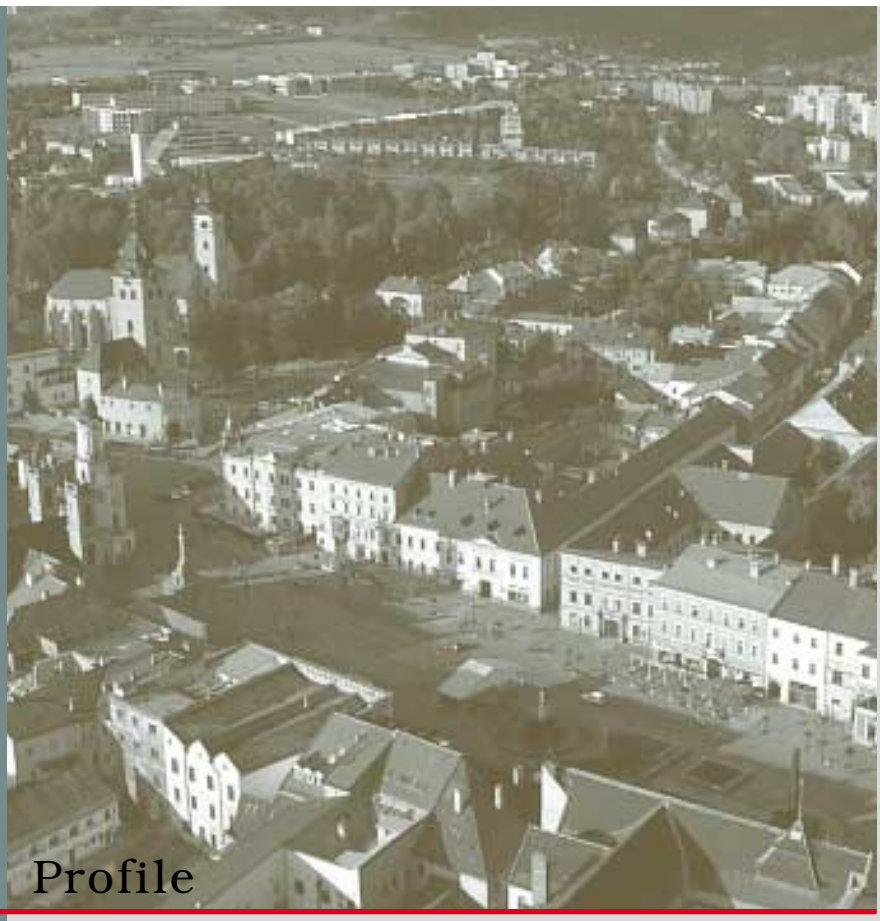
1999

ANNUAL REPORT

Contents

The Bank has
a leading position
in financing
of municipalities
of the Slovak Republic



Company Profile

The Prvá komunálna banka, a.s. (the First Municipal Bank) used to be a domestic bank without a foreign capital participation until 31 December 1999. Since its establishment the bank was specializing in banking services for municipal customers. It dynamically enhanced its range of services. Apart from its leading position in the municipal sector the bank maintains a strong position in the business with corporate clients and general public. It ranks among the medium-sized financial houses standing among the leading commercial banks in the Slovak Republic. It participates in environmental and housing development programs for municipal sector in co-operation with domestic and foreign governmental and commercial institutions.

Until 31 December 1999, the bank's stockholders were mainly municipalities, legal entities and a number of individual investors. Until this date the bank was offering its services in 45 branches and sub-branches with 610 employees. At the end of 1999 the total assets of the bank amounted to SKK 20,176 million, the operating profit reached (according to SKAS) SKK 615 million.

The bank owns the subsidiary - Komunálna poisťovňa, a.s., (Municipal Insurance Company) seated in Banská Bystrica. It focuses on both life and non-life insurance. The Komunálna poisťovňa provides ideal additional services to those of its parent company. At the same time the bank had an equity stake in the leasing company Kofis Leasing, a.s., as of 31 December 1999. In addition, the bank has an equity stake in Bankové zúčto-

vacie centrum, a.s. (Slovak Interbank Clearing Center), Autorizačné centrum Slovenska (Slovak Authorization Center) and in the international company S.W.I.F.T.
The process of acquiring the major equity stake of the foreign investor in the bank was completed at the annual general meeting held on 30 May 2000. The multinational financial group DEXIA has become a partner and a majority stockholder in Prvá komunálna banka. The entry of DEXIA in the joint stock company PKB was carried out by its subsidiary Dexia Kommunalkredit Holding seated in Vienna. This company was founded by Dexia Project & Public Finance International Bank (holding a 60 % equity stake) and an Austria Kommunalkredit (holding a 40 % equity stake). DEXIA has acquired a 78 % equity stake by a public bid and a direct purchase of stocks.

