

Tatra Bank

Annual Report

1998



Tatra Bank

Annual Report

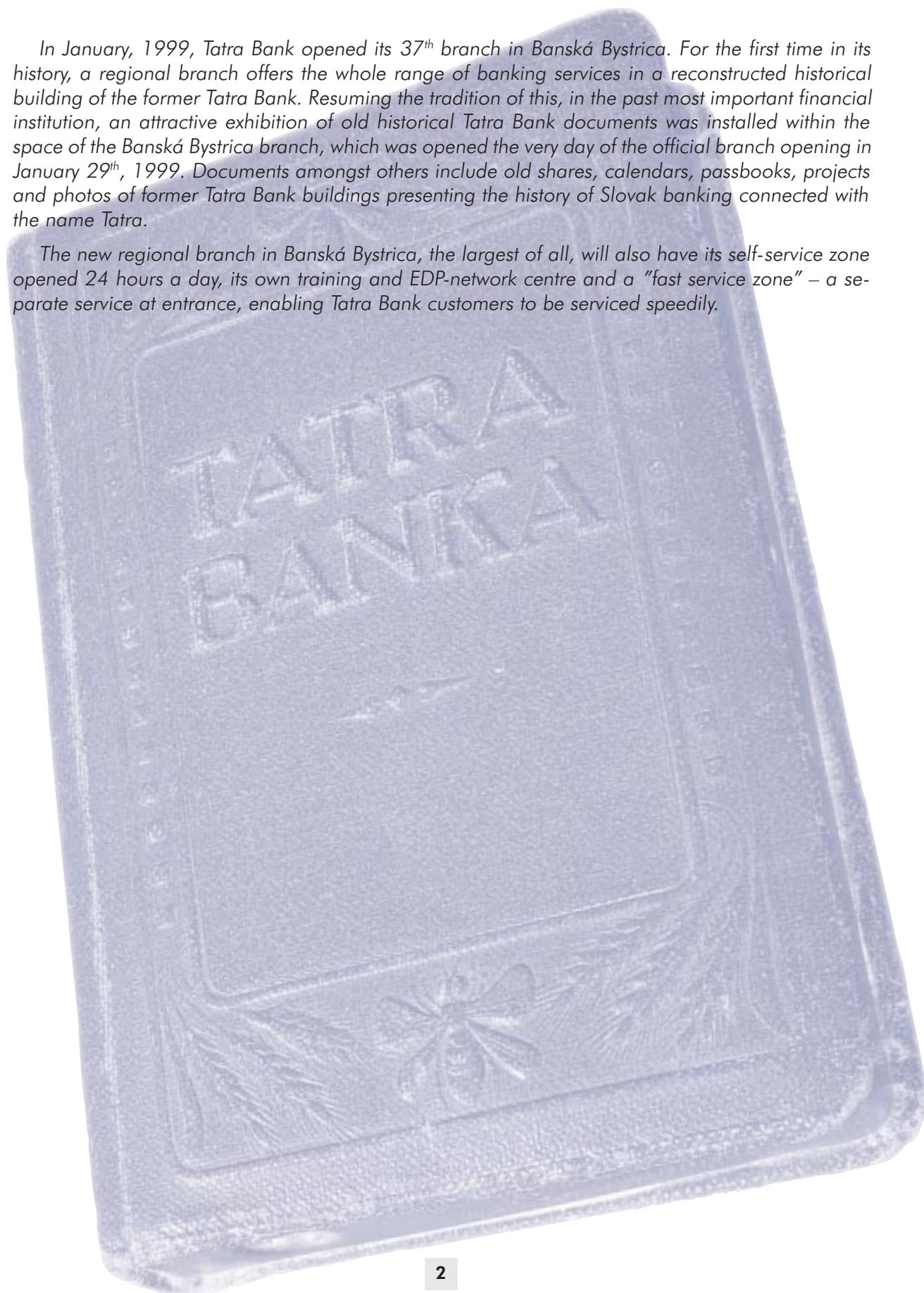
1998



Tatra Bank – linking Tradition with new Technology

In January, 1999, Tatra Bank opened its 37th branch in Banská Bystrica. For the first time in its history, a regional branch offers the whole range of banking services in a reconstructed historical building of the former Tatra Bank. Resuming the tradition of this, in the past most important financial institution, an attractive exhibition of old historical Tatra Bank documents was installed within the space of the Banská Bystrica branch, which was opened the very day of the official branch opening in January 29th, 1999. Documents amongst others include old shares, calendars, passbooks, projects and photos of former Tatra Bank buildings presenting the history of Slovak banking connected with the name Tatra.

The new regional branch in Banská Bystrica, the largest of all, will also have its self-service zone opened 24 hours a day, its own training and EDP-network centre and a "fast service zone" – a separate service at entrance, enabling Tatra Bank customers to be serviced speedily.



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Statement by the General Manager

To shareholders and business partners

In 1998 Tatra Bank concluded its 8th year of existence on the Slovak financial market and is happy to submit 1998 Annual Report.

The persisting difficult economic environment in the country in 1998 further deteriorated due to the devaluation of the Slovak crown in October 1, 1998. 1998 was an election year influencing both fiscal and monetary policy. The new government seems to realize the importance of solving the major issues of fiscal and trade deficits and is open to foreign direct investment as the necessary condition for company restructuring.

In spite of unfavourable conditions, Tatra Bank performed very well. It continued to expand, strengthening its position as the largest fully private bank in Slovakia. The branch network was increased to 36 branches across Slovakia, offering high quality banking services to the rising number of customers. Technological innovation in data processing together with experienced personnel aim at meeting special requirements of the bank's customers. The bank continued to be at the forefront of automated transaction processing in Slovakia; more than 40% of outgoing payments were electronically delivered by customers.

With a balance sheet amounting to approximately SKK 46 billion, customer deposits exceeding SKK 28 billion and a loan portfolio totalling approximately SKK 22 billion, Tatra Bank achieved a further expansion while maintaining excellent capital adequacy and liquidity. The bank's net profit after tax amounted to SKK 1.3 billion while net worth amounts to approximately SKK 3.7 billion.

The level of services provided to large as well as to medium and smaller customers and the universal capability of the bank, ranging from the most sophisticated treasury products, credit structuring, through all card services and retail operations, were decisive in Tatra Bank obtaining in 1998 the coveted **Euromoney** award "**Best Bank in Slovakia**" for the 4th time in a row.

The dynamism of Tatra Bank's growth coupled with its undoubted financial strength was a key for the respected local business magazine **Trend** to award Tatra Bank the "**Bank of the Year**" prize; **Business Central Europe** readers also awarded Tatra Bank the prize "**Best Bank in Slovakia**".

The successful results in 1998 could only be achieved due to the support of Tatra Bank shareholders and business partners, as well as to superior know-how of the bank's employees. We would like to take this opportunity to offer all of them sincere thanks for their trust and confidence.



Rainer Franz
General Manager

Financial highlights

	in SKK million				
	*in USD million				
	1994	1995	1996	1997	1998
Tier one capital	630.1	1,025.6	1,268.9	1,660.6	2,461.7
*	20.1	34.7	39.8	47.7	66.7
General loan loss reserve	74.4	86.2	187.4	514.6	1,095.7
*	2.4	2.9	5.9	14.8	29.7
Net profit	263.8	346.0	471.5	906.6	1,276.3
*	8.4	11.7	14.8	26.1	34.6
Subordinated loan	–	–	512.9	485.0	552.0
*	–	–	16.1	13.9	14.9
Total	968.4	1,457.8	2,440.6	3,566.7	5,385.8
*	31.0	49.3	76.5	102.6	145.9
% change	28.6	50.5	67.4	46.1	51.0
*	36.6	59.2	55.2	34.0	42.3
BIS ratio (%)	10.8	12.9	12.4	12.9	14.7
Total assets	11,476.5	20,590.6	32,439.6	39,668.4	45,758.1
*	366.9	696.4	1,017.1	1,140.5	1,239.6
% change	59.0	79.4	57.5	22.3	15.3
*	68.9	89.8	46.1	12.1	8.7
Primary deposits	7,386.1	13,919.0	23,537.9	26,536.0	28,685.3
*	236.1	470.7	738.0	762.9	792.6
Loans	6,161.7	9,901.0	15,024.2	16,018.3	21,745.0
*	197.0	334.8	471.0	460.5	600.8
Primary deposits / Loan (%)	119.9	140.6	156.7	165.7	131.9
*	119.9	140.6	156.7	165.7	131.9
Net profit after tax	263.8	346.0	471.5	906.6	1,276.3
*	8.4	11.7	14.8	26.1	34.6
% change	199.0	31.1	36.2	92.3	40.8
*	217.5	38.7	26.3	76.3	32.7
Net profit / Net worth (%)	29.5	25.2	27.1	35.3	34.1
*	29.5	25.2	27.1	35.3	34.1
Net profit /Total assets (%)	2.3	1.7	1.5	2.3	2.8
*	2.3	1.7	1.5	2.3	2.8
* Exchange rates 1 USD/SKK	31.277	29.569	31.895	34.782	36.913
Employees	342	460	593	748	1,062
Branches	9	14	22	28	36

The largest shareholders

	1998
Raiffeisen Banking Group	76.1 %
Tatra Holding	10.3 %
Other	13.6 %

The Slovak economy

in 1998

Growth stays high, but unemployment increases

The Slovak economy showed a respectable growth that slowed down by less than 1% to 5.8% in the third quarter. From the supply side, the growth was supported by services and industrial production, from the demand side domestic demand played the biggest role. Despite a long period of high GDP growth since 1994, the unemployment rate increased to 15.6%, the highest level since 1993.

