company name | Share of Slovenská sporiteľňa, a. s., in the share capital (%) |
|---|---|
| Sporing, a. s. | 100.00 |
| Devín – Istria, d.c.o., Ičiči | 100.00 |
| ZAO Subrogation* | 48.98 |
| Univerzálna banková poisťovňa, a. s. | 46.00 |
| Prvá stavebná sporiteľňa, a. s. | 35.00 |
| Bankové zúčtovacie centrum Slovenska, a. s. | 13.49 |
| Burza cenných papierov Bratislava, a. s. | 10.98 |
| Sporofin Leasing, a. s. | 10.00 |

* Equity interest related to Russian assets that were redressed and financially settled in December 2000. The interest of Slovenská sporiteľňa, a. s., in ZAO Subrogation will be settled in 2001 without any impact upon the profit (loss) for the year 2001.

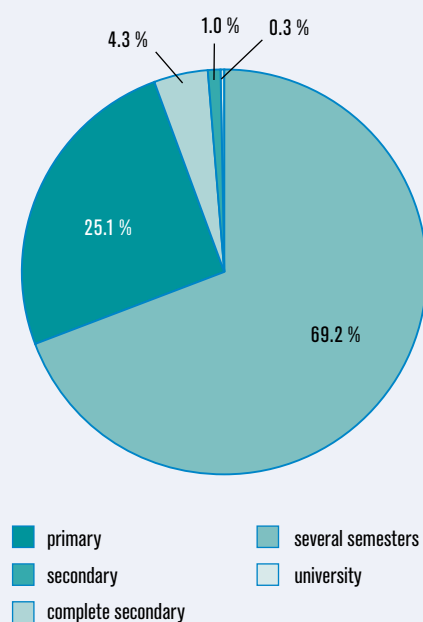
Human Resources Development

A prerequisite for the successful accomplishment of the strategic goal of Slovenská sporiteľňa, a. s., of satisfying its customers to the maximum is a trained personnel which, thanks to their potential and capabilities are able to meet the challenging requirements of any customer.

In 2000, a personnel audit was performed that identified possibilities for further streamlining of work and saving of resources. Following partial streamlining measures, the number of employees of Slovenská sporiteľňa, a. s., as of 31 December 2000 was reduced by 346 compared to the previous year (a 5.1 % decrease) to 6,473 people.

Slovenská sporiteľňa, a. s., sees the training and education of employees as a continuous process that starts with the employee's recruitment into the organization and is a tool for the personal growth of employees. In 2000, 448 courses were delivered in total, with 8,303 employees participating. The training was provided by the Bank's own training unit, the Saving Bank's Academy.

Structure of employees of Slovenská sporiteľňa, a. s., by education as of 31. December 2000



Financial Statements Year Ended 31 December 2000

SKK '000

Balance Sheet at 31 December 2000

| Assets | Notes | 2000 | 1999 |
|--|-------|--------------------|--------------------|
| Cash and balances at the Central bank | 3 | 21,751,133 | 17,256,011 |
| Treasury bills and other similar bills | 4 | 11,029,536 | 3,799,366 |
| Loans and advances to banks | 5 | 34,620,190 | 38,548,832 |
| Loans and advances to customers | 6 | 55,566,107 | 57,073,804 |
| Debt securities | 8 | 43,255,666 | 34,284,985 |
| Shares in subsidiaries | 9 | 191,720 | 191,720 |
| Shares in associated companies | 10 | 1,052,768 | 861,741 |
| Equity shares | 11 | 978,819 | 768,097 |
| Tangible fixed assets | 12 | 8,651,350 | 8,538,625 |
| Intangible fixed assets | 13 | 838,500 | 819,367 |
| Other assets | 14 | 1,404,396 | 2,687,070 |
| Advances and accrued income | 15 | 5,111,961 | 3,502,558 |
| | | 184,452,146 | 168,332,176 |
| Liabilities | | | |
| Deposits by banks | 16 | 5,048,103 | 8,524,948 |
| Customer accounts | 17 | 158,006,380 | 144,174,195 |
| Provisions for liabilities and charges | 18 | 2,324,766 | 1,197,696 |
| Other liabilities | 20 | 2,979,270 | 3,152,482 |
| Accruals and deferred income | | 2,025,439 | 1,702,512 |
| | | 170,383,958 | 158,751,833 |
| Subordinated loan | 21 | 3,791,120 | 3,381,280 |
| | | 174,175,078 | 162,133,113 |
| Share Capital and Reserves | | | |
| Share capital | 22 | 6,374,207 | 6,374,207 |
| Reserves | 23 | 3,902,861 | (175,144) |
| | | 10,277,068 | 6,199,063 |
| | | 184,452,146 | 168,332,176 |
| Off-balance sheet items | 24 | 28,531,325 | 21,530,900 |

The notes on pages 31 to 59 form part of these financial statements.

SKK '000

Profit and Loss Account Year Ended 31 December 2000

| | Notes | 2000 | 1999 |
|--|-------|--------------------|--------------------|
| Interest receivable and similar income | | | |
| from debt securities | 25 | 17,493,258 | 15,822,407 |
| Interest payable | 26 | (12,391,948) | (13,855,686) |
| Net interest income | | 5,101,310 | 1,966,721 |
| Fees and commissions receivable | | 1,516,439 | 1,489,096 |
| Fees and commissions payable | | (395,466) | (356,374) |
| Trading profit/(loss) | | 648,736 | (238,538) |
| Income from associated companies | | 267,022 | 219,661 |
| Other income | | 243,847 | 149,010 |
| Operating income | | 7,381,888 | 3,229,576 |
| Administrative expenses | 27 | (4,850,192) | (4,017,300) |
| Depreciation and amortisation | | (1,072,284) | (1,213,387) |
| Operating expenditure | | (5,922,476) | (5,230,687) |
| Operating profit/(loss) before provisions | | 1,459,412 | (2,001,111) |
| Provisions for bad and doubtful debt | 28 | 3,144,635 | 8,055,771 |
| Provisions for liabilities and charges | 18 | (1,127,070) | (1,197,696) |
| Other provisions | 29 | 598,501 | (2,749,363) |
| Goodwill provision | 13 | – | (2,163,268) |
| | | 2,616,066 | 1,945,444 |
| Operating profit/(loss) before taxation | | 4,075,478 | (55,667) |
| Taxation | 30 | – | 118,481 |
| Profit after taxation | | 4,075,478 | 62,814 |

The notes on pages 31 to 59 form part of these financial statements.

