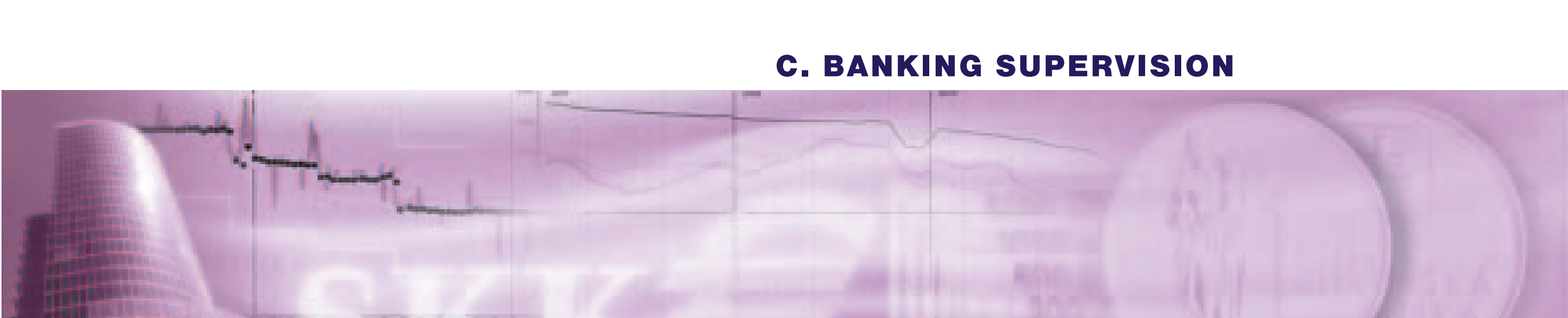
C. BANKING SUPERVISION



1. DEVELOPMENT OF THE BANKING SECTOR

In 2003, the situation in Slovakia's banking sector stabilised thanks to results achieved by banks in 2002, when among other things asset profitability improved, competition in the banking product market broadened, and the development of prudential banking indicators made a positive trend.

As of 31 December 2003, twenty one banking entities (eighteen banks and three branch offices of foreign banks) operated in the Slovak banking sector along with eight representative offices of foreign banks. Of these eighteen banks, three are home savings banks: ČSOB stavebná sporiteľňa, a. s., Prvá stavebná sporiteľňa, a. s., and Stavebná sporiteľňa VÚB-Wüstenrot, a. s. Among the fifteen universal banks, nine banks and one branch office of foreign bank hold a mortgage banking license (HVB Bank Slovakia a. s., Dexia banka Slovensko a. s., ISTROBANKA, a. s., ĽUDOVÁ BANKA, a. s., OTP Banka Slovensko, a. s., Slovenská sporiteľňa, a. s., Tatra banka, a. s., UniBanka, a. s., Všeobecná úverová banka, a. s., and Československá obchodní banka, a. s., a branch of a foreign bank in the SR).