1998 – Election year for Slovakia

The fact that 1998 was an election year influenced both fiscal and monetary policy. The state budget deficit already exceeded the planned amount of SKK 5 billion in July and ended up with SKK 19.2 billion deficit in December. The fiscal deficit/GDP reached 4.8 % and was higher than in 1997, so the crowding out of private investment continued. The fiscal deficit worsened the trade deficit by increasing the gap between total spending and total output, leading to higher imports. In addition, the National Bank of Slovakia conducted a more expansionary monetary policy after the Eurobond issue in May that in effect pulled down 1-month interest rates to as low as 10–11 % in July. This was, however, unsustainable, taking into account the fact that Slovakia was on a fixed exchange-rate regime running a 10 % current account deficit/GDP for the third year in a row. Moreover, the foreign debt/GDP approaching 60 % together with the non-investment grade assigned to Slovakia by Moody's, Standard & Poor's, and Fitch IBCA meant the capital account surplus could not be kept as high as before. We expect the balance of payments will end up in deficit for the first time since 1993.

Trade deficit – still worrying

As noted before, the number one problem for Slovakia remains the external imbalance. Financing the current account deficit doubled the foreign debt during the last two years and the debt amounted to USD 11.9 billion in November. The trade deficit reached SKK 80.8 billion in 1998, the highest deficit since 1993. The imposition of 7 % import surcharge in 1997 had only a temporary effect and import growth started to recover already in January 1998. The low inflow of foreign direct investment meant that the basic balance (the amount of current account deficit not financed by FDI) reached an alarming 9.5 % in November.

Slovak crown floated – important change in the monetary policy

The August crisis in Russia changed the overall emerging market sentiment causing a flight to quality around the world. Non-residents closed their Slovak crown positions in spite of the increasing interest rate differential. This was coupled with the heightening of the devaluation expectations by the public and corporate sectors that exchanged their liquid assets into foreign currency. The National Bank of Slovakia floated the crown in October, which now allows it to conduct a more active monetary policy.

Inflation – still a success story

Inflation continues to be a success story, consumer price inflation reached only 5.6% in December while producer price inflation amounted to 1.6% which ranks Slovakia as the lowest-inflation country in the region. Low commodity prices, the fixed exchange rate, together with the lack of price deregulation and the cancelling of the import surcharge, all had a positive effect on inflation in 1998.

Government programme

The new government is adopting a fiscal package with the intention to decrease both the budget and the trade deficits. Another positive change is the current emphasis on foreign direct investment as the necessary condition for company restructuring. Judging by the fall in the spreads on Slovak Eurobonds, foreign sentiment towards the new government is positive.



1998 Management report

Corporate banking

Credit business in 1998 was overshadowed by the deteriorating economic situation, in particular:

- devaluation expectations
- lack of trust in the Slovak economy by international financial markets, which after the creation of new government gave way to a more positive outlook
- a volatile money market with strong interest rate fluctuations
- the further liberalization of the foreign exchange regime, allowing corporate accounts in foreign currency
- certain credit crunch which caused liquidity problems for a large number of corporates and companies connected to the state budget

Tatra Bank reacted to this development by allowing credit expansion only in the field of companies with lower risk category, and was also able to improve significantly collateral in many cases. The bank took advantage of its favourable funding position, winning a major number of new, mainly foreign customers with a need for stable funding in local currency. This had a positive impact on fee income, producing non-risk business especially in the payments area. As a result, the bank was able to perform unexpectedly well regarding interest margin income as well as in fee income from syndication business. Credit quality in 1998 was maintained at a satisfactory level. The conservative approach in the credit business resulted in the creation of substantial loan loss reserves, in spite of a high recovery ratio of existing classified loans.

At the end of 1998, the bank's loan portfolio (including bills of exchange) amounted to SKK 21.7 billion compared to SKK 16.0 billion in the previous year.

Portfolio growth by years
(incl. bills discounted)



SKK 6.2 billion as of 31. 12. 1994

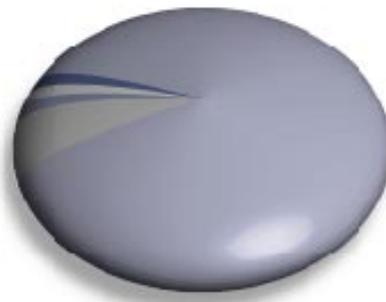
SKK 9.9 billion as of 31. 12. 1995

SKK 15.0 billion as of 31. 12. 1996

SKK 16.0 billion as of 31. 12. 1997

SKK 21.7 billion as of 31. 12. 1998

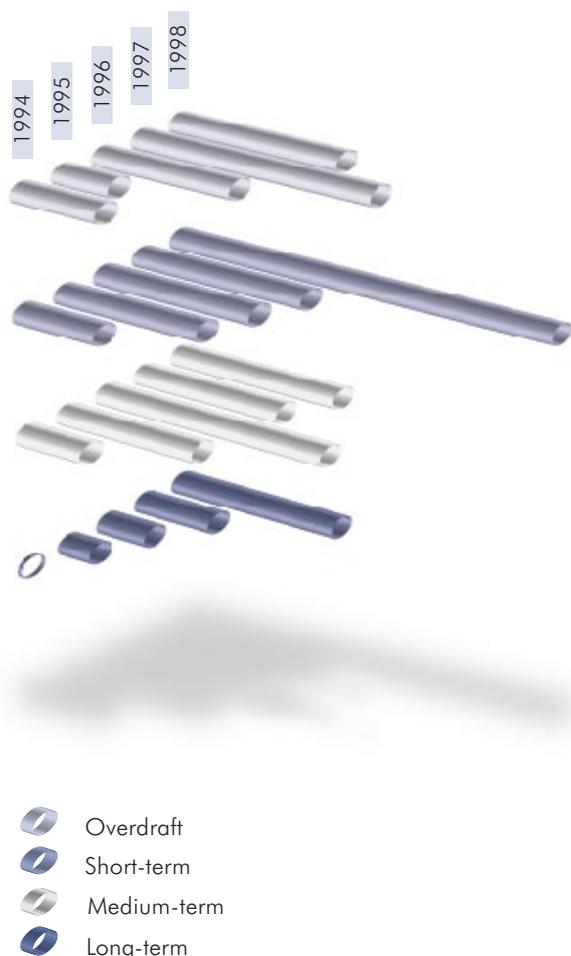
Funding sources of loan portfolio in %



Own	88 %
EBRD	2 %
EIB	2 %
Phare	2 %
EXIM	6 %

**Maturity structure of loan portfolio
(in SKK million)**

	1994	1995	1996	1997	1998
Overdraft	2,030	1,366	3,303	5,700	4,067
Short-term	1,949	3,439	3,774	4,113	9,079
Medium-term	1,589	3,322	5,446	3,528	4,046
Long-term	101	800	1,202	1,871	4,022



Tatra Bank continued its activities in the field of syndicated loans. Together with Raiffeisen Zentralbank Österreich, it has successfully arranged syndicated facilities for two Slovak companies. In February 1998, a USD 20 million syndicated facility for Stredoslovenské energetické závody, š. p., Žilina, the largest of the three Slovak electricity distribution companies, was completed. This facility represented SSE's debut syndicated loan transaction and formed an important step in the continuing integration process between the Slo-

vak and the European energy markets. Tatra Bank also took part in a USD 42 million structured term loan facility organized by Raiffeisen Zentralbank Österreich and other banks for Nafta, a. s. In August, 1998, Raiffeisen Zentralbank Österreich together with Tatra Bank as a local agent completed a promissory note bridge financing facility for Železnice Slovenskej republiky, š. p., in the total amount of USD 33.5 million, arrangement of which can be considered being very successful with regard to the timing of the transaction.

Retail banking

In 1998, Tatra Bank opened 8 new branches. Towards year-end 36 branches were in operation across Slovakia. Primary deposits amounted to SKK 28.7 billion compared to SKK 26.5 billion in 1997. The number of customer accounts rose rapidly, by 56% compared to the previous year.

Using state of the art technology, Tatra Bank continued to offer modern banking services. The range of Internet banking services was further developed, enabling customers to acquire immediate status on the account, information on account movements and make to transfer orders.

The existing banking services were innovated and new products and services were launched. In May, 1998, Tatra Bank branches began to sell investment funds of its subsidiary, Tatra Asset Management. This enabled it to further spread the range of retail banking services and customer investment opportunities.

Tatra Bank was "euro-ready" already before January 1, 1999, of course, allowing its customers to inform their business partners about their new number of euro account in advance.

Card business activities in 1998 increased considerably both in issuance and acceptance. The broad range of existing domestic and foreign cards was further complemented by the international VISA ELECTRON card. The bank increased its network of ATMs. Non-cash payment for goods and services gained popularity, leading to an increase in the number of merchants and service centers accepting payment cards. Tatra Bank belongs to the most successful banks in the number of installed POS terminals with a leading market share in the card turnover through POS terminals.

The number of transfers using Western Union services more than doubled during the last year, underlining its popularity among customers.

Tatra Bank is at the forefront of automation since its beginning. In 1998 important steps were taken to further support electronic data processing. These included among others the full in-house development and launch of Internet banking system.

Treasury and investment banking

The Slovak FX market soon adopted to new conditions after National Bank of Slovakia succumbed to pressures on the Slovak crown and abandoned the SKK +/- 7% fluctuation band in October 1998. The Slovak crown was allowed to float freely.

Tatra Bank is the third most active participant on the Slovak money market with a 15% market share and a 10% share on the FX market.

The Slovak capital market still failed to fulfill its main role, i. e. provider of long-term capital. The secondary bond market has been negatively influenced by frequent changes in income tax and by uncertainty in the tax law. The primary equity market is inactive as a result of the poor secondary equity market. Foreign investors have been avoiding the Slovak capital market in the first half of 1998 due to the devaluation expectations of the Slovak crown. In spite of these unfavourable conditions Tatra Bank performed very well. Its turnover in securities trading rose to SKK 34.2 billion. Trading in bonds reached SKK 30.8 billion which represents a 6% market share, turnover in the equity trading achieved SKK 3.4 billion, a 5% market share. Basic services offered in 1998 included brokerage services, underwriting and primary issues, repo transactions, portfolio management, market and company research and custody services. Tatra Bank was one of the first banks in the Slovak Republic to offer brokerage services on international capital markets.