Financial Highlights

For recent 4 years in accordance with the Slovak Accounting Standards

SKK' 000	1999	1998	1997	1996
Revenues	10,954,975	9,998,614	3,391,942	1,987,380
Expenses	10,936,780	9,811,953	3,226,850	1,827,278
Pre-tax Profit	34,142	198,392	198,246	180,609
Net Profit	18,195	186,661	165,092	160,102
Total Assets	20,176,159	20,073,857	16,074,050	13,367,492
Loans	7,789,718	7,733,420	6,286,058	6,545,487
Dealing and Investment Securities	5,323,996	4,584,029	4,221,250	2,622,582
Customer Funds	15,481,476	13,270,637	10,986,614	10,021,245
Capital Resources	1,575,247	1,251,831	1,238,062	861,073
Ratios (%)				
Customer Funds to Loan Portfolio	196	171	177	128
Loans to Total Assets	39	38	44	56
ROA	1.05	1.05	1.51	1.45
ROE	14.89	14.93	18.77	20.18
Total Revenues/Total Expenses	100.55	108	109	114
Capital Adequacy	12.76	11.22	8.33	8.54
Number of Branches	45	40	33	29
Number of Employees	610	602	612	513

I feel confident the year 2000 as well as further years will open new horizons for a dynamic growth and prosperity of the PKB

The Address of the Chairman of the Board of Directors

Honorable stockholders, dear business partners, our clients,

I feel honored to have this opportunity and inform you on the results of Prvá komunálna banka for 1999. After 7 years of its operation the bank established its solid position on the Slovak money market. Nowadays, it ranks among the soundest and successfully developing banks in Slovakia.

In 1999 a new government assumed power and had to cope with many long-term economic issues, which have accumulated over the past years. The only way of restoring stability of the economy on the macroeconomic level was to adopt a number of significant restrictive measures. They were introduced shortly after the May crisis on the interbank financial and foreign exchange market. The government started the restructuring process of Slovak banks by a capital increase in the three largest banks where state has a majority. The government has also moved a considerable amount of bad debt to state-run financial institutions specializing in debt recovery.

Government restrictions as well as slow development of the economy on the Slovak monetary market have all adversely affected the banking sector. Two banks discontinued their operation and the total assets in the sector fell by more than 7 % in the first half of 1999. The situation began to improve after the government decided to take an active approach to the restructuring of banks by capital increase. This step helped eliminate loss in this sector in the current and previous year. Several banks have created reserves for loss coverage, thereby providing the sector with the capital employed amounting to further SKK 7 bn, as of the end of November. The annual growth of total loss in the banking industry by SKK 11 bn was thereby offset by additional reserves of SKK 15 bn. This step has helped halt the aggravation of the adverse financial situation in the ban-

king sector and improve the indicators of some banks. All measures have resulted in stabilization of the interbank market and reduced the interest rates at the end of 1999.

The relatively strong domestic currency brought stabilization to the bank market. This fact was also seen in a positive change in the international business. The growth of import went down due to the low domestic demand and introduction of the import surcharge. On the other hand the state managed to increase the volume of exports which significantly contributed to the GDP. This initial move prepared a solid soil for stabilization and improved the Slovak economic environment in 2000. This fact should be positively reflected in the improvement of a complex situation in the banking sector.

Under these economically adverse conditions Prvá komunálna banka managed to meet its goals and to keep a steady growth of its commercial activities. The total assets of the bank went down, but the bank succeeded in keeping the total amount of assets at the level of the previous year. The share of the bank in total assets of Slovak banking sector reached 2.5% as of the end of 1999.

The bank has improved its position in the rating system of banks operating in Slovakia, mainly with its increase of the total capital amount and its strong company name. In 1999 the bank retained its BB rating which is currently the highest possible rating achieved by the Slovak banks.

The PKB has managed to keep its above-the-average share of primary deposits, which represented 2,75 % of the total deposits of the sector as of 31 December 1999, while the share in total loans of 2,13 % was below average. In the field of the interbank transactions the PKB had a share of 1,70 % in placing and 1,02 % in borrowing. This favorable situation contributed to the bank's stability on the Slovak volatile market. The PKB has kept its traditionally above-the-average position on the securities market. The portfolio of the PKB securities has played a vital part in the investments of the sector with some 2,95 %. The issued securities ensured quality and long-term resources which accounted for 12 % of the market.

The PKB controls the largest share in the municipal sector. This is directly linked to the bank's commercial orientation. The share of municipal loans provided by the PKB accounted for 76,2 %. The share of deposits of municipalities constituted 42.73 % of the primary resources in the sector.

The PKB managed to retain the level of the minimum share in the classified loans on the total assets of the bank at 1,8 %, the level in 1998. This situation was achieved due to a constant monitoring of debt and generating a large volume of reserves. The achieved operating profit accounting for SKK 615 million demonstrates the efficiency of the capital management of the bank. The profits enabled not only the reproduction of our own resources but also left enough space for production of reserves.

As of 1999, the total assets reached SKK 20,176 million, which shows only a slight growth against the previous year. The customer funds increased by more than SKK 2 bn and this number exceeded SKK 15,489 million, as of the end of 1999. There was no fundamental change in the volume of loan portfolio in 1999, as it retained its SKK 7,790 million. In 1999 the bank has been active in the investment into short-term state securities as well as in trading on the inter-bank market.

The bank has widened its range of services by consumer loans and savings products. In 1999 the bank introduced the Internet banking service and made it accessible to general public. Moreover, the bank has expanded its network by five new offices, thereby increasing its presence in other regions of Slovakia.