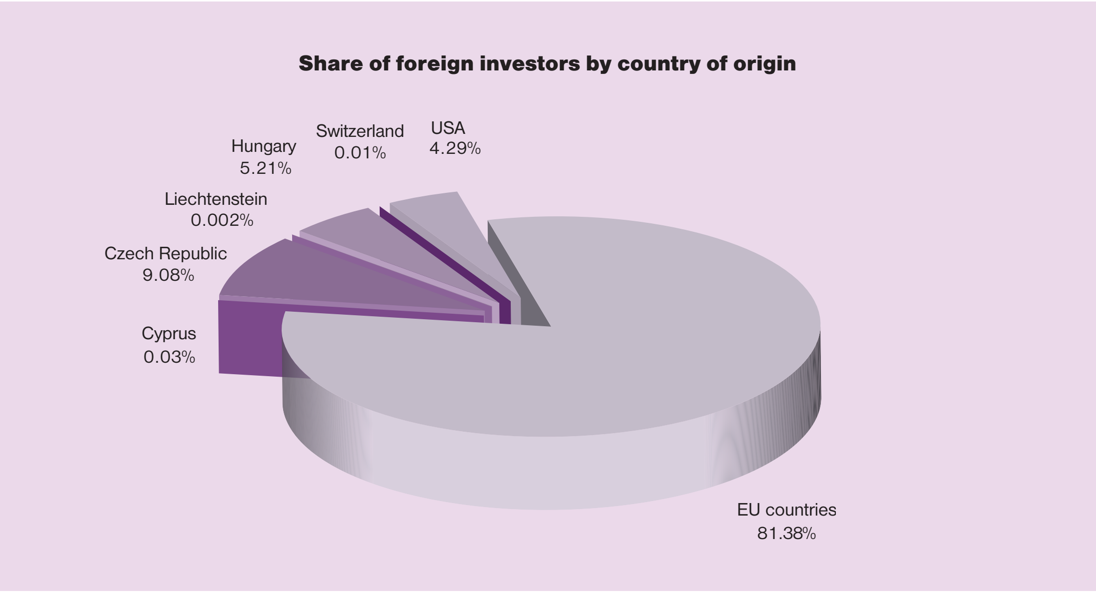
The volume of banks' subscribed share capital (excluding the NBS) increased by Sk 1.9 billion compared to the volume as of 31 December 2002, from Sk 38.5 billion to Sk 40.4 billion. Share capital development was influenced by the subscription of new shares in OTP Banka Slovensko, a. s., PRVÁ KOMUNÁLNA BANKA, a. s., and UniBanka, a. s.

No change has occurred in the funds provided by foreign banks to their branch offices, which as of 31 December 2003 stood at Sk 2.8 billion.

The share of foreign investors in the total subscribed share capital of banks and funds provided by foreign banks to their branch offices continued to increase, from 85.3% (as of 31 December 2002) to 88.9% (as of 31 December 2003). This growth was primarily caused by an increase effected in the share capital of three banks by foreign investors and by the entry of foreign investors, namely MEINL BANK, Aktiengesellschaft into Banka Slovakia, a. s., and of Erste Bank der Österreichischen Sparkassen into Prvá stavebná sporiteľňa, a. s.

By its decision on 28 February 2003, the National Bank of Slovakia revoked the license to operate as a bank from Dopravná banka, a.s., Banská Bystrica. Since 2000 Dopravná banka, a. s. has been classified in the group of banks subject to a special regime; on 1 July 2000 the National Bank of Slovakia imposed forced administration

Chart C1



upon this bank owing to the bank's violation of the Banking Act and generally applicable legislation in its operations. On 22 August 2000, the Regional Court of Banská Bystrica granted a bankruptcy in respect of the company's assets.

On 25 April 2003 the National Bank of Slovakia granted a prior approval to foreign investor MEINL BANK Aktiengesellschaft, Vienna, to acquire a 60.07% interest in the share capital of Banka Slovakia. The transfer of this participating interest from the National Property Fund of the SR to the foreign investor was made on 4 July 2003 (according to an extract from the Securities Central Depository).

On 5 August 2003 the National Bank of Slovakia issued a decision, whereby it extended the banking licence of Dexia banka Slovensko a. s. for the conduct of mortgage business. The said bank changed its business name (which was originally PRVÁ KOMUNÁLNA BANKA, a. s.) on 1 October 2003.

The National Bank of Slovakia granted a banking license to COMMERZBANK Aktiengesellschaft based in Frankfurt am Main, Germany, on 12 August 2003 to set up a branch office and to carry out banking business via this branch. On 15 December 2003 COMMERZBANK Aktiengesellschaft, a branch office of a foreign bank, Bratislava, commenced authorised banking activities.

On 12 December 2003 Erste Bank der Österreichischen Sparkassen AG, Vienna was given a prior approval by the National Bank of Slovakia for the acquisition of a 25.02% stake in the share capital of Prvá stavebná sporiteľňa, a. s., owned by Slovenská sporiteľňa, a. s., by which the portion of foreign investors in the share capital of this bank rose from 65% to 90.02%.