Personnel

As of December 31, 1998, Tatra Bank had 1,062 employees, an increase of 314 compared to 1997. Continuing training and education of the bank's employees is the key to ensure their professional growth, enabling them to offer the highest quality services to customers.

Our sincere appreciation and thanks are addressed to all the employees who contributed to the successful business year 1998.

Outlook for 2000

Macroeconomic figures indicate only a slight increase in the economy in 2000, which will be reflected in a minor growth and a worsening of the quality of the credit portfolio across the whole banking sector. A further increase in the bank's profit is not expected due to the decrease in interest rates on both interbank and capital markets.

Tatra Bank will continue to expand its branch network to approximately 50 branches across Slovakia in 2000.



Laklados telia

TATRA BANKA



OSZTRAK-MAGYAR
BANKI KIVANSAGU
KELNEK NEK AZUMPER
OTVEN K
TIVENEK ERCEPENT
OSZTRAK-MAGYAR

RA BAN
MARTIN



M. Dula



P 40 101583



R. Krupic



J. G. Tajovsk



Financial statements

as of 31 December 1998

Balance sheets as of 31 December 1998 and 1997

ASSETS (in SKK '000)	1998	1997
Cash in hand and cash equivalents		
a) cash in hand	470,051	518,645
b) balances with central bank	1,816,448	2,387,937
c) current accounts with other banks	597,735	255,061
	2,884,234	
Loans and advances to credit institutions		
Term deposits	12,313,042	7,244,886
Loans and advances to customers		
Loans	20,235,631	15,120,076
Bills of exchange	1,509,324	898,269
Treasury bills	0	6,450,000
State bonds and other fixed interest-bearing securities	5,986,875	5,573,188
Share and other variable interest-bearing securities	10,848	6,491
Assets sold with repurchase agreement (REPO)	1,104,050	0
Investment securities	200,961	144,642
Intangible assets	57,170	49,146
Tangible fixed assets		
a) land and buildings	405,512	376,697
b) other	341,307	220,097
Other assets	303,639	110,444
Deferred income and prepaid expenses	405,512	312,804
TOTAL ASSETS	45,758,105	39,668,383

LIABILITIES (in SKK '000)	1998	1997
Amounts owed to credit institutions		
due to central bank	2,164,763	491,500
due to other banks,	8,725,148	
thereof a) demand deposits	104,668	1,070,279
b) term deposits	8,620,480	6,568,021
Subordinated debt	552,025	484,950
Loans and advances owed to customers		
Savings deposits	3,672,401	4,544,033
Other deposits	25,012,918	28,685,319
Other liabilities	326,070	336,554
Deferred revenues and accrued expenditures	471,022	1,099,318
Total liabilities	40,924,347	36,586,605
General reserve for risk assets	1,095,718	514,575
Shareholders' equity		
Share capital	522,160	522,160
Share premium	107,575	103,335
Reserves		
Statutory reserves	104,432	99,657
Foreign currency translation reserve fund	47,613	47,613
Retained earnings from previous years	1,679,933	1,831,978
Annual profit for the year	1,276,327	906,591
Total shareholders' equity	3,738,040	2,567,203
TOTAL LIABILITIES	45,758,105	39,668,383

Selected items from off-Balance sheets as of 31 December 1998 and 1997

(in SKK '000)	1998	1997
Commitments given:		
– Guarantees	3,919,256	3,857,772
– Classified guarantees	282,596	–
– Letters of credit	437,342	273,170
Commitments received:		
– Guarantees	3,803,893	2,944,721
– Letters of credit	–	–

Profit & Loss Accounts for the Years ended as of 31 December 1998 and 1997

Caption (in SKK ' 000)	1998	1997
Interest income	4,746,185	3,974,770
Interest expense	(3,345,612)	(2,610,095)
Net interest income	1,400,573	1,364,675
Fees and commissions, net	276,102	192,318
Net securities income	1,256,839	310,985
Foreign exchange gains, net	1,046,922	774,529
Other income	5,605	17,747
Other income	2,585,468	1,295,579
Salaries and employment benefits	(351,520)	(233,105)
Administrative expenses	(451,638)	(349,288)
Depreciation and amortisation	(224,382)	(131,423)
Other provisions and amortisation	(111,909)	(59,035)
Other expenses	(1,139,449)	(772,851)
Profit before provision and reserves and taxation	2,846,592	1,887,403
Provision and reserves for loan losses	(1,081,044)	(660,290)
Provision for equity shares	(48,007)	(64,914)
Provision for fixed interest and variable yield securities	(42,843)	2,749
Other provisions	(5,706)	(1,100)
Reserves and provisions	(1,177,600)	(723,555)
Profit before taxation	1,668,992	1,163,848
Taxation - for the current period	(392,665)	(256,019)
Taxation - for the prior period	–	(1,238)
Profit for the year	1,276,327	906,591

Cashflow Statements for the Years ended as of 31 December 1998 and 1997

(in SKK ' 000)	1998	1997
Cashflow from operating activities		
Operating profit before taxation	1,668,992	1,151,755
Reserves and provisions	1,177,600	723,555
Other amortisations	66,113	–
Depreciation and amortisation	224,382	131,423
Change in accrued income	(48,217)	(108,850)
Change in accrued expense	(129,370)	340,320
Operating cashflow before change in operating assets	2,959,500	2,238,203
Loans and advances to credit institutions	(5,073,862)	1,794,560
Loans to customers	(6,292,624)	(1,327,188)
State treasury bills	4,988,476	(2,850,000)
Trading securities	1,000,637	(4,590,364)
Assets sold with repurchase agreement	(1,104,050)	–
Other assets and prepayments	(237,686)	(89,004)
Amounts owed to credit institutions	2,827,185	2,458,809
Amounts owed to customers	2,149,336	2,998,087
Other liabilities	(509,409)	427,556
Net cashflow from operating activities before income taxes	707,503	1,060,659
Income taxes	(392,665)	(257,257)
Net cashflow from operating activities	314,838	803,402
Cashflows from investing activities		
Investment securities	(104,326)	(119,902)
Dividends received	4,249	12,093
Net additions to fixed assets	(382,431)	(253,987)
Net cashflow from investing activities	(482,508)	(361,796)
Cashflows from financing activities		
Share capital issue	–	22,905
Bonds	–	(150,000)
Dividends paid and others	(109,739)	(102,681)
Net cashflow from financing activities	(109,739)	(229,776)
Cash inflow/(outflow) for the year	(277,409)	211,830
Cash and cash equivalents, at beginning of the year	3,161,643	2,949,813
Cash and cash equivalents, at end of the year	2,884,234	3,161,643
Change in cash and cash equivalents	(277,409)	211,830

Notes to the financial statements as of 31 December 1998 and 1997

(All amounts in thousands of Slovak Crowns)

(1) Corporate purpose

Tatra banka, Bratislava ("the Bank") is a joint stock company, having its legal seat in Bratislava, Vajanského nábr., 5. It was founded on 17 September 1990 and incorporated on 1 November 1990. The Bank has a general banking licence from National bank of Slovakia.

The principal activities of the Bank according to the Commercial Register:

- receiving deposits;
- providing loan facilities;
- investing into securities on its own account;
- financial leasing;
- system of payments and clearing;
- issuing and managing media of payment e. g. credit cards, traveller's cheques;
- providing guarantees;
- opening Letters of Credit;
- collecting money;
- dealing on its own account or on the client's account with the following:
 1. foreign – exchange values,
 2. in futures and options, including exchange rate and interest deals,
 3. transferable securities,
 4. golden and silver coins,
- participation in issuing securities and providing services connected therewith;
- financial brokerage;
- providing consultancy services in business;
- managing client's securities on the client's account including consultancy service (portfolio management);
- depositing and managing securities or other valuables;
- acting as a depositary according to a special regulation;
- exchange services (purchase of foreign exchange);
- providing banking information;
- leasing safes.

The members of the statutory bodies of the bank as of 31 December 1998 were:

Supervisory Board	Chairman:	Ing. Milan Vrškový
	Vice-chairman:	Dr. Herbert Stepic
	Members:	Prof. Ing. Peter Baláž, CSc. Dr. Reinhard Böck Mag. Renate Kattinger Ing. Milan Filó Ing. Ján Neubauer Mag. Walter Grün Ing. Ľuboš Vražda
Board of Directors	Chairman:	Dkfm. Rainer Franz
	Vice-chairman:	Ing. Miroslav Uličný
	Members:	H. Ir. Philippe Marc Moreels Ing. Igor Vida

(2) Accounting policies

The accompanying financial statements of the Bank, consisting of the balance sheets as of December 31, 1998 and 1997 and the related statements of income, cashflow statements and the notes to the financial statements for the years ended as of those dates are presented in accordance with Slovak Accounting Standards for banks.

a) Cash and cash equivalents

Cash and cash equivalents consist primarily of debit balances on nostro and loro accounts with other banks. In addition, they include the obligatory reserve with the National Bank of Slovakia.

The obligatory reserve with the National Bank of Slovakia is a required reserve held by any commercial bank with the National Bank.

b) Loans and advances

Loans and advances to customers and credit institutions are stated at the unpaid principal balance net of specific provisions for possible loan losses. Specific provisions are assessed with reference to the credit standing and performance of the borrower and take into account the value of any collateral or third party guarantees. Interest on non-performing loans is accrued with appropriate provisions against these amounts being included in the specific provision or reserve.

General reserve for loan losses is included in the caption of "General reserve for risk assets" on the liability side of the balance sheet.

The aggregate of provisions and reserves made during the year, less amounts released and recoveries of loans previously written-off, are charged against profit of the current year.