The turn of 1999/2000 was marked by the fear of failure of information systems all around the world. The PKB experienced a smooth change of the year thanks to its active approach, which resided in detailed reviewing of all systems using the most sophisticated information technology.

The years 1999 as well as the beginning of 2000 have been significantly marked by the negotiations and entry of a foreign strategic partner into the PKB. The entry of the multinational financial group Dexia into the PKB demonstrates the successful performance of the bank. I believe that the entry of the strong foreign partner will strengthen our position on the Slovak financial market. I am confident that this step will also be much of a contribution to municipalities and to our corporate clients bringing them a new range of services as well.

In the conclusion I would like to add that I feel confident the year 2000 as well as further years will open new horizons for a dynamic growth and prosperity of the PKB and bring along new possibilities for all our partners and clients.

Executive Bodies

Board of Directors

Chairman

Ing, Jozef Mihalik, PhD.

Vice-chairmen

Ing. Demeter Markulček
Ing. Pavol Ďuriník, CSc.

Members

Ing. Peter Gazdík
Ing. Štefan Cingel
Ing. Dušan Magula
Ing. Richard Frimmel

Supervisory Board

Chairman

Ing. Jozef Žiška

Vice-chairman

Ing. Štefan Bošnák

Members

Michal Sýkora
Ing. Vasil Popovič
Ing. Michal Srholec
Eduard Paprskár
Viola Varadová

In 1999 the bank provided the highest volume of new loans, SKK 750 million, to the strategically important energy sector

1999 Performance

For the PKB the financial year 1999 was a year of stabilization. However, it also brought structural changes in all items of financial statements. This fact was linked with the macroeconomic changes that are decisive in the selection of the commercial strategy. It is also connected to the requirements for maintenance of the commercial orientation and effective trading of the bank. In line with the finding agreed with the foreign partner there have been changes in the loan portfolio of the bank and in its securing against potential or already existing risks.
This situation shows the increased quality of the PKB's assets portfolio, mainly in loans. The bank also managed to keep a low risk of the portfolio.

In spite of uneasy external conditions the bank has successfully faced the year 1999 as its seventh year of operation, compared to its competitive banks in Slovakia.

After the annulment of the measure of the NBS for foreign exchange position for currency purposes, the total assets experienced fluctuations. While in the first quarter of 1999 the assets fell by more than SKK 2,7 bn, it was dynamically growing during the following months. At the end of the year the value of the total assets slightly exceeded the value from the previous year. It was finally brought to SKK 20,176 bn.

The bank recorded a significant increase in the collected customer funds that have grown by more than SKK 2 bn annually. The volume of loans retained the same level but the loan portfolio underwent fundamental changes. The share in the municipal loans has widely increased as well as the volume of loans to general public.

In 1999 the bank was active in trading with government bonds. From the viewpoint of a high profitability and low risk, these were a sound investment in the Slovak economic environment. The annual increase of the volume of government bonds kept with the bank grew by 43 %. At the same time the bank improved the structure of banking investments by decreasing the share in commercial bonds for corporate clients.

Throughout 1999 the bank produced operating profit reaching SKK 615 million. The net profit accounted only for SKK 18 million because a large volume of operating profit was used for generating of reserves. This step helped increase the capital resources by SKK 325 million and improved initial conditions for the financial year 2000.

BANKING SERVICES

During 1999 the PKB introduced a number of new services. In the field of the electronic banking, the bank offers the Internet banking service that enables an active administration of the client's account including the international payment system. As for the passive electronic services the bank introduced the GSM banking which enables to obtain information on the account balance and other banking information.

The bank entered the loan market granting loans to general public using overdrafts on accounts accessible to personal account owners held with the PKB. After the annual evaluation of experience with this type of loan the bank decided to liberize the conditions for the overdrafts on acounts and to bring it closer to a broader spectrum of general public. The bank raised their top limits, too.

In the second half of the year the PKB has extended its range of services by the premium term deposit designated exclusively to general public. This product became one of the most favorite savings products and contributed to a further growth of deposits of general public. It has also opened up new horizons for the PKB in this segment.

LOANS

Providing of loans in 1999 was connected with high risk due to economic, legislative and political instability. The bank therefore only maintained the total volume of its loan portfolio and did not grant any new loans except for reinvestment of collected ones.

The total volume of loans as of the end of 1999 amounted to SKK 7,7 bn. Compared to 1998 the total volume of loans for 1999 represents only a minute increase by some 1%. Following this slight growth of the total assets, the share of loans in the total assets of the bank was brought back to 38.6 %. During 1999 the bank significantly restructured its loan portfolio in favor of the municipal sector. The bank succeeded in increasing its loans exposure with such towns as Bratislava, Košice and Prešov. The total loan exposure with town Košice was transformed just before the end of the year to municipal bonds, issued by the town of Košice and intermediated by the PKB. The increase of the total value of the municipal loans amounted to SKK 137 million and the total volume of loans to enterprises fell by SKK 84 million.