On 9 June 2003 the National Bank of Slovakia registered Investkredit Bank AG, a representative office in Bratislava, and as of 30 June 2003, Živnostenská banka, a. s., Prague, a representative office in Bratislava, was cancelled. On 2 October 2003 the National Bank of Slovakia registered Waldviertler

Chart C2

Sparkasse von 1842, Waidhofen/Thaya, Austria, a representative office of a foreign bank seated in Bratislava. All in all, eight representative offices of foreign banks were present in Slovakia as of 31 December 2003.

2. FINANCIAL PERFORMANCE OF THE BANKING SECTOR

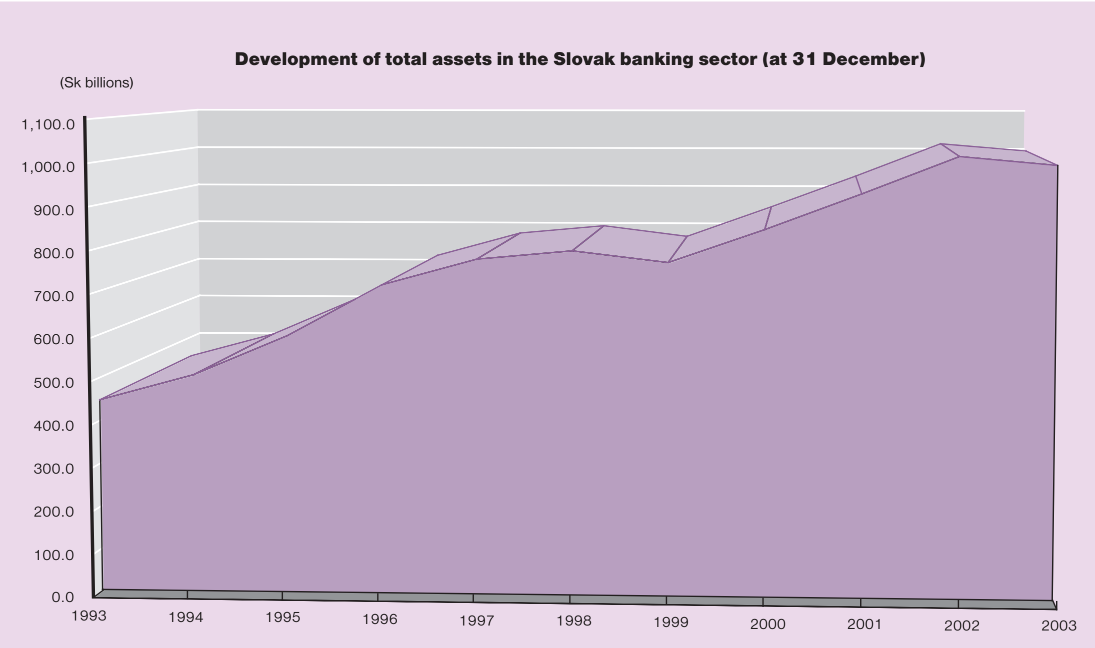
At the end of the year, the balance sheet amount (the sum total of net value of assets) of the Slovak banking sector dropped by Sk 28.6 billion (2.82%) to the volume of Sk 985.4 billion. The development of the banking sector's total assets was in particular influenced by a decrease in secondary funds of Sk 93.2 billion (by 49.15%) to the volume of Sk 96.5 billion, while an increase was recorded in primary funds of Sk 22.0 billion (by 3.20%) to the volume of Sk 708.3 billion.

This development in the banking sector's secondary funds within was particularly influenced by a decrease in short-term deposits of other banks, which at the end of 2003 dropped by Sk 83.1 billion (49.67%), mainly as a result of changed accounting treatment for REPO operations.