SKK '000

Statement of Changes in Shareholders' Equity Year Ended 31 December 2000

| | Share Capital | Profit and Loss Account | Legal Reserve Fund | Risk Fund | Capital Funds | Total |
|----------------------------|------------------|-------------------------------|--------------------------|----------------|------------------|-------------------|
| 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 |
| Revaluation | - | - | - | - | 2,527 | 2,527 |
| Profit for 2000 | - | 4,075,478 | - | - | - | 4,075,478 |
| At 31 December 2000 | 6,374,207 | (231,707) | 2,403,915 | 502,164 | 1,228,489 | 10,277,068 |

The notes on pages 31 to 59 form part of these financial statements.

SKK '000

Cashflow Statement Year Ended 31 December 2000

| Cashflows from Operating Activities | Notes | 2000 | 1999 |
|---|--------------|---------------------|--------------------|
| Profit before changes in operating assets and liabilities | 31 | 1,810,626 | 920,090 |
| Increase in loans and advances to banks | | (636,112) | (3,789,984) |
| Decrease/(increase) in loans and advances to customers | | 4,652,332 | (246,033) |
| Decrease in debt and equity securities | | 11,291,499 | 814,271 |
| Decrease/(increase) in other assets | | 986,943 | (2,814,771) |
| Increase in prepayments and accrued income | | (1,710,786) | (495,562) |
| (Decrease)/increase in deposits by banks | | (3,476,845) | 3,783,989 |
| Increase in customer accounts | | 13,832,185 | 2,250,575 |
| (Decrease)/increase in other liabilities | | (170,685) | 794,435 |
| Increase in accruals and deferred income | | 322,927 | 465,142 |
| Net cash from operating activities | | 26,902,084 | 1,682,152 |
| Cashflows from Investment Activities | | | |
| Purchase of debt securities | | (19,682,848) | (245,417) |
| Sale/(purchase) of equity shares | | 21,959 | (151,708) |
| Sale of shares in subsidiaries | | – | 67,501 |
| Purchase of shares in associated companies | | – | (42,994) |
| Dividends received from associated companies | | 75,761 | 93,503 |
| Purchase of tangible fixed assets | | (1,057,937) | (1,058,977) |
| Revenue from disposal of tangible fixed assets | | 115,628 | 6,446 |
| Acquisition of net liabilities of Priemyselná banka | | – | (2,163,268) |
| Software purchase | | (299,730) | (202,020) |
| Net cash used in investment activities | | (20,827,167) | (3,696,934) |
| Cashflow from Financial Activities | | | |
| Proceeds from share capital issuance | | – | 4,300,000 |
| Net cash from financial activities | | – | 4,300,000 |
| Net increase in cash and cash equivalents | | 6,074,917 | 2,285,218 |
| Cash and cash equivalents at beginning of year | | 42,570,805 | 40,285,587 |
| Cash and Cash Equivalents at End of Year | 32 | 48,645,722 | 42,570,805 |

The notes on pages 31 to 59 form part of these financial statements.

Notes to the Financial Statements

Year Ended 31 December 2000

1. General Information

Business

The principal activities of Slovenská sporiteľňa, a. s., ('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 has a network of 531 branches throughout Slovakia.

Change of Ownership

Under an agreement dated 11 January 2001, Erste Bank Der österreichischen Sparkassen AG, a bank incorporated in Austria, agreed to acquire 87.18 % of the issued shares of the Bank from the State. The transaction will be closed on 5 April 2001.

Financial Restructuring

In preparation for privatisation, a programme to restructure and improve the financial position of the Bank was initiated.

On 28 June 2000, the Bank entered into an agreement under which certain loans with a net book value of SKK 5.4 billion (gross value: SKK 12.9 billion) were assigned to Slovenská konsolidácia, a. s., ('SK') for a consideration of SKK 9.6 billion. Slovenská konsolidácia is a company established as part of the bank privatisation process in Slovakia with the primary purpose of acquiring bad and doubtful loans from state-owned banks. The consideration for the assigned receivables was settled from the proceeds of a loan provided by the Bank to SK and repayment of the loan was guaranteed by the State (see also note 6).

In 1999, the following measures were implemented:

- (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.
- (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 konsolidácia, a. s. The consideration was settled from the proceeds of a loan provided by the Bank to SK and repayment of the loan was 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 Bratislava, 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 of the loan was guaranteed by the State (see also note 5).

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, in the opinion of the directors, the impact would not be significant.

The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with those of 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 debt

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 balances at the central bank or other assets, as appropriate.

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 subsidiaries

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

(g) Shares in associated companies

Shares in associated companies 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 | 1.5 % first year 2.5 % subsequent years |
| Furniture, fittings and equipment | 3.4 % – 28.6 % |
| Motor vehicles | 14.2 % first year 28.6 % 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 the 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:

| | |
|------------------|---------|
| First year | 5.00 % |
| Second year | 10.00 % |
| Subsequent years | 28.33 % |

(k) Goodwill

Goodwill, which represents the excess of the purchase consideration for an interest in a bu-

siness over the fair value of the identifiable assets and liabilities acquired, is stated net of accumulated amortisation and 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) Derivatives

Derivative instruments are generally used for hedging purposes and include forwards, foreign exchange options, forward rate agreements and interest rate swaps. Gains and losses on these derivatives are taken to the profit and loss account in accordance with the accounting treatment of the underlying transaction. Accrued income or expense is reported in prepayments or accruals.

(m) Interest, fees and commissions

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

(n) 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.

(n) Income tax (continued)

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.

(o) 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.