The bank restructured its business client portfolio discontinuing loan relations with

clients whose creditworthiness was evaluated as doubtful and who therefore represented an unacceptable risk to the bank. The objective of this strategy was to enhance the quality of the loan portfolio. The bank set a group of clients, which it wished to address in the near future. In 1999 the bank provided the highest volume of new loans, SKK 750 million, to the strategically important energy sector.

Significant reduction of foreign currency loans was a result of a cut in the loans provided to corporate clients. The repayment of foreign currency loans provided in co-operation with the EBRD caused this reduction. The highest growth of loans provided per client segment was achieved in the sector of small private clients, mainly following the introduction of overdrafts on personal accounts. This brought the bank closer to the clients whom it wished to reach.

TRADE FINANCING

The year 1999 was marked by a persisting unfavorable development of the Slovak economy. The worsening economic situation was followed by the trend that the foreign banks did not continue financing Slovak enterprises. If they did so, then only in a minimum possible volume, which was then reflected in the financing of the volume of foreign currencies provided to the PKB clients. Foreign banks preferred financing of the specific business transactions, mainly in form of forfeiting, by opening letters of credit and in form of bank guarantees before financing of the operating capital.

The above mentioned drop in the volume of financing in foreign exchange was closely connected to the bank's strategy, i.e. to curb the financing of the enterprises during 1999.
The total volume of financing of import and export activities of clients in form of bank guarantees and avals of promissory notes decreased by 32 %, the volume of issued import letters of credit as much as by 41 %, against the previous year. As of 31 December 1999 the contractual amount of import letters of credit amounted to SKK 36,6 million.

The most striking decrease is to be seen in financing by bank guarantees for customs debt arrangement. As of 31 December 1999 the customs debt fell by 57 % in comparison to the previous year. This happened after the bank sought to decrease the volume of issued customs guarantees considering the risk the bank has to undergo. This step was also followed by the client’s desire to arrange the customs debt by insurance companies. On the other side the clients asked mainly for issuance of non-payment guarantees.

The total volume of financing of business operations by bank guarantees and avals of promissory notes amounted to SKK 1,086 bn, as of 31 December 1999 representing a decrease by 11 %, against the previous year.

SECURITIES PORTFOLIO MANAGEMENT

The total value of the securities portfolio was SKK 5,324 million as of 31 December 1999, whereby bonds represented the largest volume. The annual growth of the portfolio was SKK 851 million, whereby the government and municipal bonds scored the highest increase.

In the first three quarters the income from the securities had a growing tendency following the investments into the government bonds with a higher interest rate and into securities purchased in previous time periods with progressive maturity and a low interest rate. In the fourth quarter the average yield fell after the Ministry of Finance of the Slovak Republic discontinued issuance of bonds. At this time it was not possible to replace collectable bonds with new ones on the secondary market either. The margin of accepted yield of MF SR at auctions with securities was ranging between 15,39 % and 19,50 %. The system of the auction with the securities has slightly changed in the first half of 1999, whereby the MF SR set the bottom line of the accepted revenues. These steps affected the overall increase in income from government bonds in the bank portfolio by 14 %, compared to the previous year. Since the revenues of other bonds retained the levels of those from the previous year, the total income in 1999 increased by 6 %.

At the end of the year the bank issued municipal bonds for the town of Košice. The aim of this move was to improve the indebtedness of the town. In view of the practices in Slovakia, the volume of these bonds was considerably high reaching SKK 1 bn. The bonds were issued for the period of five years at a fixed interest rate of 16,5 % p.a. As of 3, December 1999 the bank administered 15 current bond emissions, whereby the bank acted as an intermediary.

The total turnover on trade with securities via BCPB and RMS in favor of the bank as well as of the clients totalled SKK 30,390 bn, taking into account the volume of 2 million pieces of trading securities. SKK 14,7 bn of the above mentioned amount was produced in favor of the clients.

An overview of the dividends paid to the bank's stockholders:

Year	Dividends
1993	0 %
1994	10,0 %
1995	13,5 %
1996	14,0 %
1997	13,0 %
1998	11,0 %

DEPOSITS AND ACCOUNTS

During 1999 the customer deposits grew from SKK 13,271 million up to 15,481, i.e. by more than 16 %. The highest increase was recorded in the deposits with a fixation period not exceeding 12 months.
This significant growth was mainly seen in the deposits of private investors, non-profit organizations, insurance companies and municipalities. The decrease was recorded only in the deposits with a fixation period of 1 week and in those with the fixation period from 3 to 5 years.
At the end of the year the bank had the largest share in the total deposits of the Slovak municipalities. This share constituted 45 % comparing to 1, January 1997, when it represented only 38,6 %.

The number of the accounts administered with the PKB exceeded 120,000 as of 31 December 1999. This fact ranks the PKB among the banks with the most developed retail services. The year 1999 was marked by the ongoing trend of issuing of payment cards to clients. At the end of the year the payment cards were issued to more than 73 % personal accounts. At this time the bank was administrating 23 ATMs and was issuing payment cards Maestro and Eurocard/MasterCard, domestic and international.