According to a valid decision on quitting recovery of claims, issued by the court or Board of Directors, Bank writes off its receivables. The receivables written off are recorded in the off-balance sheet.

c) Shares and variable yield securities

Shares and variable yield securities purchased for trading purposes are stated at the lower of cost or market. In the absence of a liquid market for the securities, the Board of Directors determines the market value.

Shares and variable yield securities held for investment purposes are stated at cost less any provision for permanent diminution in value.

d) Fixed income securities

Treasury bills are carried at nominal value with related unamortised discount or premium recorded in other liabilities. Discounts and premiums are amortised on a straight-line basis through the profit and loss account over the period the security is held by the Bank.

Other fixed income securities held for investment purposes are carried at cost plus accrued interest and amortised discount less amortised premium and provision for diminution in value. The premium or discounts arising on purchase of fixed income securities are amortised over the term to maturity.

e) Repurchase and reverse repurchase agreements (Repo)

Repurchase and reverse repurchase agreements are utilised by the Bank as an element of its treasury management and trading business.

Under sale and repurchase agreements, where the Bank is the transferee, the assets are not included in the Bank's balance sheet, but the purchase price paid by it to the transferor is included as an asset in the loan balances. The value of the securities received as a collateral for such loan is included in the off balance sheet.

Sale and repurchase agreements where the Bank is the transferor the assets are included in the Bank's balance sheet and selling price of the assets is included in the liabilities of the Bank.

f) Derivatives

In the ordinary course of business the Bank enters into derivative financial instruments for both trading and hedging purposes. At 31 December 1998 the Bank had outstanding forward and swap contracts tied to underlying assets, which include foreign currency and interest rates.

The agreements open at year-end are stated at their nominal value and the unrealised gain or loss has been included in the profit and loss account according to the nature of each contract (interest income, interest expense, dealing profit or foreign exchange gain/loss).

g) Equity shares

Equity investments represent the Bank's long-term participating interests and shares in affiliated and subsidiary undertakings. Strategic equity investments are stated at cost, less any provision for permanent diminution in value.

h) Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Upkeep, maintenance and repair expenses are expensed as incurred.

Small value tangible assets with a cost of less than SKK 10 thousand are recorded and fully expensed in the year of acquisition.

The Bank depreciates the tangible fixed assets by the accelerated method at rates based on the years of estimated useful life. Assets under construction and land are not depreciated.

The estimated useful life of the assets is as follows:

Category	Years
Buildings and constructions	40
Means of transport & Computers	4
Furniture and fixtures and office equipment	4 to 8

Rights on leased assets

The Bank records leased assets in the form of operational and financial leases. An operational lease is recorded directly to costs of the Company. A financial lease is recorded accrued while charging the period lease payments straight-line to expense and capitalising the residual value of the leased assets at the acquisition price when the lease contract expires.

i) Intangible fixed assets

Intangible fixed assets are recorded at cost less accumulated amortisation.

Small value tangible assets with a cost of less than SKK 20 thousand are recorded and fully expensed in the year of acquisition.

Amortisation of intangible assets is provided to write off the cost on an accelerated basis over the estimated useful economic life of the asset.

The estimated useful lives of the assets are as follows:

Category	Years
Software	4

j) Amounts owed to customers and banks

Amounts owed to customers and banks represent all term deposits, current accounts and savings deposits made by customers and other banks. Interest payable on these balances is accrued, with the accrual being included as interest expense.

k) Foreign currency transaction

Transactions denominated in foreign currencies are recorded in local currency (SKK) at actual exchange rates of the Bank as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange of NBS prevailing at the balance sheet date. Any gains or losses arising from a change in exchange rates subsequent to the date of the transaction is included as a translation gain or loss under income from foreign exchange in the profit and loss account.

Unmatured spot foreign exchange transactions are translated into local currency at the NBS spot exchange rate prevailing on balance sheet date.

Unmatured forward foreign exchange rate transactions are translated to local currency at forward exchange rates computed using standard formula with spot rates of NBS and prevailing interest rates.

l) Interest, fees and commissions

Interest, fees and commissions are recognised on an accrual basis, in the period, which they relate to.

m) Taxation

The taxation charge is calculated in accordance with Slovak regulations and is based on the profits reported in the profit and loss account prepared under Slovak accounting regulations after adjustments for tax purposes.

There were no temporary differences between the financial accounting and tax accounting for depreciation of fixed assets that would result in recording of deferred asset or liabilities.

n) Regulatory requirements

The Bank is subject to the regulatory requirements of the National Bank of Slovakia. These requirements involve capital adequacy, liquidity, credit exposure and foreign currency position. The Bank is limited as to the amounts of loans, which it may advance to customers by regulations of the National Bank of Slovakia. The most significant limits are as follows:

- Capital adequacy to be at least 8 %
- Credit exposure against one customer cannot exceed 25 % of the bank's capital
- Credit exposure against one bank cannot exceed 80 % of the bank's capital
- Credit exposure to the related party cannot exceed 25 % of the equity
- Overall daily foreign currency exposure has limit of 25 % of the bank's capital
- The ratio of assets to liabilities in foreign currency should reach minimum of 0.80

The bank's capital defined for the purpose of these requirements includes mainly the bank's equity (less the current year profit), subordinated debt and general reserve for risk assets.

o) Recognition of revenues and expenses

Revenues and expenses are accounted for, on an accrual basis, in the period to which they relate by time or physical presence.

In accordance with the accounting principle of prudence, the Bank does not record contingent gains at year-end, except for the unrealised foreign currency gains, whereas foreseeable contingencies, including potential losses, are recorded as soon as they become known.

p) Health, social security and pension schemes

Contributions are made to the Government's health, retirement and medical benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of social security payments is charged to profit and loss in the same period as the related salary cost. The bank has no obligation to contribute to these schemes beyond the statutory rates in force nor to any other private scheme.

(3) Net interest income

Net interest income comprises (in thousands of Slovak Crowns)

	1998	1997
Interest income:		
– on loans receivable	2,826,375	2,192,408
– on accounts and placements with other banks	1,360,895	805,279
– on state treasury bills	558,915	977,083
Interest expense:		
– on current and deposit accounts of the public	(1,886,900)	(1,784,638)
– on accounts and deposits of other banks	(1,458,712)	(825,457)
Net interest income	1,400,573	1,364,675

(4) Net securities income

Net securities income comprises (in thousands of Slovak Crowns)

	1998	1997
Securities income:		
Fixed income securities	1,292,046	342,645
Shares and variable yield securities	11,787	12,093
Securities expenses:		
Bonds issued	–	(10,911)
Securities	(46,994)	(32,842)
Net securities income	1,256,839	310,985

(5) Other income

Other income comprises (in thousands of Slovak Crowns)

	1998	1997
Other operating income	2,041	3,039
Income from sale of fixed assets	347	327
Extraordinary income	3,217	14,381
Other income	5,605	17,747

(6) Payroll expenses

The breakdowns of the payroll expenses are as follows (in thousands of Slovak Crowns)

	1998	1997
Wages & salaries	275,681	181,314
Social security and health insurance	75,839	47,462
Benefits paid to the management	–	4,329
Total	351,520	233,105

The average number of employees during the periods was as follows:

	1998	1997
Management	4	3
Others	896	656
Total	900	659

The bank has 9 members of the Supervisory Board (1997: 8 members) during the period.

(7) Provisions and reserves for loan losses

The movements in 1998 in the accounts adjusting the value of loans, were as follows (in thousands of Slovak Crowns)

	Specific	General	Other	Total
Balance at 1 January	603,825	164,517	350,058	1,118,400
Creation	893,786	30,526	724,401	1,648,713
Released to profit	(379,143)	(552)	(187,974)	(567,669)
Exchange rate difference	51,371	–	14,742	66,113
Balance at 31 December	1,169,839	194,491	901,227	2,265,557

The Bank creates the General reserve in accordance with the Act No. 610/1992. In addition to this, the bank created Other reserve in amount of 5,5 % of all credit portfolio uncovered by Specific or General reserve to cover general risks of the banking business. Total general reserve for risk assets amounts to SKK 1,075,718 thousand as of 31 December 1998.

The movements in 1997 in the accounts adjusting the value of loans, were as follows (in thousands of Slovak Crowns)

	Specific	General	Other	Total
Balance at 1 January	276,081	136,707	50,653	463,441
Creation	464,378	27,810	300,000	792,188
Released to profit	(131,898)	–	–	(131,898)
Exchange rate difference	(4,736)	–	(595)	(5,331)
Balance at 31 December	603,825	164,517	350,058	1,118,400

(8) Tax situation

The reconciliation between the accounting profit and the taxable base of the corporate Income Tax was as follows (in thousands of Slovak Crowns)

	1998	1997
Profit for the year	1,668,992	1,162,609
Permanent differences:		
Non-taxable income from state bonds	(1,576,061)	(1,271,394)
Non deductible expenses	118,740	96,430
Other deductions	(377,635)	(43,343)
Tax base	(165,964)	(55,698)
Temporary differences:		
Net creation of provisions and reserves	1,147,626	695,745
Taxable income	981,662	640,047

The bank has the following years open for review by the tax inspection authorities for the main taxes applicable to it:

Tax	Years
Corporate Income Tax	1995 – 1998
Withholding Tax	1995 – 1998
Other	1995 – 1998

The varying interpretations that can be made of the tax regulations applicable to the Bank's operations might give rise to tax contingencies which are not susceptible to objective quantification. The Board of Directors of the Bank is not aware of such estimated liabilities, if any, that would be material for the financial statements taken as a whole.

(9) Cash in hand and cash equivalents

Cash in hand and cash equivalents comprise (in thousands of Slovak Crowns)

	1998	1997
Cash and cash equivalents	470,051	518,645
Current accounts with other banks	597,735	255,061
Obligatory reserve with NBS	1,460,299	1,617,401
Other accounts with NBS	356,149	770,536
Total	2,884,234	3,161,643

Obligatory reserve with the National Bank of Slovakia

Following the regulations of the National Bank of Slovakia the average amount of the obligatory reserve for 1998 should be SKK 2,179,806 thousand. The actual average amount deposited by the Bank in the NBS amounted to SKK 2,210,876 thousand (SKK 1,816,884 thousand in 1997).