Loans and advances to banks includes a loan of SKK 2.4 billion (31 December 1999: Sk 2.4 billion) to Konsolidačná banka Bratislava, š. p. ú., (see also note 1). Interest during the year was charged at 10.3 % per annum until 24 October 2000, from when, in line with market developments, the rate reduced to 8.2 % (1999: 10.3 %). On 31 January 2001, the loan was settled in full by the assignment to the Bank of

3. Cash and Balances at the Central Bank

SKK '000

Balances with the National Bank of Slovakia

| | 2000 | 1999 |
|--|-------------------|-------------------|
| Statutory minimum reserve | 10,359,254 | 10,304,391 |
| Amounts receivable under repurchase agreements | 7,877,464 | 2,817,917 |
| Other | 370,194 | 293,911 |
| | 18,606,912 | 13,416,219 |
| Cash in hand | 3,144,221 | 3,839,792 |
| | 21,751,133 | 17,256,011 |

4. Treasury Bills and Other Similar Bills

SKK '000

Treasury bills and other similar bills issued by

| | 2000 | 1999 |
|---------------------------|-------------------|------------------|
| Slovak government | 8,202,762 | 3,799,366 |
| National Bank of Slovakia | 2,826,774 | – |
| | 11,029,536 | 3,799,366 |

5. Loans and Advances to Banks

| | SKK '000 | |
|---|-------------------|-------------------|
| | 2000 | 1999 |
| Due on demand | 631,169 | 1,281,552 |
| Other loans and advances by contractual maturity: | | |
| up to 3 months | 15,233,884 | 20,233,876 |
| 3 months up to 1 year | 14,304,997 | 14,011,032 |
| 1 year up to 5 years | 5,435,130 | 5,183,077 |
| over 5 years | 90,094 | – |
| | 35,695,274 | 40,709,537 |
| Provisions | (1,075,084) | (2,160,705) |
| | 34,620,190 | 38,548,832 |

2,398 Slovak government bonds with a nominal value of SKK 1 million each. The bonds, which mature on 30 January 2008, pay interest twice annually at a rate equivalent to 6 month BRIBOR.

There are other gross advances to KBB, with varying maturity dates, totalling SKK 2.2 billion (31 December 1999: SKK 2.2 billion). On 27 March 2001, the Slovak Ministry of Finance and the National Property Fund of the Slovak Republic jointly issued written confirmation to the Bank that SKK 1.3 billion of the proceeds

arising from the sale of the State's shares in the Bank will be used for the payment of these advances and that they will, within their power, ensure that KBB repays all other principal balances and related interest on the due dates.

Other credit risk concentrations in loans and advances to banks include total amounts receivable of SKK 7.0 billion (31 December 1999: SKK 10.2 billion), with varying maturities, from two Slovak-resident banks. These exposures are within the limits set out in the regulations of the National Bank of Slovakia.

6. Loans and Advances to Customers

| | SKK '000 | |
|--|-------------------|-------------------|
| | 2000 | 1999 |
| Due on demand | – | – |
| Other loans and advances to customers by contractual maturity: | | |
| up to 3 months | 62,459 | 310,942 |
| 3 months up to 1 year | 16,083,117 | 14,385,436 |
| 1 year up to 5 years | 27,599,867 | 33,649,942 |
| over 5 years | 18,133,612 | 23,047,304 |
| | 61,879,055 | 71,393,624 |
| General provisions and reserves for bad and doubtful debt (note 7) | (6,312,948) | (14,319,820) |
| | 55,566,107 | 57,073,804 |

Loans to non-financial services companies includes two loans to Slovenská konsolidačná, a. s., totalling SKK 30 billion (see also note 1). The loans comprise SKK 20.4 billion which was due for repayment by one lump sum on 31 January 2001 and SKK 9.6 billion which was due for repayment by one lump sum on 31

March 2001. Interest was charged during the year at 10.3 % per annum until 11 October 2000, from when, in line with market developments, the rate reduced to 8.2 % per annum. On 31 January 2001, both loans were settled in full by the assignment to the Bank of the following Slovak government bonds:

| No. | Nominal Value SKK | Interest Rate | Total Nominal Value SKK '000 |
|--------|----------------------|---------------|---------------------------------|
| 12,398 | 1,000,000 | 8 % | 12,398,000 |
| 17,600 | 1,000,000 | 6 m BRIBOR | 17,600,000 |
| | | | 29,998,000 |

Interest on the bonds is payable one year after date of issue and bi-annually thereafter.

SKK '000

Loans and advances made to the following categories of customers

| | 2000 | 1999 |
|--|-------------------|-------------------|
| Non-financial services companies | 47,197,018 | 50,402,483 |
| Individuals and sole traders – Slovak resident | 12,332,295 | 16,291,120 |
| Non-resident companies and individuals | 781,767 | 2,699,780 |
| Government | 1,513,301 | 1,682,732 |
| Financial services companies | – | 4,105 |
| Non-profit organisations | 12,722 | 2,463 |
| Other | 41,952 | 310,941 |
| | 61,879,055 | 71,393,624 |

7. Provisions for Bad and Doubtful Debt

SKK '000

Provisions for bad and doubtful debt

| | 2000 | 1999 |
|----------------------------------|------------------|-------------------|
| Opening balance | 14,319,820 | 21,232,817 |
| Release and Depreciation | (8,006,872) | (9,899,948) |
| Acquisition of Priemyselná banka | – | 2,986,951 |
| Closing balance | 6,312,948 | 14,319,820 |

Releases during the year includes SKK 7.5 billion arising from the assignment of classified loans, as explained in note 1 (1999: SKK 10.8

billion). The charge to profit and loss account for the year is set out in note 28.

8. Debt Securities

SKK '000

Investment securities

| | 2000 | 1999 |
|-------------------|-------------------|----------------|
| Slovak government | 13,727,000 | – |
| Slovak banks | 1,828,475 | 140,192 |
| Slovak corporate | 4,363,815 | 105,225 |
| Municipalities | 8,975 | – |
| | 19,928,265 | 245,417 |

Trading securities at market value

| | | |
|------------------------|-------------------|-------------------|
| Slovak government | 20,817,379 | 26,359,357 |
| Slovak banks | – | 2,182,812 |
| Other Slovak corporate | 2,073,013 | 4,850,677 |
| Foreign banks | – | 550,791 |
| Russian government | 187,009 | 83,581 |
| Municipalities | 250,000 | 12,350 |
| | 23,327,401 | 34,039,568 |
| | 43,255,666 | 34,284,985 |

The increases in Russian government and Municipality trading securities were due solely to increases in the market value of these securities.