PROJECT FINANCING AND HOUSING CONSTRUCTION

EU Support Schemes

On the basis of the lines of credit opened in 1998 in support of the PHARE program the bank issued 43 lines of credit at a total volume of SKK 302 million. On their basis, the bank granted 19 loans totaling SKK 155 million by 31 December 1999. The total value of the lines of credit opened for selected projects, which are to be funded from the PHARE programs is SKK 263 million. The estimated value of loans to be granted in 2000 is SKK 107 million. As part of assessment of projects participating in the PHARE Environmental Grant Scheme the bank issued 50 more lines of credit for 2000, at a total value of SKK 490 million.

The Co-operation with the European Bank for Reconstruction and Development

The bank administered and reviewed six projects for the EBRD which have been approved by the consulting company GKW Mannheim. The budget cost account for SKK 575 million. Since there has been no actual financing carried out by the EBRD, the bank arranged for the financing of some projects from the support programs.

Housing Construction

Prvá komunálna banka exploits all opportunities to revive the construction of housing and contribute to the development of housing in Slovakia. In 1999 the bank administered the Housing Development Scheme controlled by the Ministry of Construction and Regional Development and managed the funds of the State Fund for Housing Development.

The bank has been administrating housing development schemes of the Ministry of Construction and Regional Development for five years. In 1999 these funds were allocated as subsidies for towns and municipalities to finance technical infrastructure, continue construction under the former Complex Housing Development Scheme, buildings for regional housing demands, buildings listed as the UNESCO cultural heritage and facilities for citizens who need special care. The total budget of the scheme was SKK 628 million. Total amount spent was SKK 344 million.

The State Fund for Housing Development

In 1999 the State Fund for Housing Development (SFHD) was financing and enlarging the Slovak housing fund.
The State Fund for Housing Development authorized the PKB to grant SKK 1.6 bn to 2,738 applicants. By 31 December 1999 the bank was administrating a total value of SKK 3.6 bn in grants for 6,629 applicants.

In 1999, 5,312 loan accounts and 2,722 repayment accounts were opened and 5,312 loans and grants issued at 40 offices of the bank. By the end of the year the bank was managing 18,829 transfer accounts of the SFHD and 12,242 off-balance sheet accounts.

By 31 December 1999 the applicants who qualified for support from SFHD were paid SKK 3 bn. The remaining unpaid subsidies as of the end of 1999 were SKK 530 million. During the first quarter of 2000 the municipalities received a further SKK 36 million under the scheme budget for 2000.

Administration of the Funds of the State Environmental Fund

The administration of the funds of the State Environmental Fund was another significant responsibility of the PKB. The bank was commissioned by contract to manage all financial operations of the fund. The money was to be used mainly as subsidies to municipalities, as well as for enterprises investing in environmental projects.

In 1999 the bank arranged and supervised the financing of 1,054 investment projects. By 31 December 1999 the fund transfered SKK 561 million from its current account to the central endowment account, of which SKK 511 million was actually used.
In the second half of 1999 the bank successfully participated in the selection of the Fund's financial administrator. The bank was evaluated as best and will administer the funds of the State Environmental Fund in the coming years. In addition to the grant finances it will manage the money assigned for loans.

BRANCHES AND PERSONNEL

At present (as of 31 December1999) the bank provides its banking services at 45 offices including the headquarters. This wide network of branches became easily accessible to general public as well as to the municipalities whom the bank wished to reach earlier. In 1999 PKB, a.s. expanded its network of branches by new offices in Prievidza, Liptovský Mikuláš, Prešov, Senica and Bratislava.
From 1, January1999 the bank modified the organizational structure of the bank, setting up six divisions and 22 departments. This step reduced the number of employees, which was reflected in a low number of employees at newly opened offices. The human resources policy was focused on employee's professional growths, mastering new knowledge and skills. The employees participated in the projects of internal training, adaptation programs for newly recruited personnel, external training and study stays provided in co-operation with domestic and international institutions.
The average number of employees was 605, and as of 31 December 1999, the bank was employing 610 people.

YEAR 2000

During 1998 and 1999 the bank underwent a thorough testing of all information systems. All systems proved to be reliably functioning and fully prepared for the transition into the year 2000. The bank information system received an international certificate for the year 2000. Following the analyses and testing by the bank the National Bank of Slovakia certified the PKB to be in compliance with the year 2000. The transition into the year 2000 was very smooth and none of the banking services were threatened by the year 2000 problem.

Financial Statements

under the International Accounting Standards

BALANCE SHEET

	Note	31 Dec. 1999 SKK ' 000	31 Dec. 1998 SKK ' 000
Assets			
Cash		437,371	310,672
Balances with the Central Bank of Slovakia	4	1,117,591	1,112,253
Placements with other banks	5	3,799,821	4,780,681
Treasury bonds and dealing securities	6	4,042,065	3,848,223
Loans and advances to customers, net	7	8,461,552	8,270,528
Investment securities	8	111,888	158,689
Property and equipment, net	9	911,617	859,766
Accrued interest receivable and prepayments	10	696,533	437,169
Other assets	11	69,253	65,037
Total assets		**19,647,691**	**19,843,018**
Liabilities and shareholders' equity			
Deposits from banks and other money market deposits	12	2,797,428	5,065,095
Amounts owed to other depositors	13	14,181,435	11,970,637
Bonds payable	14	1,300,000	1,300,000
Accrued interest payable and deferred income	15	208,351	228,972
Other liabilities	16	81,763	61,113
Total liabilities		**18,568,977**	**18,625,817**
Shareholders' equity	17		
Share capital		1,002,000	1,002,000
Retained earnings		76,714	215,201
Total shareholders' equity		**1,078,714**	**1,217,201**
Total liabilities and shareholders' equity		**19,647,691**	**19,843,018**
Commitments and Contingencies	18	1,471,168	1,764,402