(10) Loans and advances to banks

Loans and advances to credit institutions are repayable, according to maturity, as follows (in thousands of Slovak Crowns)

	1998	1997
Maturity – contractual:		
– up to 3 months	11,117,705	5,195,032
– 3 months to one year	1,201,043	2,049,854
– one to five years	–	–
– longer than five years	–	–
Less: provision	(5,706)	–
Total	12,313,042	7,244,886

(11) Loans and advances to customers

Loans and advances to customers comprise (in thousands of Slovak Crowns)

	1998	1997
Gross loans and advances	19,248,066	10,958,312
Overdrafts	3,666,728	5,663,858
Less – provisions for loan losses	(1,169,839)	(603,825)
Total loans and advances	21,744,955	16,018,345

Included in the amount of “Gross loans and advances” are forfaiting loans to customers. These loans represent discounted bills of exchange from various customers held until maturity.

Forfaiting loans are carried at nominal value SKK 1,509,324 thousand as of 31 December 1998 and SKK 898,269 thousand as of 31 December 1997. The related unamortised discount is included in the caption “Other liabilities” (SKK 66,653 thousand and SKK 13,325 thousand, respectively). The discounts are amortised on the straight-line basis to the profit and loss account over the period that the bills of exchange are held by the Bank.

The Bank was a lead manager in two syndicated loans to customers. The total amount of such loans as of 31 December 1998 was USD 33.5 million (1997: one loan USD 13.5 million). The portion of the Bank amounted to USD 10.5 million (1997: USD 3.5 million).

Loans and advances to customers are repayable, according to the contract, as follows (in thousands of Slovak Crowns)

	1998	1997
Repayable within:		
– up to one year	13,751,894	10,771,068
– one to five years	3,441,299	3,077,275
– longer than five years	3,638,258	1,513,636
Non-specified and classified liabilities	2,083,343	1,260,191
Less – provisions for loan losses	(1,169,839)	(603,825)
Total	21,744,955	16,018,345

The breakdown of non-performing loans is as follows (in thousands of Slovak Crowns)

	1998	1997
Standard loans with exception	318,889	427,383
Non-standard loans	449,800	140,865
Doubtful receivables	519,233	232,582
Lost receivables	795,421	459,361
Total	2,083,343	1,260,191

The breakdown of provisions for loan losses is as follows (in thousands of Slovak Crowns)

	1998	1997
Provision for non-standard loans	89,960	28,173
Provision for doubtful receivables	284,458	116,291
Provision for lost receivables	795,421	459,361
Total	1,169,839	603,825

A breakdown of the synthetic accounts no. 241, 242, 243, 249 and 712 according to the analytical evidence mentioned in the specific decrees No. 65/355/1996 of the Ministry of Finance of the Slovak Republic dated 11 November 1996 is as follows (in thousands SKK)

	Loan	Provision
Standard loans with exception	318,889	–
– SKK residents	184,614	–
– SKK non-residents	–	–
– FX residents	5,079	–
– FX non-residents	129,196	–
Non-standard loans	449,800	89,960
– SKK residents	160,953	32,191
– SKK non-residents	–	–
– FX residents	213,102	42,620
– FX non-residents	75,745	15,149
Doubtful receivables	519,233	284,458
– SKK residents	156,253	78,127
– SKK non-residents	–	–
– FX residents	263,615	131,808
– FX non-residents	99,365	74,523
Lost receivables	795,421	795,421
– SKK residents	425,834	425,834
– SKK non-residents	4,336	4,336
– FX residents	345,777	345,777
– FX non-residents	19,474	19,474
Income - operations with clients (712)		1998
Interest from loans		1,700,930
Interest from overdrafts		1,125,445
Fees and commissions		232,919
Total		3,059,294

Loans and advances to customers are secured by the following types of guarantees (in thousands of Slovak Crowns)

	1998	1997
Letters of guarantee from banks	1,172,111	1,772,545
Letters of guarantee from companies	2,631,782	1,172,176
Total	3,803,893	2,944,721

(12) Fixed income and variable-yield securities

Trading securities comprises (in thousands of Slovak Crowns)

	1998	1997
Shares	12,344	7,607
Less: provision	(1,496)	(1,116)
State treasury bills	–	6,450,000
State bonds	4,460,491	2,998,967
Corporate bonds	784,685	2,581,036
Eurobonds	790,977	–
Less: provision	(49,278)	(6,815)
Total	5,997,723	12,029,679

The breakdowns of trading securities were as follows (in thousands of Slovak Crowns)

	1998		1997	
	Listed	Unlisted	Listed	Unlisted
Issued by financial institutions	371,225	197,725	229,673	–
Issued by governmental sector	5,026,496	–	2,998,967	6,450,000
Other	280,908	121,369	183,111	2,167,928
Total	5,678,629	319,094	3,411,751	8,617,928

The market value of the shares as of December 31, 1998, amounted to SKK 11,092 thousand (SKK 6,600 thousand as of December 31, 1997). This represents an unrealised loss of SKK 1,496 thousand (SKK 1,116 thousand, in 1997) and unrealised gain of SKK 244 thousand (SKK 109 thousand, in 1997).

The movements in provisions were as follows (in thousands of Slovak Crowns)

	1998	1997
Beginning of the period	7,931	10,680
Creation	43,959	18,980
Released to profit	(1,116)	(21,729)
31 December	50,774	7,931

(13) Assets sold with repurchase agreement (repo)

The Bank has entered into repurchase agreement with Hypovereinsbank, AG, Germany at 11 August 1998. This agreement will mature on 22 January 1999. The transaction is secured by German state bonds amounting to DEM 50 millions, which represent the face value of the bonds in Repo.

(14) Equity shares

The Bank keeps the following investments in affiliated companies (in thousands of Slovak Crowns)

Company name	Percent owned	1998	1997
Affiliates with controlling interest		20,000	100
Tatra Invest, s. r. o.	55.00 %	1,100	1,100
Less – provision		(1,100)	(1,100)
Tatra Group Servis, s. r. o.	100.00 %	20,000	100
Less – provision		(20,000)	–
Tatra Asset Management, i. s. a. s.	100.00 %	20,000	–
Affiliates with substantial interest		101,004	128,606
Tatra Kupón Fond, i. f. a. s.	47.11 %	146,473	146,473
Less – provision		(45,921)	(64,914)
Tatra Leasing, s. r. o.	47.00 %	47,000	47,000
Less – provision		(47,000)	–
Tatra Raiffeisen Capital, s. r. o.	45.00 %	452	47
Sub-total		121,004	128,706

Company name	Percent owned	1998	1997
Other companies		79,957	15,936
Autorizačné centrum Slovenska, a. s.	14.50 %	11,550	11,550
Bankové zúčtovacie centrum, a. s.	0.99 %	3,000	3,000
Burza cenných papierov Bratislava, a. s.	0.26 %	300	300
SWIFT, s. c. Belgium	0.02 %	1,236	1,086
Other	–	63,871	–
Total		200,961	144,642

The basic data about the affiliates from the audited financial statements were as follows thousands of Slovak Crowns

31 December 1998	Capital & Reserves	Current Year Profit	Total Equity
Affiliates with controlling interest			
Tatra Invest, s. r. o.	–	–	–
Tatra Group Servis, s. r. o.	20,005	(20,405)	(400)
Tatra Asset Management, i. s. a. s.	20,438	40	20,478
Affiliates with substantial interest			
Tatra Raiffeisen Capital, s. r. o.	2,012	457	2,469
Tatra Leasing, s. r. o.	46,020	(101,257)	(55,237)
Tatra Kupón Fond, i. f. a. s.	332,534	22,967	355,501
Total	421,009	(98,198)	322,811

Company name	Address	Activity	Auditor
Tatra Invest, s. r. o.	Vajanského 5, Bratislava	In liquidation	N/A
Tatra Group Servis, s. r. o.	Vajanského 5, Bratislava	Services	Arthur Andersen
Tatra Asset Management, i. s. a. s.	Vajanského 5, Bratislava	Investment Company	Arthur Andersen
Tatra Raiffeisen Capital, s. r. o.	Vajanského 5, Bratislava	Consulting	Arthur Andersen
Tatra Leasing, s. r. o.	Mostová 8, Bratislava	Leasing	Arthur Andersen

The only subsidiary publicly traded is Tatra Kupón Fond, i. f. a. s. The market value of the portion held by the Bank as of 31 December 1998 amounted to SKK 100,552 thousand (SKK 81,559 thousand in 1997).

Tatra Invest, s. r. o. is in liquidation and its subsidiary, Tatra Kupón Fond II, was liquidated. The investment is fully provided. The Board of Directors of the Bank does not expect additional losses arising from the liquidation process.