At 31 December 2000, the market value of investment securities was SKK 20,187 million (31 December 1999: SKK 234 million).

9. Shares in Subsidiaries

SKK '000

| Name | Activity | 2000 | 1999 |
|---------------------------------|----------|----------------|----------------|
| Sporing, a. s. | Hotel | 383,440 | 383,440 |
| Devin Istria, d. o. o., Croatia | Hotel | 35,104 | 33,876 |
| | | 418,544 | 417,316 |
| Provisions for losses | | (226,824) | (225,596) |
| | | 191,720 | 191,720 |

Both subsidiaries are wholly owned.

10. Shares in Associated Companies

SKK '000

| Name | 2000 | 1999 |
|--|------------------|----------------|
| Shares at cost | 581,987 | 581,956 |
| Share of post-acquisition results and reserves | 470,781 | 279,785 |
| Share in net assets | 1,052,768 | 861,741 |

SKK '000

The Bank has the following associates

| Name | Activity | Holding | | Cost | |
|--------------------------------------|------------------|---------|--------|----------------|----------------|
| | | 2000 | 1999 | 2000 | 1999 |
| Prvá stavebná sporiteľňa, a. s. | Building Society | 35.0 % | 35.0 % | 360,500 | 360,500 |
| Univerzálna banková poisťovňa, a. s. | Insurance | 46.4 % | 46.4 % | 142,600 | 142,600 |
| Satel, a. s., Poprad | Hotel | 42.3 % | 42.3 % | 78,622 | 78,622 |
| ZAO Subrogation | Debt collection | 49.0 % | 49.0 % | 265 | 234 |
| | | | | 581,987 | 581,956 |

The investment in ZAO Subrogation will be disposed of in 2001 at no gain or loss to the Bank.

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

11. Equity Shares

SKK '000

| Investment | 2000 | 1999 |
|---------------------------|----------------|----------------|
| Shares at cost (unlisted) | 520,191 | 542,150 |
| Provisions for losses | (420,950) | (332,437) |
| | 99,241 | 209,713 |
| Trading | | |
| Shares at market value | 879,578 | 558,384 |
| | 978,819 | 768,097 |

12. Tangible Fixed Assets

SKK '000

| Cost | Land and Buildings | Furniture Fittings & Equipment | Motor Vehicles | Assets not yet in use | Total |
|----------------------------|--------------------|--------------------------------|----------------|-----------------------|-------------------|
| At 1 January 2000 | 7,349,983 | 7,157,030 | 167,229 | 360,616 | 15,034,858 |
| Additions | - | 639 | - | 1,057,298 | 1,057,937 |
| Disposals | (139,926) | (449,324) | (24,724) | - | (613,974) |
| Transfers into use | 255,161 | 647,519 | 10,198 | (912,878) | - |
| At 31 December 2000 | 7,465,218 | 7,355,864 | 152,703 | 505,036 | 15,478,821 |
| Depreciation | | | | | |
| At 1 January 2000 | 1,317,375 | 5,014,967 | 163,891 | - | 6,496,233 |
| Charge for the year | 169,833 | 618,412 | 3,481 | - | 791,726 |
| Disposals | (36,291) | (399,473) | (24,724) | - | (460,488) |
| At 31 December 2000 | 1,450,917 | 5,233,906 | 142,648 | - | 6,827,471 |
| Net book value | | | | | |
| At 31 December 2000 | 6,014,301 | 2,121,958 | 10,055 | 505,036 | 8,651,350 |
| At 31 December 1999 | 6,032,608 | 2,142,063 | 3,338 | 360,616 | 8,538,625 |

13. Intangible Fixed Assets

SKK '000

| Cost | Software | Goodwill | Assets not yet in use | Total |
|---|------------------|------------------|-----------------------|------------------|
| At 1 January 2000 | 1,899,375 | 2,163,268 | 73,861 | 4,136,504 |
| Additions | 68 | – | 299,662 | 299,730 |
| Transfers into use | 154,783 | – | (154,783) | – |
| Change | (17,051) | – | – | (17,051) |
| At 31 December 2000 | 2,037,175 | 2,163,268 | 218,740 | 4,419,183 |
| Goodwill provisions and amortisation | | | | |
| At 1 January 2000 | 1,153,869 | 2,163,268 | – | 3,317,137 |
| Charge for the year | 280,558 | – | – | 280,558 |
| Change | (17,012) | – | – | (17,012) |
| At 31 December 2000 | 1,417,415 | 2,163,268 | – | 3,580,683 |
| Net book value | | | | |
| At 31 December 2000 | 619,760 | – | 218,740 | 838,500 |
| At 31 December 1999 | 745,506 | – | 73,861 | 819,367 |

Goodwill arose in 1999 when the Bank acquired the assets, liabilities and business of Priemyselná banka, a. s., Košice ('PBKO'), a bank which had been placed under administration by the National Bank of Slovakia on 19 October 1999. The acquisition was made primarily to protect the Bank's exposures to PBKO, which, at that time, totalled SKK 5.4 billion.

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 giving rise to goodwill of SKK 2,163 million.