The development of primary funds in the banking sector was influenced by an increase in current accounts (especially those of businesses) of Sk 59.9 billion (by 34.52%), time deposits of Sk 14.5 billion (by 4.91%) and general government accounts of Sk 3.9 billion (by 10.09%), on a concurrent decrease in savings deposits by Sk 44.1 billion (29.20%), designated-purpose deposits of Sk 5.8 billion (by 98.82%) and other payables to clients of Sk 12.8 billion (by 50.65%). As of the end of the year, sector primary funds rose by Sk 22.0 billion, with the volume of non-anonymous deposits growing by Sk 5.8 billion (1.45%) to Sk 708.3 billion. The volume of non-anonymous deposits of the Slovak banking sector at the year-end equalled Sk 405.8 billion.

At the end of the year earning assets in the banking sector decreased by Sk 19.4 billion (2.09%) to Sk 908.6 billion. Their decline was mainly due to a fall in interbank assets by Sk 95.5 billion, an increase in the volume of the securities portfolio by Sk 58.8 billion, standard claims on loans by Sk 52.8 billion (especially on long-term loans) and an increase in foreign exchange assets by Sk 14.0 billion. The share of income earning assets in the banking sector in total assets grew from the beginning of the year because of a major decline in the volume of total assets, from 91.52% to 92.20%.

Chart C3



Banks reported net profits of Sk 11.3 billion for the period ending 31 December 2003. Compared to one year ago, this indicates a decline by Sk 0.5 billion (i. e. by 4.22%), whereby two banks in particular have undergone the most distinctive changes. Two banks reported losses for the period ending 31 December 2003 (compared to three banks reporting losses as of 31 December 2002).

The year-on-year development of economic results was, along with a decrease in net income from financial operations (by Sk 2.5 billion), also influenced by a higher annual growth of the costs of financial operations by Sk 70.4 billion, i. e. by 45.38%, with revenues from financial operations rising by Sk 67.9 billion, i. e. by 34.41%.

An important task of banking supervision is to monitor and evaluate the risks taken by banks in the pursuit of banking business. Regardless of the particular line of business conducted, each business entity is exposed to common risks related to the current economic and legal environment, as well as to expectations. Specific risks banks are exposed to arise directly in conjunction with banking operations as a result of internal conditions in the given industry, types of deals, clientele, mode of technology, etc. The main risks associated with banking operations include, in particular, credit risk, market risks (exchange rate-currency risk, interest rate risk, equity price risk, commodity risk), liquidity risk and country risk.

3. PERFORMANCE OF BANKING SUPERVISION

Banking supervision is also performed pursuant to lower-level standards laws, namely through licensing and prudential banking decrees. In 2003 the Banking Supervision Division issued four decrees, an amendment to a decree on rules for prudential banking business and reports related thereto, a decree on the register of credits and guarantees, a decree which is to amend the NBS decree on the liquidity of banks and branch offices of foreign banks and related rules for their safe operation and reports, as well as a decree on a report to be presented by a bank controlling a bank consolidated group or a bank sub-consolidated group to the National Bank of Slovakia.

Over the period under review the Banking Supervision Division issued, as part of a proactive performance of banking supervision, ten methodological instructions relating to the law and lower-level norms, and three recommendations published on the NBS web-site.

In the course of 2003 the Banking Supervision Division performed ten comprehensive, four follow-up and one targeted on-site inspections in banks.

In 2003 the Banking Supervision Division of the National Bank of Slovakia issued 126 decisions with regard to licensing, including decisions on the discontinuation of proceedings, proceedings involving law violations and decisions concerning revoking a banking license.

4. EVALUATION OF COMPLIANCE WITH PRUDENTIAL BANKING RULES

As of 31 December 2003 the adequacy of bank's funds for the Slovak banking sector increased by 0,29% over the end of 2002, reaching the value of 21.59%. All banks met the adequacy of bank's funds limit throughout 2003.

A limit on a bank's large exposure to a parent company or a subsidiary, or to a group of economically connected persons including a bank as their member (20% of own funds) was met by all but three banks. A limit on a bank's large exposure to another person, a group of economically connected persons, or to countries and central banks (25% of own funds) was not met by eight banks in the course of different periods. A limit on the sum of a bank's large exposure (800% of own funds) was met by all banks in 2003.