PROFIT AND LOSS ACCOUNT

	Note	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Interest and similar income	19	2,192,847	2,102,071
Interest and similar expenses	19	(1,668,577)	(1,592,884)
Net interest margin		524,270	509,187
Net fee and commission income	20	146,495	131,678
Net gains arising from securities trading	21	161,503	12,752
Net gains arising from dealing in foreign currencies		168,419	103,894
Other income (expense)		(3,612)	(15,754)
General and administrative expenses	24	(484,439)	(432,648)
Profit before transfer to provisions		512,636	309,109
Loan loss and other provisions	22	(195,350)	(81,611)
Net loss on loans sold	23	(299,091)	(35,258)
Net transfer to provisions and loss on loans sold		(494,441)	(116,869)
Profit before taxation		18,195	192,240
Taxation		0	0
Net profit	25	**18,195**	**192,240**
Transfer into general risk reserve	25	-	100,000
Net profit after movement in reserves	25	**18,195**	**92,240**

STATEMENT OF SHAREHOLDERS' EQUITY

	Capital Stock SKK ' 000	Retained earnings SKK ' 000	Total SKK ' 000
Balances at 31 December 1997	1,002,000	253,221	1,255,221
Net income after movement in reserves 1998 (note 25)		92,240	92,240
Dividends paid in 1998		(130,260)	(130,260)
Balances at 31 December 1998	1,002,000	215,201	1,217,201
Net income 1999		18,195	18,195
Dividends paid in 1999		(110,220)	(110,220)
Other movements		(46,462)	(46,462)
Balances at 31 December 1999	**1,002,000**	**76,714**	**1,078,714**

CASH FLOW STATEMENT

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Cash flow from operating activities		
Net profit (note 25)	18,195	92,240
Depreciation	112,673	107,867
Loan loss provision and provision against securities (note 25)	195,350	216,869
Loss on loans sold	299,091	35,258
	625,309	452,234
Increase in reserve deposits at the Central Bank	(5,338)	(141,031)
Decrease (increase) in placements with other banks	980,860	(1,853,700)
Decrease (increase) in deposits from banks	(2,267,667)	1,643,726
Increase in dealing and equity securities	(170,163)	(541,166)
Increase in loans and advances to customer	(662,298)	(1,648,484)
Increase in amounts owed to other depositors	2,210,798	2,284,522
Increase (decrease) in other operating assets	(263,625)	127,925
Increase in other operating liabilities	29	42,515
Net cash flows from operating activities	(177,404)	(85,693)
Cash flows from investment activities		
Net purchases of fixed assets	(164,524)	(182,486)
Cash flow from financing activities		
Dividends paid	(110,220)	(130,260)
Other capital distributions	(46,462)	-
Net cash flow from financing activities	(156,682)	(130,260)
Net increase in cash	126,699	53,795
Cash at the beginning of the year	310,672	256,877
Cash at the end of the year	437,371	310,672

ERNST & YOUNG AUDIT SLOVENSKO, K.S.

REPORT OF INDEPENDENT AUDITOR
TO THE DIRECTORS OF PRVÁ KOMUNÁLNA BANKA, a. s. ŽILINA

We have audited the accompanying balance sheets of PRVÁ KOMUNÁLNA BANKA, a. s. Žilina (the "Bank") as of 31 December 1999 and 1998, and the related statements of income and cash flows for the years 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 audits.

We conducted our audits in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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 audits provide a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 1999 and 1998 and the results of its operations and cash flows for the years then ended in accordance with Slovak Accounting Standards.

Without qualifying our opinion, we call your attention to the note in the section 6 of the Notes to the financial statement, describing transaction in FNM bonds having a significant impact on the accompanying financial statement.

Bratislava,
28 March 2000

Ernst & Young Audit Slovensko, k.s.
Decree No. 144, issued by
the Slovak Chamber of Auditors

Ing. Vladimír Zima
Zodpovedný auditor
Decree No. 280, issued by
the Slovak Chamber of Auditors

Notes to the Financial Statements

1. DESCRIPTION OF BUSINESS

Prvá komunálna banka a.s. Žilina ("the Bank") was established on 14 May 1992 by municipalities of the Slovak Republic and registered in the Companies Register on 1 January 1993. A full banking licence was granted to the Bank on 4 September 1996 from the National Bank of Slovakia.

The Bank is a commercial bank servicing local governments, state-owned enterprises, private enterprises and individual customers. The Bank's head office is in Žilina. The Bank has 39 branches and 6 representative offices.