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

14. Other Assets

| | SKK '000 | |
|-------------------|------------------|------------------|
| | 2000 | 1999 |
| Other receivables | 3,482,220 | 4,469,163 |
| Provisions | (2,077,824) | (1,782,093) |
| | 1,404,396 | 2,687,070 |

15. Advance payments and Accrued Income

| | SKK '000 | |
|------------------|------------------|------------------|
| | 2000 | 1999 |
| Advance payments | 405,352 | 437,916 |
| Accrued income | 4,941,027 | 3,197,677 |
| | 5,346,379 | 3,635,593 |
| Provisions | (234,418) | (133,035) |
| | 5,111,961 | 3,502,558 |

16. Deposits by Banks

| | SKK '000 | |
|--|------------------|------------------|
| | 2000 | 1999 |
| Due on demand | 288,465 | 315,167 |
| Other deposits by banks with contractual maturity: | | |
| up to 3 months | 3,423,204 | 6,384,488 |
| 3 months up to 1 year | 200,000 | 688,000 |
| 1 year up to 5 years | 100,000 | 540,667 |
| over 5 years | 1,036,434 | 596,626 |
| | 5,048,103 | 8,524,948 |

17. Customer Accounts

SKK '000

| | 2000 | 1999 |
|--|--------------------|--------------------|
| Due on demand | 42,698,483 | 39,268,442 |
| Other deposits with agreed maturity dates or periods of notice, by contractual maturity: | | |
| up to 3 months | 51,974,539 | 39,676,257 |
| 3 months up to 1 year | 34,149,754 | 33,410,277 |
| 1 year up to 5 years | 26,704,919 | 29,631,911 |
| over 5 years | 2,478,685 | 2,187,308 |
| | 158,006,380 | 144,174,195 |

18. Provisions for Liabilities and Charges

SKK '000

| | Opening Balance | Charge for Year | Transfers | Closing Balance |
|---------------------------------------|--------------------|--------------------|-----------|--------------------|
| Off-balance sheet and other risks (a) | 1,197,696 | 398,266 | (412,459) | 1,183,503 |
| Interest bearing products (b) | – | 678,804 | 343,439 | 1,022,243 |
| Deferred tax (see note 19) | – | – | – | – |
| Other | – | 50,000 | 69,020 | 119,020 |
| | 1,197,696 | 1,127,070 | – | 2,324,766 |

(a) The provisions for off balance sheet and other risks has been created to cover losses which are present in off balance sheet and other exposures but which have not been specifically identified.

(b) Provision has been made for the estimated net costs of several deposit products which were offered by the Bank at high fixed interest rates. In the opinion of the directors, on the basis of the latest available information and advice, the amount of the provision represents the total expected net costs of these products.

19. Deferred Tax

There is a potential deferred tax asset of SKK 48.65 million (1999: nil) arising from deductible temporary differences included in Other Liabilities. However, as it is probable that there will be a negative tax base for the year ended 31 December 2001, no deferred tax asset has been recognised.

As stated in note 30, there is a tax loss for the year of SKK 4.2 billion. However, this loss cannot be carried forward for utilisation against future taxable profits because it has been created by the deduction of interest income subject to withholding taxes.

20. Other Liabilities

| | SKK '000 | |
|-----------------------------|------------------|------------------|
| | 2000 | 1999 |
| Withholding tax on interest | 1,293,359 | 1,157,617 |
| Bonds | – | 700,000 |
| Other liabilities | 1,685,911 | 1,294,865 |
| | 2,979,270 | 3,152,482 |

All bonds matured during June 2000.

21. Subordinated Loan

| | SKK '000 | |
|-------------------|-----------|-----------|
| | 2000 | 1999 |
| Subordinated loan | 3,791,120 | 3,381,280 |

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 De-

cember 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.

The Bank has granted a put option under which it may acquire Floating Rate Notes totalling US\$ 50 million at a price equal to 85.875 % of the nominal value, plus accrued interest.

The option will be exercised no later than two business days prior to the final maturity of the Notes.

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.

22. Share Capital

SKK '000

| Authorised, issued and fully paid | 2000 | 1999 |
|--|------------------|------------------|
| 2,174,207 ordinary shares of SKK 1,000 each (1999: 2,074,207) | 2,174,207 | 2,074,207 |
| 42 ordinary shares of SKK 100,000,000 each (1999: 43) | 4,200,000 | 4,300,000 |
| | 6,374,207 | 6,374,207 |

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

23. Reserves

SKK '000

| | Profit and Loss Account | Legal Reserve Fund | Risk Fund | Capital Funds | Total |
|----------------------------|----------------------------|--------------------------|----------------|------------------|------------------|
| At 1 January 2000 | (4,307,185) | 2,403,915 | 502,164 | 1,225,962 | (175,144) |
| Revaluation | - | - | - | 2,527 | 2,527 |
| Transfers | - | - | - | - | - |
| Profit for 2000 | 4,075,478 | - | - | - | 4,075,478 |
| At 31 December 2000 | (231,707) | 2,403,915 | 502,164 | 1,228,489 | 3,902,861 |

No dividend was declared in respect of 1999 because the Bank reported a loss that year in the Slovak statutory financial statements.

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 consists 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.

The Directors will propose to retain the profit for 2000.

24. Off-balance Sheet Items

| | SKK '000 | |
|-------------------------------|-------------------|-------------------|
| Liabilities | 2000 | 1999 |
| Guarantees | 602,085 | 2,802,056 |
| Irrevocable letters of credit | 61,408 | 33,611 |
| Commitments | | |
| Confirmed credit lines | 188,599 | 222,101 |
| Other | | |
| Foreign currency contracts | 24,690,567 | 18,473,132 |
| Foreign currency options | 2,050,666 | – |
| Forward rate agreements | 800,000 | – |
| Interest rate swaps | 138,000 | – |
| | 28,531,325 | 21,530,900 |

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

(see also note 18). At 31 December 2000, these provisions amounted to SKK 1.2 billion (31 December 1999: SKK 1.2 billion).

25. Interest Revenues and Similar Income Arising from Debt Securities

SKK '000

| | 2000 | 1999 |
|---------------------------------|-------------------|-------------------|
| Loans and advances to banks | 3,769,361 | 4,573,363 |
| Loans and advances to customers | 7,984,454 | 7,071,790 |
| Debt securities | 5,739,443 | 4,177,254 |
| | 17,493,258 | 15,822,407 |

26. Interest Liabilities

SKK '000

| | 2000 | 1999 |
|-------------------|-------------------|-------------------|
| Deposits by banks | 771,262 | 701,604 |
| Customer accounts | 11,408,342 | 12,830,933 |
| Debt securities | 212,344 | 323,149 |
| | 12,391,948 | 13,855,686 |

27. Administrative Expenses

SKK '000

| Employee costs | 2000 | 1999 |
|--------------------------|------------------|------------------|
| Wages and salaries | 1,662,911 | 1,529,288 |
| Social insurance | 663,572 | 518,646 |
| | 2,326,483 | 2,047,934 |
| Other operating expenses | 2,523,709 | 1,969,366 |
| | 4,850,192 | 4,017,300 |

Other operating expenses in 2000 includes an exceptional contribution of SKK 265 million to the Deposit Protection Fund.