A limit on liquidity of a bank or liquidity of a branch office of foreign bank for a period of up to seven days (of at least 1.0) was met by all banks in 2003, except for one bank that failed to meet it at the end of the period. A limit on the liquidity of fixed assets and illiquid assets of a bank (of not more than 1.0) was met by all but two banks in 2003.

In 2003, the ratio between the large exposure to a person and bank's own funds of no more than 2% was met by all banks, and the ratio between the large exposure to a legal person and their own funds of no more than 10% was met by all but one bank, which exceeded the limit in February and March. The ratio between the large exposure to a bank seated in an OECD member state of no more than 40% was met by all banks during the first two months of the year.

NBS Decree No. 1/2003, which amended NBS Decree No. 3/2002 on the rules for prudential banking business and reports related thereto, stipulated the ratio between the large exposure to a bank seated in an OECD member state and their own funds at the level of no more than 25%. This ratio was met by all but one bank, which exceeded it as of 31 March 2003.

The ratio between the large exposure to all related persons and bank's own funds of no more than 40% was met by all but one bank, which exceeded it as of 31 March 2003.

5. COOPERATION BY THE BANKING SUPERVISION DIVISION WITH INTERNATIONAL INSTITUTIONS

In 2003, Memoranda of Understanding were concluded between the National Bank of Slovakia

Table C1

Slovak banking sector	31 December 2002	31 December 2003	Difference 12/03-12/02	Change in % 12/03-12/02
Number of employees	19,717	19,797	80	0.41
Number of banks in the SR	18	18	0	0.00
Number of branches of foreign banks in the SR	2	3	1	50.00
Number of representative offices of foreign banks in the SR	7	8	1	14.29
Number of branches in the SR	418	553	135	32.30
Number of sub-branches in the SR	602	504	-98	-16.28
Number of branches in other countries	1	1	0	0.00
Number of sub-branches in other countries	1	2	1	100.00
Number of representative offices in other countries	1	1	0	0.00
Total assets in Sk '000	1,014,014,402	985,445,707	-28,568,695	-2.82
Earning assets in Sk '000	927,994,293	908,597,027	-19,397,266	-2.09
Total interbank assets in Sk '000	367,113,929	271,575,986	-95,537,943	-26.02
Total foreign exchange assets in Sk '000	132,076,340	146,048,650	13,972,310	10.58
Securities in Sk '000	299,508,256	358,364,029	58,855,773	19.65
Total loans in Sk '000	342,341,430	395,154,645	52,813,215	15.43
of which: classified loans on total loans in Sk '000	38,294,476	35,868,781	-2,425,695	-6.33
Share of classified loans on total loans (%)	11.19	9.08	-2.11	x
Uncovered estimated loss in Sk '000	28,411	510,688	482,277	1,697.50
Provisions for loan losses in Sk '000	27,744,404	29,093,617	1,349,213	4.86
Legal reserves in Sk '000	4,424,029	2,733,706	-1,690,323	-38.21
Share capital in Sk '000	40,242,176	40,442,576	200,400	0.50
Own funds in Sk '000	103,081,726	105,875,293	2,793,567	2.71
Secondary funds in Sk '000	189,703,380	96,466,762	-93,236,618	-49.15
Primary funds in Sk '000	686,325,355	708,292,274	21,966,919	3.20
- of which: non-anonymous deposits in Sk '000	400,016,993	405,802,712	5,785,719	1.45
Current profit in Sk '000	12,539,455	11,548,335	-991,120	-7.90
Current loss in Sk '000	696,621	231,918	-464,703	-66.71
Net profit/loss in Sk '000	11,842,834	11,316,417	-526,417	-4.45
Cumulative profit/loss in Sk '000	21,985,044	34,577,036	12,591,992	57.28
Capital adequacy	21.30	21.59	0.29	x

and foreign supervisory institutions in the Netherlands, Cyprus and Austria. The Memorandum with the Financial Services Authority of Malta was signed on 12 February 2004.

Negotiations are currently underway on the conclusion of Memoranda of Understanding with the supervisory authorities of Poland, Belgium, Latvia and Estonia.