The movements in provisions for equity shares were as follows (in thousands of Slovak Crowns)

	1998	1997
Beginning of the period	66,014	1,100
Creation	112,921	64,914
Released to profit	(64,914)	–
31 December	114,021	66,014

(15) Tangible fixed assets

The movements of tangible fixed assets during the year 1998 were as follows (in thousands of Slovak Crowns)

	Land and buildings	Machinery & equipm.	Other fixed assets	Means of transport	Construct. in progress	Total
Cost						
1 January 1998	444,646	363,028	168,453	4,370	16,115	996,612
Additions	–	–	2,679	–	332,778	335,457
Disposals	(527)	(7,738)	(34)	(1,151)	–	(9,450)
Additions of leased assets	–	86,604	–	14,222	–	100,826
Adjustments to fixed assets	–	–	–	–	(2,313)	(2,313)
Transfers	47,734	246,017	38,018	38	(331,807)	–
31 December 1998	491,853	687,911	209,116	17,479	14,773	1,421,132
Accumulated depreciation						
1 January 1998	(67,949)	(240,627)	(86,927)	(4,315)	–	(399,818)
Charge for the year	(18,909)	(133,605)	(30,557)	(38)	–	(183,109)
Disposals	517	7,738	34	1,151	–	9,440
Additions of leased assets	–	(86,604)	–	(14,222)	–	(100,826)
31 December 1998	(86,341)	(453,098)	(117,450)	(17,424)	–	(674,313)
Net Book Value 1998	405,512	234,813	91,666	55	14,773	746,819
Net Book Value 1997	376,697	122,401	81,526	55	16,115	596,794

(16) Intangible fixed assets

The movements in this caption during the year 1998 were as follows (in thousands of Slovak Crowns)

	Software	Assets	Total in progress
Cost			
1 January 1998	151,435	–	151,435
Additions	2,245	47,052	49,297
Adjustments	2,831	–	2,831
Transfers	47,052	(47,052)	–
31 December 1998	203,563	–	203,563
Accumulated depreciation			
1 January 1998	(102,289)	–	(102,289)
Charge for the year	(41,273)	–	(41,273)
Adjustments	(2,831)	–	(2,831)
Transfers	–	–	–
31 December 1998	(146,393)	–	(146,393)
Net Book Value 1998	57,170	–	57,170
Net Book Value 1997	49,146	–	49,146

(17) Prepayments and other assets

Prepayments and other assets comprise (in thousands of Slovak Crowns)

	1998	1997
Interest receivable accruals	327,481	279,264
Prepayments for financial investments	–	20,000
Operating advances	209,177	–
Own shares for sale	17,093	18,317
Prepayments	78,031	33,540
Other	77,369	72,127
Total	709,151	423,248

(18) Amounts owed to banks

Amounts owed to banks are represented by deposits by banks and loans received from financial institutions.

a) Deposits by banks were repayable, according to initial maturity, as follows (in thousands of Slovak Crowns)

	1998	1997
Repayable within:		
– less than 3 months	6,618,604	5,853,176
– 3 months to one year	1,568,824	1,043,108
– one year to 5 years	102,000	–
– more than 5 years	–	–
Total	8,289,428	6,896,284

b) Loans received are repayable according to initial maturity as follows (in thousands of Slovak Crowns)

	1998	1997
Repayable within		
– less than 3 months	271,179	74,812
– three month to one year	216,510	204,516
– one to five years	1,299,724	686,188
– more than five years	813,070	268,000
Total	2,600,483	1,233,516

Loans are granted by foreign financial institutions like Japan EXIM, EIB, EBRD and Hypovereinsbank, AG, Germany.

(19) Subordinated liability

The bank obtained a long-term loan from the European Bank for Reconstruction & Development (EBRD) of DM 25 million, repayable in five equal annual instalments from 6 November 2002 to 6 November 2006. The outstanding balance of this debt amounted to SKK 552,025 thousand as of 31 December 1998 (SKK 484,950 thousand as of 31 December 1997). The loan is subordinated to the claims of all other creditors. The subordinated liability is included in the supplementary capital of the Bank for NBS regulatory purposes according to present regulations.

(20) Customer deposits

Customer deposits comprised (in thousands of Slovak Crowns)

	1998	1997
Current accounts	15,082,869	13,834,171
Term deposit accounts	11,631,100	11,211,166
Savings accounts	1,971,350	1,390,646
Loans received from customers	–	100,000
Total	28,685,319	26,535,983

Customer deposits, according to contractual maturity, are as follows (in thousands of Slovak Crowns)

	1998	1997
Repayable within:		
– up to three months	28,077,518	22,413,137
– up to one year	465,184	1,135,530
– one to five years	142,568	2,987,316
– more than five years	49	–
Total	28,685,319	26,535,983

(21) Other liabilities

Other liabilities comprised (in thousands of Slovak crowns)

	1998	1997
Accrued interest payable	396,119	525,489
Deferred revenues	74,903	573,829
Estimated liabilities	137,962	95,622
Tax liabilities	166,369	144,130
Other	21,739	96,802
Total	797,092	1,435,872

(22) Shareholders' equity

The variations in 1998 in this caption of the accompanying balance sheets are summarised as follows (in thousands of Slovak crowns)

1998	Basic capital	Share premium	Reserves	Retained earnings	Profit for the year	Total
1 January	522,160	103,335	147,270	887,847	906,591	2,567,203
Employee shares,						
unpaid dividends	–	4,240	–	9	–	4,249
Profit distribution:						
– transfer to reserves	–	–	4,775	–	(4,775)	–
– dividends and emoluments	–	–	–	–	(103,969)	(103,969)
– transfer to retained earnings	–	–	–	792,077	(792,077)	–
– social fund	–	–	–	–	(5,770)	(5,770)
Profit for the year	–	–	–	–	1,276,327	1,276,327
31 December 1998	522,160	107,575	152,045	1,679,933	1,276,327	3,738,040

Basic Capital

The basic share capital of the Bank comprised 50,216 nominative shares with a nominal value of one share SKK 10 thousand and 20,000 employees' shares with nominal value of SKK 1 thousand. The employees' shares do not carry voting rights. As of 31 December 1998 the Bank keeps 17,093 unsold employee's shares in its portfolio.

The major shareholders of the Bank (in percentage) as of 31 December 1998 and 1997 were as follows (excluding employees' share)

Shareholder	1998	1997
Raiffeisen Zentralbank (RZB)	76.07 %	52.59 %
Všeobecná úverová banka	–	11.54 %
Tatra Holding	10.30 %	10.30 %
Others	13.63 %	25.57 %
Total	100 %	100 %

Other parts of restricted shareholder's equity

Other parts of restricted shareholder's equity, such as the legal reserve, amount to SKK 104,432 thousand (SKK 99,657 thousand as of 31 December 1997). The use of this reserve is regulated by the Commercial Code of the Slovak Republic.

(23) Social fund

The variations in the Social Fund were as follows (in thousands of Slovak Crowns)

	1998	1997
Balance as of 1 January	2,237	456
Creation	9,364	6,974
Usage	(6,336)	(5,193)
Balance as of 31 December	5,265	2,237

The social fund was created by charge to expenses of the year (1998: SKK 1,411 thousand, 1997: SKK 1,204 thousand) and from distribution of profit (1998: SKK 7,953 thousand, 1997: SKK 5,770). It is used for employees' food (1998: SKK 427 thousand, 1997: SKK 316 thousand), healthcare (1998: SKK 1,400 thousand, 1997: SKK 1,559 thousand) and other social benefit (1998: SKK 4,509 thousand, 1997: SKK 3,318 thousand).

(24) Assets and liabilities denominated in foreign currencies

The Bank's balance sheet includes assets and liabilities denominated in foreign currencies. The aggregate of these translated into Slovak Crowns were as follows:

31 December 1998	SKK	USD	DEM	ATS	Other	Total
Assets						45,758,105
Cash and cash equivalents	2,153,022	71,446	465,836	42,118	151,812	2,884,234
Loans and advances to banks	6,877,550	3,314,787	841,287	515,095	764,323	12,313,042
Loans and advances to customers	14,456,954	1,272,710	4,796,572	743,930	474,789	21,744,955
Fixed and variable-yield securities	5,258,668	224,880	413,476	–	100,699	5,997,723
Assets sold with repurchase agreement	–	–	1,104,050	–	–	1,104,050
Equity shares	199,725	–	–	–	1,236	200,961
Tangible fixed assets	746,819	–	–	–	–	746,819
Intangible assets	57,170	–	–	–	–	57,170
Prepayments and other assets	598,396	31,644	65,214	4,294	9,603	709,151
Liabilities and shareholders funds						45,758,105
Deposits by banks	8,435,336	211,069	1,772,155	4,156	467,195	10,889,911
Subordinated liabilities	0	0	552,025	0	0	552,025
Customer deposits	19,062,559	3,785,841	3,592,545	1,367,187	877,187	28,685,319
General reserve for risky assets	925,567	118,789	50,276	1,086	0	1,095,718
Other liabilities	681,560	12,012	82,408	1,664	19,448	797,092
Shareholders' equity	3,738,040	0	0	0	0	3,738,040
Balance sheet						
currency position	(2,494,758)	787,756	1,637,026	(68,656)	138,632	–

The balance sheet currency position does not include the off balance sheet items, therefore the table above does not present the net currency position.

(25) Off-balance sheet financial commitments and contingencies

The off-balance sheet financial commitments and contingencies held by the Bank as of 31 December 1998 and 1997 comprised:

a) Guarantees and letters of credit

Thousands of Slovak Crowns	1998	1997
Commitments given:		
– Guarantees	3,919,256	3,857,772
– Classified guarantees	282,596	–
– Letters of credit	437,342	273,170
Commitment received:		
– Guarantees	3,803,893	2,944,721
– Letters of credit	–	–

The guarantees given represent a credit exposure. The bank creates reserves for this exposure the same way as for the loans and advances to customers.

b) Undrawn loan facilities

As of 31 December 1998 the Bank had SKK 6,212,113 thousand in undrawn loan facilities (SKK 5,702,470 thousand as of 31 December 1997).

c) Lease obligations

In the normal course of business the Bank entered into lease agreements for vehicles, office equipment and branch facilities. Payments under these leases extend over a 3 years period.

The cost of these assets used by the Bank as of 31 December 1998 amounted to SKK 80,128 thousand (SKK 158,973 thousand as of 31 December 1997).

d) Legal actions

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Board of Directors believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial situation or the results of future operations of the Bank.

(26) Derivative financial instruments

The outstanding derivative transactions as of 31 December 1998 and 1997 entered into by the Bank were as follows

Thousands of Slovak Crowns	1998	1997
Interest rate contracts (Forward, and swap)		
Assets	2,250,313	2,974,880
Liabilities	(1,985,494)	(1,986,862)
Foreign exchange contracts (Forward and swap)		
Assets	7,799,183	4,930,650
Liabilities	(7,735,362)	(4,912,313)
Spot transactions		
Assets	5,685,178	2,331,192
Liabilities	(5,684,099)	(2,332,120)
Total derivatives	329,719	1,005,427

The fair value of these transactions reflects the credit and other types of economic risk to the Bank.