The average number of employees during the year was 6,509 (1999 : 6 359) and included 477 employees transferred from Priemy-

slná banka, a. s., Košice on 17 December 1999. The actual number of employees at 31 December 2000 was 6,471 (1999: 6,817).

28. Provisions for Bad and Doubtful Debt

SKK '000

| | 2000 | 1999 |
|--------------|-------------|-------------|
| Releases net | (3,144,635) | (8,055,771) |

Provisions for bad and doubtful debts in the year ended 31 December 2000 are stated net of a gain of SKK 4.2 billion (31 December 1999:

SKK 9.0 billion) which arose on the disposal of certain receivables under the programme for the Bank`s privatisation (see also note 1).

29. Other Provisions

SKK '000

| (Release)/charge for the year | 2000 | 1999 |
|--------------------------------|-------------|-----------|
| Loans and advances to banks | (1,085,621) | 824,289 |
| Other assets | 295,731 | 1,384,231 |
| Prepayments and accrued income | 101,383 | - |
| Equity securities : investment | 88,513 | 142,881 |
| Shares in subsidiaries | 1,228 | 225,596 |
| Shares in associated companies | 265 | 73,062 |
| Other | - | 99,304 |
| | (598,501) | 2,749,363 |

30. Taxation

SKK '000

| Income tax | 2000 | 1999 |
|--------------|------|---------|
| Tax due | – | – |
| Tax deferred | – | 118,481 |
| | – | 118,481 |

Accounting profit/(loss) before taxation is reconciled to the loss for taxation purposes as follows

| | 2000 | 1999 |
|---|--------------------|------------------|
| Accounting profit/(loss) before taxation | 4,075,478 | (55,667) |
| Net (release)/increase in non-taxable reserves and provisions | (3,003,801) | 1,918 |
| Non-deductible expenses | 1,780,663 | 4,141,544 |
| Non-taxable income from government securities | (4,313,468) | (4,366,403) |
| Other non-taxable items | (2,768,866) | (425,816) |
| Tax loss | (4,229,994) | (704,424) |

31. Profit before Changes in Operating Assets and Liabilities

| | SKK '000 | |
|---|------------------|----------------|
| | 2000 | 1999 |
| Operating profit/(loss) before taxation | 4,075,478 | (55,667) |
| Adjustments for: | | |
| Depreciation and amortisation | 1,072,284 | 1,213,387 |
| Loss on disposal of fixed assets | 37,897 | 66,401 |
| Provisions for bad and doubtful debt | (3,144,635) | (8,055,771) |
| Provisions for liabilities and charges | 1,127,070 | 1,197,696 |
| Other provisions | (598,501) | 2,749,363 |
| Impairment loss on goodwill | – | 2,163,268 |
| Revaluation of trading securities | (900,526) | 1,432,835 |
| Income from associated companies | (267,022) | (219,661) |
| Unrealised exchange rate loss | 408,581 | 428,239 |
| Cashflow statement | 1,810,626 | 920,090 |

32. Cash and Cash Equivalents

| | SKK '000 | |
|---|-------------------|-------------------|
| | 2000 | 1999 |
| Cash and balances at the Central bank (note 3) | 21,751,133 | 17,256,011 |
| Treasury bills and other similar bills (note 4) | 11,029,536 | 3,799,366 |
| Loans and advances to banks with original maturity up to 3 months (note 5) | 15,865,053 | 21,515,428 |
| | 48,645,722 | 42,570,805 |

33. Assets and Liabilities Denominated in Foreign Currencies

SKK '000

The Bank had the following foreign exchange positions at 31 December 2000

| Assets | Euro | US Dollar | Czech Crown | Other | Slovak Crown | Total |
|------------------------------|------------------|-------------------|----------------|----------------|--------------------|--------------------|
| Cash and balances | | | | | | |
| at Central bank | 387,627 | 127,846 | 131,061 | 89,314 | 21,015,285 | 21,751,133 |
| Treasury bills | – | – | – | – | 11,029,536 | 11,029,536 |
| Loans and advances to banks | 1,021,342 | 12,248,572 | 319,342 | 655,639 | 20,375,295 | 34,620,190 |
| Loans and advances | | | | | | |
| to customers | 2,459,055 | 3,327,687 | 2,891 | 11,753 | 49,764,721 | 55,566,107 |
| Debt securities | 2,985,528 | 409,714 | – | – | 39,860,424 | 43,255,666 |
| Shares in subsidiaries | – | – | – | – | 191,720 | 191,720 |
| Shares in associated | | | | | | |
| companies | – | – | – | 265 | 1,052,503 | 1,052,768 |
| Equity shares | 2,154 | – | 1,254 | – | 975,411 | 978,819 |
| Other assets | 433,604 | 341,743 | 25 | 1,763 | 627,261 | 1,404,396 |
| Prepayments and accrued | | | | | | |
| Income | 199,326 | 149,641 | 29,917 | 23,323 | 4,709,754 | 5,111,961 |
| | 7,488,636 | 16,605,203 | 484,490 | 782,057 | 149,601,910 | 174,962,296 |
| Liabilities | | | | | | |
| Deposits by banks | 709,854 | 212,023 | 49,203 | 22,718 | 4,054,305 | 5,048,103 |
| Customer accounts | 6,920,160 | 6,535,264 | 462,391 | 674,344 | 143,414,221 | 158,006,380 |
| Other liabilities | 19,920 | 292,127 | 75 | 1,569 | 2,665,579 | 2,979,270 |
| Accruals and deferred income | 128,408 | 44,737 | 1,107 | 2,022 | 1,849,165 | 2,025,439 |
| Subordinated loans | – | 3,791,120 | – | – | – | 3,791,120 |
| | 7,778,342 | 10,875,271 | 512,776 | 700,653 | 151,983,270 | 171,850,312 |