The Bank predominantly lends to non-municipal borrowers to aid in short term operational needs and to municipal borrowers to aid in long term infrastructure development. Many of the municipal lending programs involve co-operation of the European Bank for Restructuring and Development.

The Bank accepts significant amounts of deposits from its municipal shareholders.

The Bank earns significant commissions through the issuance of guarantees. These off-balance sheet guarantees do not require the level of capital adequacy as primary lending does.

The Bank is currently negotiating a capital entry of a new strategic international investor. This transaction, which is to take place during the year 2000, will significantly alter the current shareholding structure. Bank's focus on municipal clients is not expected to be impacted by this transaction.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTIONS

These financial statements have been prepared in accordance with the Slovak Accounting Standards. The Bank also prepares consolidated financial statements. The Bank maintains its accounting records and prepares its statutory accounts in accordance with commercial, banking and fiscal regulations prevailing in the Slovak Republic.

These financial statements have been prepared under the historical cost convention on the basis of accrual accounting. Except where otherwise stated, assets and liabilities are included at face value. Interest-bearing assets and liabilities acquired or initiated at a value different from notional amounts (e.g. short-dated government paper as treasury bills, etc.) are valued at redemption value except where otherwise stated. Premiums and discounts are accounted for in Prepayments and accrued income or Accruals and deferred income, respectively, and are attributed to interest throughout the remaining terms of the instruments.

In the normal course of business, the Bank enters into financial instruments with off-balance sheet risk, as foreign exchange contracts and guarantees. These financial in-

struments involve to varying degrees, elements of credit and interest rate risk. Realised and unrealised profits and losses are included in the Profit and Loss Account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income and expense recognition

Interest income, interest expense, commission fees, commission expenses and other financial operating income and expenses are accounted for on accruals basis. A retrospective 100 % provision is formed against any overdue interest income, if any.

3.2. Foreign Exchange

Transactions in foreign currencies are converted into domestic currency at the actual exchange rate on the date of the transaction. Assets and liabilities in foreign currencies are converted into domestic currency at the official mid spot rates of the National Bank at the balance sheet date of 31December 1999. Relevant mid spot rates at 31 December 1999 were SKK 42.266 / 1 USD, SKK 21.708 / 1 DM and SKK 3.086 / 1 ATS. Relevant mid spot rates at 31 December 1998 were SKK 36.913 / 1 USD, SKK 22.081 / 1 DM and 3.137 / 1 ATS.

Exchange rate differences arising from translations are included in the profit and loss account under the heading Net gains arising from dealing in foreign currencies.

3.3. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand. Under Slovak legislation, the Bank is required to maintain certain cash reserves with the Central Bank of Slovakia. As of 31 December 1999 and December 1998, the required reserves on deposits with the Central Bank amounted to SKK 1,092,444k and SKK 1,077,253k respectively.

3.4. Loan Loss Provisions

Loans and advances are shown less any diminution in value deemed necessary. Allowances for loan losses are generally determined per item. In addition, a general allowance is formed to cover any credit risks, which have not yet been specifically identified. To estimate a provision the Bank deducts an estimated value of applicable collateral from the total loan receivable prior to the application of an estimated provision on the net loan exposure. Movements in the allowance are included in the profit and loss account under the heading Loan loss provisions.

3.5. Treasury bonds and dealing securities

Treasury bonds and dealing securities are mainly comprised of short and middle term investments, which are held for trading or held until their maturity. Securities held in

the Bank's portfolio are stated at cost.
Some of the bonds held in Bank's portfolio were acquired at substantial discount. This discount is amortised on a straight-line basis in the profit and loss under the heading Interest income. A provision is formed on an individual basis against shares and bonds of doubtful recovery.

3.6. Investment equity securities

Investment securities are comprised of long-term equity investments.

Equity interests comprise shareholdings in companies, which are held as long-term investments. These equity interests are carried at acquisition cost less a provision to market value as deemed necessary.

3.7. Property and equipment

Property and equipment and intangible fixed assets are stated at cost less accumulated depreciation. Depreciation commences as soon as the assets are put into use, on a straight-line basis. The depreciation rates are as follows.

Property	2% - 3 %
Equipment	12,5% - 25 %
Intangible fixed assets	25 %

Tangible fixed assets purchased for up to SKK 10k and intangible fixed assets purchased for up to SKK 20k are immediately written off when placed in use. Land is not depreciated. Results from sales of fixed assets are included in the profit and loss account under the heading Other income (expense).

3.8. Reclassifications

Certain amounts in the 1998 financial statements have been reclassified to be comparable with the classification used in the financial statements for the year ended 31 December 1999.

3.9. Fair values

The financial statements are presented on the historical cost basis, including adjustments and provisions to reduce assets to estimated recoverable amounts where necessary. Fair value for this purpose is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. It is the policy of the Bank to disclose fair value information on those assets or liabilities for which published market information is readily available, and where the fair value is materially different from carrying amounts. Sufficient market experience, stability and liquidity do not exist for purchases and sales of loans and some other financial assets and liabilities and published market information is not readily available. Accordingly, fair values cannot be reliably determined. Management believes

the reported recoverable amounts used in these financial statements are the most valid and useful reporting value in the circumstances.