Maturity of derivative financial instruments as of 31 December 1998 was as follows:

	Up to and including 3 months	Over 3 months and up to 1 yr.	Over 1 year	Total
Interest rate contracts				
Assets	1,598,288	652,025	–	2,250,313
Liabilities	(1,402,835)	(582,659)	–	(1,985,494)
Foreign exchange contracts				
Assets	6,935,421	863,762	–	7,799,183
Liabilities	(6,859,767)	(875,595)	–	(7,735,362)

(27) Liquidity risk

Liquidity risk is a measure of the extent to which Bank may be required to raise funds to meet its commitments associated with financial instruments.

The table below provides an analysis of assets, liabilities and shareholders' equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity dates. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown while for assets it is the latest possible collection date. Based on the regulation of NBS the bank included all state securities and listed securities into category "up to and including 3 months" regardless of their actual maturity. Those assets and liabilities that do not have contractual maturity date are grouped together under the "maturity undefined" category.

The liquidity position as of 31 December 1998 in thousands of Slovak Crowns was as follows

31 December 1998	Up to and including 3 months	Over 3 months and up to 1 year	Over 1 and up to and incl. 5 years	Over 5 years	Maturity undefined or loans classified	Total
Assets	34,392,369	4,682,485	4,278,607	359,660	2,044,984	45,758,105
Cash and cash equivalents	2,884,234	–	–	–	–	2,884,234
Loans and advances to banks	11,618,042	695,000	–	–	–	12,313,042
Loans and advances to customers	12,476,673	3,950,051	4,191,456	341,260	785,515	21,744,955
Fixed interest and variable-yield securities	5,944,954	22,434	27,151	–	3,184	5,997,723
Assets sold with repurchase agreement	1,104,050	–	–	–	–	1,104,050
Equity shares	100,552	–	–	–	100,409	200,961
Fixed assets	–	–	–	–	803,989	803,989
Prepayments and other assets	263,864	15,000	60,000	18,400	351,887	709,151
Liabilities and shareholders funds	36,093,576	2,670,397	1,663,102	1,144,330	4,186,700	45,758,105
Amounts owed to banks	7,848,230	928,886	1,299,724	813,070	–	10,889,910
Subordinated liabilities	–	–	220,810	331,215	–	552,025
Customer deposits	28,077,517	465,184	142,568	45	5	28,685,319
Other liabilities	167,829	–	–	–	629,264	797,093
General reserve for risky assets	–	–	–	–	1,095,718	1,095,718
Shareholders' equity	–	1,276,327	–	–	2,461,713	3,738,040
Liquidity position as of 31/12/98	(1,701,207)	2,012,088	2,615,505	(784,670)	(2,141,716)	–
Off balance sheet assets	21,614,280	2,840,304	824,161	1,024,639	282,596	26,585,980
Off balance sheet liabilities	14,726,843	2,244,773	940,217	1,297,014	–	19,208,847
Off balance sheet position as of 31/12/98	6,887,437	595,531	(116,056)	(272,375)	282,596	7,377,133
Total cumulative liquidity position	5,186,230	7,793,849	10,293,298	9,236,253	7,377,133	–

(28) Estimated realisable value information

It is of the opinion of the Management, based on the assumptions set out below, that unless otherwise stated the estimated realisable value of the Bank's financial assets and liabilities are not materially different from the amounts stated in the balance sheets at 31 December 1998 and 1997.

The balance sheet value of loans stated net of provisions is deemed to approximate their realisable value, while it is assumed that the fair value of liabilities and of near maturity yield assets, other assets and prepayments and accrued income is equivalent to their book value. Shares and other variable yield securities and traded fixed income securities, together with any related off balance sheet instruments, are stated at lower of cost or market value in the balance sheet.

(29) Related parties

Related parties include shareholders, members of the Board of Directors, other employees and companies in which the Bank's investment is in excess of 10 % of the shares. The total amount of credit exposure to related parties as of 31 December 1998 was SKK 380,346 thousand.

(30) Subsequent events

The Board of Directors will propose to the Supervisory Board the increase of basic capital to SKK 1,044,320 thousand by incorporation of existing reserves and retained earnings.

(31) Reconciliation with international accounting standards

As explained in Note 2, the Bank prepares its financial statements in accordance with generally accepted accounting principles in the Slovak Republic. These do not differ significantly from International Accounting Standards (that are based in the relevant Directives of the European Commission).

The main differences affecting the Capital and Reserves and the Profit and Loss account in thousands of Slovak Crowns are as follows:

	1998		1997	
	Capital & reserves	Profit for the period	Capital & reserves	Profit for the period
Under Slovak GAAP	2,461,713	1,276,327	1,660,612	906,591
Consolidation effect:				
– Tatra Leasing, s. r. o.	(20,217)	42,193	(15,470)	(4,747)
– Tatra Group Servis, s. r. o.	–	(9,854)	–	–
Taxation	408,507	459,050	130,209	278,298
Under IAS	2,850,003	1,767,716	1,775,351	1,180,142

In the consolidation effect, Tatra leasing, s. r. o., Bratislava was consolidated based on its individual financial statements prepared according to international accounting standards. Tatra leasing financial statements do not include TL Leasing (its subsidiary), however the impact of non-inclusion would not have a material impact on this disclosure.

(32) Year 2000

The Bank is currently in the process of evaluating its information technology infrastructure for the Year 2000 compliance. The Bank does not expect that the cost to modify its information technology infrastructure to be Year 2000 compliance will be material to its financial condition or results of operations. The Bank does not anticipate any material disruption in its operations as a result of any failure by the Bank to be in compliance. The Bank does not currently have information concerning the Year 2000 compliance status of all suppliers and customers. In the event that any of the bank's significant suppliers or customers does not successfully and timely achieve Year 2000 compliance, the bank's business or operations could be adversely affected.



AUDITORS' REPORT

To the shareholders of
TATRA BANKA, a. s. Bratislava:

We have audited the accompanying financial statements of TATRA BANKA, a. s. ("The Bank") comprising the balance sheet as of 31 December 1998 and the related profit and loss account and notes including the cash flows, for the year then ended. These financial statements are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Standards on Auditing issued by the Slovak Chamber of Auditors (SKAU). 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 their compliance with the accounting legislation, as well as assessing significant estimates made by the Board of Directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of TATRA BANKA, a. s., as of 31 December 1998, and the results of its operations for the year then ended in accordance with Act No. 563/1991 Zb. on Accounting and other relevant accounting legislation in the Slovak Republic.

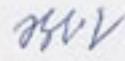
The accompanying financial statements are prepared in accordance with generally accepted accounting principles in the Slovak Republic which do not differ significantly from International Accounting Standards (that are based in the relevant Directives of the European Commission). The main differences affecting the shareholders equity and the profit & loss account are stated in Note 31 to the accompanying financial statements.



ARTHUR ANDERSEN, k. s.
Licence No. 95



14 February 1999
Bratislava, Slovak Republic



JÁN HOLIČKA
Licence No. 715



Proposal for the distribution of the profit for the year 1998

	in SKK '000
Profit before change of reserves	1,276,327
Dividends	151,520
Remunerations	2,960
Transfer to social fund	7,954
Transfer to retained earnings from previous years	1,113,893

Hlavný architekt
TATRA BANKY
M. M. Harminc



The organs of the company

as of 31 December 1998

Supervisory Board:

Milan Vrškový
Chairman of the Supervisory Board

Herbert Štepic
Deputy Chairman of the Supervisory Board
Deputy General Manager
Raiffeisen Zentralbank Österreich AG
Vienna

Peter Baláž
Professor
Economic University, Bratislava

Reinhard Böck
Deputy Chairman of the Board of Directors
and Deputy General Manager
Poisťovňa Otčina, a. s., Bratislava

Milan Fiľo
Chairman of the Board of Directors
SCP, a. s., Ružomberok

Walter Grün
Member of the Board of Directors
Raiffeisenlandesbank Niederösterreich-Wien,
reg. Ges.m.b.H.
Vienna

Renate Kattinger
Vice-president
Raiffeisen Zentralbank Österreich AG
Vienna

Ján Neubauer
Director
Roche Slovakia, spol. s r. o., Bratislava

Luboš Vražda
General Manager
Investment Banking Division
Všeobecná úverová banka, a. s., Bratislava

Management:

Rainer Franz
General Manager

Miroslav Uličný
Deputy General Manager

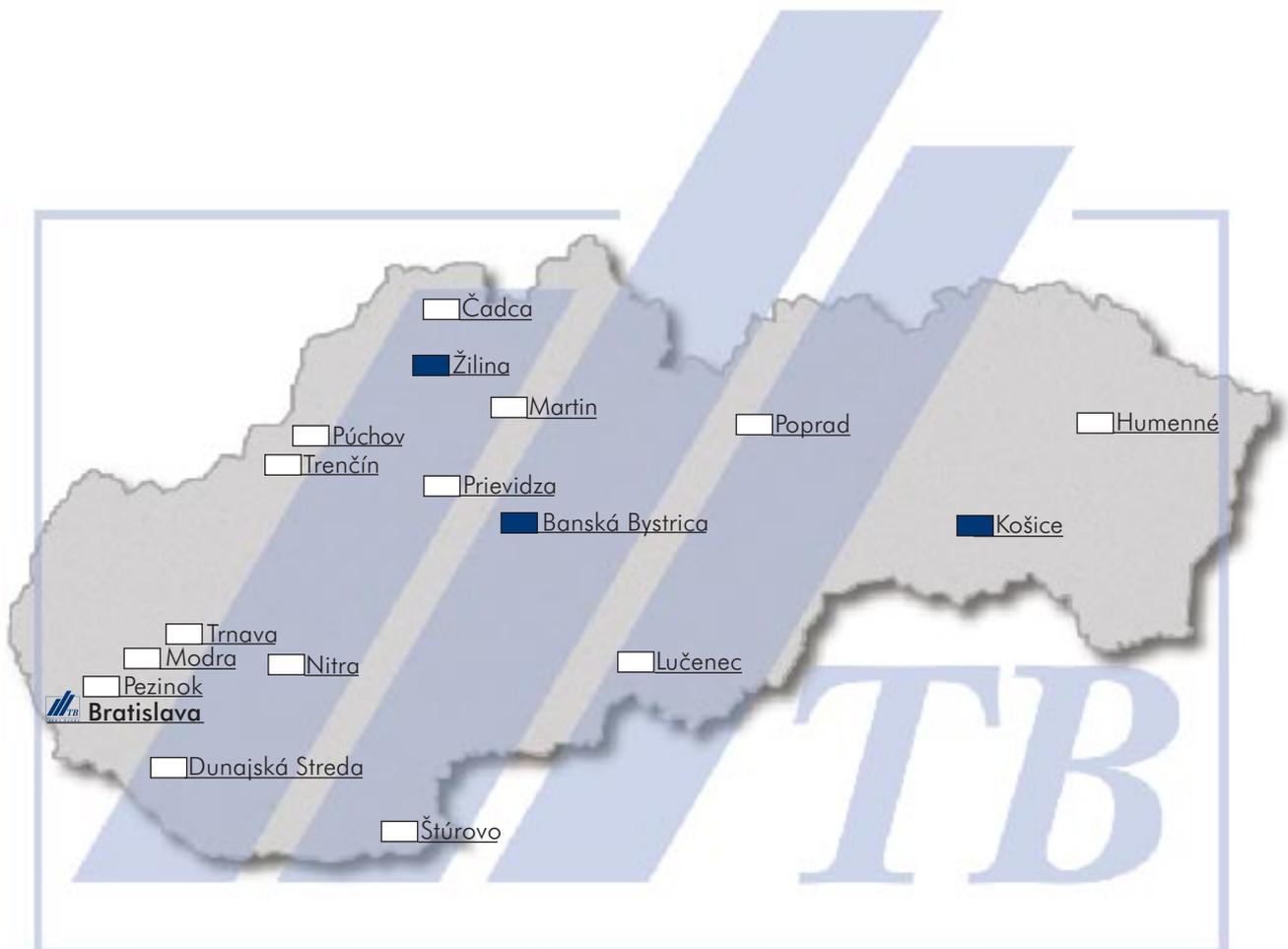
Philippe Moreels

Igor Vida

Christian Masser

Ivan Šramko

Map of branches



-  **Bratislava:** head-office, 18 branches
-  Regional branch Košice, 3 branches
-  Regional branch Banská Bystrica, 3 branches
-  Regional branch Žilina, 7 branches
-  other cities with branches

RZB Österreich AG –



a short introduction

The Austrian Raiffeisen Banking Group

The Austrian Raiffeisen Banking Group has a three-tier structure: The first comprises some 660 local Raiffeisen banks with more than 1,700 branch offices, or some 2,400 banking outlets in all. The second tier is made up of regional Raiffeisen banks - the Landesbanken - that operate at provincial level. They are among RZB's shareholders, holding a total of more than 80 % of its ordinary share capital.

The third tier consists of Raiffeisen Zentralbank Österreich AG (RZB – Austria) itself. Besides commercial business transacted on its own account, Raiffeisen Zentralbank Österreich AG is responsible for nationwide, foreign and international business transacted on behalf of the Raiffeisen Banking Group in Austria.

Due to the strong ties between the three tiers, the specialized subsidiaries and the associated companies, the local Raiffeisen banks are in a strong position to offer all-round financial services „under one roof“.

The Raiffeisen Banking Group is Austria's biggest wholly private banking group, its consolidated balance sheet total amounts to more than ATS 1,000 billion (EUR 75 billion). It represents roughly a quarter of the domestic banking industry and boasts the country's densest network of banking outlets. In Austria, nearly three million Austrians are customers of Raiffeisen banks. These banks provides services for companies from all areas of Austrian business sectors, too.

Raiffeisen Zentralbank Österreich AG (RZB – Austria)

Raiffeisen Zentralbank Österreich AG (RZB – Austria) is the central institution of the Raiffeisen Banking Group. As at 30 June 1998, the RZB – Group had a balance sheet total of ATS 324 billion (EUR 24 billion). RZB – Austria ranks among the biggest Austrian banks and belongs to the world's Top 500 banks.

RZB – Austria offers its corporate and institutional clients in Austria and abroad a comprehensive range of domestic and international banking services with a particular focus on corporate and investment banking. RZB – Austria's principal and other subsidiaries within Austria and its global network of business associates all contribute to that line of services. RZB – Austria's corporate strategy is that of one of Central Europe's leading regional banks. In the pursuit of that strategy, the bank has in recent years taken a number of steps to deepen and broaden its presence in Europe. It is represented in Western Europe by a branch in London and representative offices in Brussels and Paris.

RZB network in Central and Eastern Europe

RZB's Austrian location and its traditionally close trading relations with Central and Eastern Europe have helped the bank establish excellent relationships with companies and institutions in the region. RZB significantly widened its international business activities to become one of the leading Central European banks specializing in the region's markets: Consequently, RZB set up an own banking network in the transformational economies. Thanks to its extensive operations in the region, RZB became the world's first credit institution to be awarded in 1993 the title of Western Commercial Bank of the Year by a respected London financial magazine.

Today, RZB – Austria offers the full range of commercial banking services in nine countries of Central and Eastern Europe through the following network banks:

Tatra banka, a. s., Bratislava
Raiffeisen Bank Rt., Budapest
Raiffeisen Centrobank S. A., Warsaw
Raiffeisenbank a. s., Prague
Raiffeisenbank (Bulgaria) A. D., Sofia
Raiffeisenbank Austria d. d., Zagreb
OOO Raiffeisenbank Austria, Moscow
Raiffeisenbank (Romania) S. A., Bucharest
J.S.C.B. Raiffeisenbank Ukraine, Kiev

Furthermore, RZB representative offices in Moscow and Ljubljana as well as specialist companies provide access to manifold customer services.

RZB worldwide

In America, RZB serves its customers with the RZB Finance LLC and a representative office in New York. In Asia, RZB – Austria has a branch office in Singapore as well as representative offices in Beijing, Hong Kong, Mumbai (Bombay), Ho Chi Minh City and Tehran. Furthermore, RZB is a member of the international UNICO Banking Group comprising the central institutions of the cooperative banking organizations of Austria, Belgium, Germany, Finland, France, Italy and the Netherlands as well as Switzerland and Spain (as associate members).

Principal services

For corporate clients

To meet special requirements of the increasing number of corporate customers, Tatra Bank offers a wide range of wholesale banking services.

In addition to traditional corporate banking products, branch network and subsidiary companies provide also specialized financial services.

For private customers

Tatra Bank provides its private customers with comprehensive retail banking services in already 36 branches with on-line connection across Slovakia. To meet personal banking needs, a wide range of high-technology products enables Tatra Bank customers to be serviced speedily according to international standards.

Corporate banking

Account services

- Current accounts in SKK and in foreign currencies
- Current accounts – Social fund in SKK and Reserve fund in SKK and foreign currencies
- Term deposits in SKK and in foreign currencies
- **INTERNET banking**
- **ELECTRONIC TELEBANKING** for domestic and international payments
- Postal cheques/payment processing
- Night safes with cash administration

Financing

- **SKK and foreign currency** facilities
 - short-, medium- and long-term loans
 - overdrafts
- **Special credit programmes** are based on funding obtained from European Investment Bank, EXIM Bank of Japan and European Bank for Reconstruction and Development as well as under the PHARE-programme
- Export/Import financing in SKK and foreign currency
- Discounting of bills of exchange
- Purchase of receivables with and without recourse (Forfaiting)
- real estate projects and structured financing
- syndicated loans at domestic and international markets

Trade

International Finance specialists provide a wide range of services both for domestic and cross-border business, in close cooperation with our increasing network of correspondent banks.

- Documentary collection and letters of credit
- Guarantees and stand-by letters of credit
- International payments

Treasury and investment banking

Skilled specialists cover a wide range of treasury products:

SKK-time deposits, FX spot and forward transactions, swaps, non-deliverable forward options, forward-forwards and forward rate agreements (FRA), government and corporate securities, portfolio management, repo transactions.

Retail banking

- Current accounts, term deposits and savings pass-books in SKK and in foreign currencies
- **Debit and Credit Cards:**
 - TATRA Card** – domestic SKK-debit card
 - VISA ELECTRON** – International debit card for electronic use
 - VISA and AMERICAN EXPRESS CARDS** – foreign credit cards for international use
 - EUROCARD/MASTERCARD** – international debit card for SKK-account holder
- **WESTERN UNION/MONEY TRANSFER** – fastest way to send money worldwide, cash in 10 minutes
- **TATRAPHONE** – high-technology telephone communication of the Tatra Bank account holder with the bank computer to inquire the available balance of the account, domestic payment
- **Cheques** – purchase of Eurocheques, purchase and sale of THOMAS COOK Travellers Cheques and AMERICAN EXPRESS Cheques, collection of all types of cheques
- **Other services** – Exchange services, rental of safes and night safes. Arranging of building society contracts, rental of mailing boxes, agent for sale and purchase of TAM certificates

Special services

Special services like leasing and corporate advisory services offered by our subsidiary companies – Tatra Leasing, spol. s r. o., Tatra Raiffeisen Capital, spol. s r. o. The subsidiary company Tatra Asset Management, i. spol., provides management of unit trusts, investment funds and collective investments.

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Member of the Austrian Raiffeisen Banking Group