33. Assets and Liabilities Denominated in Foreign Currencies

SKK '000

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

| Assets | Euro | US Dollar | Czech Crown | Other | Slovak Crown | Total |
|-----------------------------------|------------------|-------------------|----------------|----------------|--------------------|--------------------|
| Cash and balances at Central bank | 484,079 | 259,905 | 134,089 | 116,210 | 16,261,728 | 17,256,011 |
| 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 subsidiaries | - | - | - | - | 191,720 | 191,720 |
| Shares in associated companies | - | - | - | - | 861,741 | 861,741 |
| Equity shares | - | - | 147,431 | 1,831 | 618,835 | 768,097 |
| Other assets | 295,869 | 1,464,333 | 371 | 9,882 | 916,615 | 2,687,070 |
| Prepayments and accrued Income | 36,694 | 75,003 | 2 | 211 | 3,390,648 | 3,502,558 |
| | 8,847,210 | 10,938,826 | 308,730 | 804,503 | 138,074,915 | 158,974,184 |
| Liabilities | | | | | | |
| 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 |
| | 8,290,184 | 9,783,968 | 629,364 | 703,050 | 141,528,851 | 160,935,417 |

34. Related Party Transactions

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

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Balances outstanding with associated entities at year end were as follows

| | 2000 | 1999 |
|-----------------------------|---------|-----------|
| Loans and advances to banks | – | 402,412 |
| Other assets | – | 1,232,594 |
| Deposits by banks | 425,924 | 1,577,898 |
| Customer accounts | 132,160 | 100,645 |

Transactions during the year with associates were as follows

| | | |
|----------------------------------|--------|--------|
| Interest received and receivable | 40,252 | 33,595 |
| Interest paid and payable | 41,460 | 53,311 |

35. Maturity Analysis

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The remaining period to maturity of monetary assets and liabilities at 31 December 2000 was as follows

| Monetary assets | 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 |
|-----------------------------------|-------------------|------------------------|-----------------------|----------------------|------------------|-------------------|--------------------|
| Cash and balances at Central bank | 21,751,133 | - | - | - | - | - | 21,751,133 |
| Treasury bills | - | 2,826,774 | 8,202,762 | - | - | - | 11,029,536 |
| Loans and advances to banks | 16,102,738 | 9,373,371 | 6,657,572 | 2,486,000 | - | 1,075,593 | 35,695,274 |
| Loans and advances to customers | 31,332,141 | 2,047,773 | 6,592,912 | 9,792,444 | 3,712,916 | 8,400,869 | 61,879,055 |
| Debt securities | 5,192,563 | 3,862,634 | 4,451,576 | 26,680,593 | 3,068,300 | - | 43,255,666 |
| Shares in subsidiary undertakings | - | - | - | - | - | 418,544 | 418,544 |
| Shares in associated undertakings | - | - | - | - | - | 1,131,655 | 1,131,655 |
| Equity shares | - | - | - | - | - | 1,399,769 | 1,399,769 |
| Other assets | 343,069 | - | - | - | - | 3,139,151 | 3,482,220 |
| Prepayments and accrued income | 2,202,680 | 1,252,576 | 1,125,867 | - | - | 765,256 | 5,346,379 |
| | 76,924,324 | 19,363,128 | 27,030,689 | 38,959,037 | 6,781,216 | 16,330,837 | 185,389,231 |
| Monetary liabilities | | | | | | | |
| Deposits by banks | 3,709,883 | 242,739 | 178,413 | 616,983 | 300,085 | - | 5,048,103 |
| Customer accounts | 74,879,188 | 23,450,807 | 19,163,021 | 40,119,216 | 394,148 | - | 158,006,380 |
| Other liabilities | 2,816,346 | - | - | - | - | 162,924 | 2,979,270 |
| Accruals and deferred income | 623,850 | 888,325 | 14,045 | - | - | 499,219 | 2,025,439 |
| Subordinated loans | - | - | - | - | 3,791,120 | - | 3,791,120 |
| | 82,029,267 | 24,581,871 | 19,355,479 | 40,736,199 | 4,485,353 | 662,143 | 171,850,312 |

35. Maturity Analysis

SKK '000

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

| Monetary assets | 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 |
|-----------------------------------|-------------------|------------------------|-----------------------|----------------------|------------------|-------------------|--------------------|
| Cash and balances at Central bank | 14,438,094 | 2,817,917 | – | – | – | – | 17,256,011 |
| 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 | – | 303,484 | – | – | 4,046,786 | 4,469,163 |
| Prepayments and accrued income | 78,808 | 81,516 | 3,097,063 | 35,104 | – | 343,102 | 3,635,593 |
| | 35,938,616 | 15,679,504 | 43,738,294 | 47,814,963 | 6,947,764 | 27,887,351 | 178,006,492 |
| Monetary liabilities | | | | | | | |
| 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 |
| | 63,354,482 | 32,777,708 | 24,408,014 | 35,173,048 | 3,820,162 | 1,402,003 | 160,935,417 |

36. 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 poli-

cies, 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 re-price within relatively short time periods.

The average effective interest rates for financial assets and liabilities at 31 December 2000 were

| | Slovak Crown | Other |
|---------------------------------|-----------------|--------|
| Loans and advances to banks | 10.04 % | 6.54 % |
| Loans and advances to customers | 11.38 % | 9.67 % |
| Debt securities | 11.32 % | 7.64 % |
| Deposits by banks | 9.12 % | 4.62 % |
| Customer accounts | 8.29 % | 3.47 % |
| Subordinated loan | – | 7.95 % |

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 % |

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 33.

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 35.

37. 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 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 wit-

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The estimated fair values of the Bank's financial assets and liabilities at year end were as follows Carrying

| | Carrying Value 2000 | Fair Value 2000 | Carrying Value 1999 | Fair Value 1999 |
|-----------------------------------|------------------------|--------------------|------------------------|--------------------|
| Financial assets | | | | |
| Cash and balances at Central bank | 21,751,133 | 21,751,133 | 17,256,011 | 17,256,011 |
| Treasury bills | 11,029,536 | 11,029,536 | 3,799,366 | 3,799,366 |
| Loans and advances to banks | 34,620,190 | 34,620,190 | 38,548,832 | 38,482,951 |
| Loans and advances to customers | 55,566,107 | 55,566,107 | 57,073,804 | 57,073,804 |
| Debt securities | 43,255,666 | 43,514,401 | 34,284,985 | 34,273,568 |
| Shares in subsidiary undertakings | 191,720 | 191,720 | 191,720 | 191,720 |
| Shares in associated undertakings | 1,052,768 | 1,052,768 | 861,741 | 861,741 |
| Equity shares | 978,819 | 978,819 | 768,097 | 768,097 |
| Financial liabilities | | | | |
| Deposits by banks | 5,048,103 | 5,081,464 | 8,524,948 | 8,153,843 |
| Customer accounts | 158,006,380 | 157,492,210 | 144,174,195 | 143,828,749 |
| Subordinated loan | 3,791,120 | 3,791,120 | 3,381,280 | 3,381,280 |

in relatively short time periods, it is reasonable to use book value as an approximation of fair value.

Loans and Advances to Customers

The fair value of the loans to Slovenská Konsolidačná has been determined by discounting future cash flows at current market rates of interest.

Other 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 se-

curities 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.

38. Reconciliation to Slovak Statutory Financial Statements

The profit after taxation and total assets prepared under Slovak accounting regulations and reported in the statutory financial state-

ments can be reconciled to these financial statements prepared under IAS as follows:

| | SKK '000 | |
|--|--------------------------|--------------------|
| | Profit after taxation | Total Assets |
| Reported under Slovak accounting regulations | 2,425,492 | 190,836,279 |
| Securities held under repurchase agreements | – | (7,877,464) |
| Release of specific provisions under IAS | 1,505,220 | 1,505,220 |
| Reclassification of provisions | – | (1,232,440) |
| Accounting for associates | 191,261 | 339,668 |
| Revaluation of trading securities | 900,526 | 1,091,339 |
| Amortisation of premium on debt securities | (131,741) | (131,741) |
| Additional provisions created under IAS | (873,715) | (78,715) |
| Reversal of deferred tax | 58,435 | – |
| Reported under IAS | 4,075,478 | 184,452,146 |

39. Approval of the Financial Statements

The financial statements were approved and signed by the directors on 4 April 2001.

Independent Auditors' Report To the Shareholders of Slovenská sporiteľňa, a. s.



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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 2000, 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.

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 2000, 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
4 April 2001



KPMG Slovensko (DOO) s r. o. is a company
incorporated under the Slovak Commercial Code as
a member of KPMG network of Swiss entities.

Branch network as of December 31, 2000

| Branch | Address | Phone |
|-------------------|-----------------------------|---------------------------------|
| Bratislava | Námestie SNP 18 | 02/529 646 55-9, 5977 1111 |
| Pezinok | Šancova č. 2 | 033/641 20 23, 641 26 19 |
| Trnava | Hlavná 28 | 033/556 81 11 |
| Senica | Štefánikova 1408/58 | 034/651 02 06-13, 651 47 11 |
| Galanta | Hlavná 38, Šaľa | 031/770 22 24, 770 22 26 |
| Dunajská Streda | Hlavná 23 | 031/552 91 52, 552 491 13 |
| Trenčín | Nám. Svätej Anny 3148 | 032/740 51 11 |
| Považská Bystrica | Nám. A. Hlinku 26 | 042/432 66 04-6, 432 60 48 |
| Prievidza | Nám. slobody 12 | 046/542 29 16 |
| Nitra | Farská 48 | 037/654 03 01 |
| Topoľčany | Stummerova 6 | 038/536 62 01, 532 24 20 |
| Levice | Mlynská 6 | 036/637 21 11-2 |
| Nové Zámky | Ernestova bašta 2 | 035/640 00 09-10, 640 00 20 |
| Komárno | Palatinova 33 | 035/773 09 38-43 |
| Žilina | Nám. L. Štúra 3 | 041/563 71 11 |
| Čadca | Palárikova 24 | 041/430 51 11-2 |
| Dolný Kubín | Hviezdoslavovo nám. 1686/39 | 043/580 61 11, 580 604 22 |
| Liptovský Mikuláš | Štúrova 1 | 044/552 29 49, 552 25 51 |
| Martin | Osloboditeľov 9 | 043/424 91 11 |
| Banská Bystrica | Ul. 29. augusta 34 | 048/414 16 02-3, 414 16 12, 606 |
| Zvolen | Nám. SNP 6/88 | 045/531 93 02 |
| Rimavská Sobota | Francisciho 3 | 047/563 11 69-70, 563 12 33 |
| Lučenec | Novohradská 8 | 047/433 17 15-9 |
| Veľký Krtíš | Ul. SNP 39 | 047/481 32 00, 483 04 15 |
| Žiar nad Hronom | Nám. Matice slovenskej 19 | 045/672 25 57-8, 672 26 12 |
| Prešov | Masarykova 10 | 051/772 33 71 |
| Poprad | Štefánikova 15 | 052/712 21 11, 721 977 |
| Stará Ľubovňa | Levočská 7 | 052/436 94 52-4 |
| Bardejov | Partizánska 2850 | 054/474 83 84, 472 21 03 |
| Svidník | Centrálna 812/13 | 054/752 11 57 |
| Humenné | Nám. slobody 13/25 | 057/775 39 05-6, 775 70 72-3 |
| Vranov nad Topľou | Nám. slobody 998 | 057/442 11 31, 442 19 35 |
| Košice | Štúrova 27 | 055/680 41 11 |
| Spišská Nová Ves | Štefánikovo nám. 3 | 053/417 03 01 |
| Michalovce | Nám. slobody 15 | 056/641 81 11, 644 16 03, 593 |
| Trebišov | M. R. Štefánika 1755 | 056/672 23 46-7, 672 78 75-7 |
| Rožňava | Šafárikova 22 | 058/786 11 11, 786 15 20 |

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