3.10. Income taxes

Deferred income taxes, if any, are accounted for under the liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. It is a policy of the Bank to provide for an allowance against deferred tax assets (if any) when it is probable that some portion or all of the deferred tax assets will not be realized.

3.11. Employee benefit plan

The Bank does not participate in private employee benefit plans that could lead to future obligations to employees. Retirement needs of employees are managed by the State.

3.12. Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from those estimated.

4. BALANCES WITH THE CENTRAL BANK OF SLOVAKIA

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Minimum deposit	1,092,444	1,077,253
Balances with the Central Bank	25,147	35,000
Total	**1,117,591**	**1,112,253**

The Bank is obliged to permanently maintain a minimum deposit with the Central Bank. Balances with the Central Bank include SKK 1,092,444k and SKK 1,077,253k at 31 December 1999 and 1998, respectively, which represent a minimum deposit, required by the Central Bank, restricted as to withdrawal. These restricted amounts are determined based on deposits held by the Bank.

5. PLACEMENT WITH OTHER BANKS

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Current accounts	344,035	452,189
- in Slovak crowns	80,711	58,243
- in foreign currencies	263,324	393,946
Term accounts	3,455,786	4,328,492
- in Slovak crowns	3,337,000	2,445,700
- in foreign currencies	118,786	1,882,792
Total	**3,799,821**	**4,780,681**

6. TREASURY BONDS AND DEALING SECURITIES

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
A. Trading securities		
Government bonds	1,198,343	785,946
FNM bonds	255,217	0
Shares	155,143	112,693
Other	2,163	2,475
	1,610,866	901,114
Provisions	(41,126)	(18,000)
Subtotal	**1,569,740**	**883,114**
B. Securities held until maturity		
Government bonds	1,476,861	1,076,488
Bank bonds	545,370	978,669
Corporate bonds	450,094	924,122
	2,472,325	2,979,279
Provisions	-	(14,170)
Subtotal	**2,472,325**	**2,965,109**
Total	**4,042,065**	**3,848,223**

The FNM bonds included in the Bank's portfolio represent bonds issued by the National Property Fund (Fond Národného Majetku), in order to compensate Slovak citizens for any discriminations suffered during the past communist era. Bonds with a face value of SKK 10,000 and coupon rate of 8.8 % p.a. maturing in 2001 were distributed to the general public during the year 1996 for a consideration of SKK 1,000. The secondary market for FNM bonds has been formerly strongly regulated and restricted with limited transferability for the bonds' primary owners.
These specific market conditions, supported by significant uncertainty surrounding for certain time the future prospects and redemption of FNM bonds have led to a situation where PKB had the opportunity to acquire 30,000 FNM bonds for an average price of SKK 2,781 with accrued interest of SKK 3,485.
The Bank has subsequently sold the bonds to Komunálna poisťovňa for an average price of SKK 8,146 with accrued interest of SKK 3,485 and subsequently reacquired them back at a price of SKK 8,507 with accrued interest of SKK 3,488. The profit recognised in the transaction amounted to SKK 160,944 thousand.
As sufficient market experience, stability and liquidity do not exist for purchases and sales of FNM bonds, their fair value cannot be reliably determined on the basis of market prices. The Bank believes that the carrying amount of the FNM bonds as stated in these financial statements is a fair approximation of their fair value as estimated by well established estimation techniques.
As at 31 December 1999 the total exposure of the Bank vis-a-vis FNM amounted to SKK 359,844 thousand.

7. LOANS AND ADVANCES TO CUSTOMERS, NET

An analysis of the loan portfolio of the Bank by classification is as follows:

			year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Pass			7,862,311	8,150,797
Watch			297,815	251,626
Classified			843,195	237,690
			9,003,321	8,640,113
Allowances for loan losses	- specific provisions		(49,558)	(136,836)
	- general provisions		(392,211)	(132,749)
	- risk reserves	(note 25)	(100,000)	(100,000)
Total loans to customers, net			**8,461,552**	**8,270,528**

An analysis of the loan portfolio of the Bank by source is as follows:

			year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Loans to bank employees			44,639	36,350
Commercial loans			4,388,324	4,682,610
Loans to state entities			437,485	150,000
Loans to local governments and municipal bonds			4,132,873	3,771,153
			9,003,321	8,640,113
Allowances for loan losses	- specific provisions		(49,558)	(136,836)
	- general provisions		(392,211)	(132,749)
	- risk reserves	(note 25)	(100,000)	(100,000)
Total loans to customers, net			**8,461,552**	**8,270,528**

8. INVESTMENT SECURITIES

Equity securities	% owned	31 Dec. 1999 SKK ' 000	31 Dec. 1998 SKK ' 000
Insurance company (Komunálna poisťovňa, a.s.)	32.94 %	-	44,800
Building society (Váhostav, a. s.)	12.43 %	108,500	108,500
Other		3,388	5,389
Total equity investment securities		**111,888**	**158,689**

Following the decision to dispose of the shares held in Komunálna poisťovňa, a.s. in the nearest future, the investment has been reclassified into trading portfolio in 1999 financial statements.

9. PROPERTY AND EQUIPMENT, NET

1999	Buildings SKK '000	Land SKK ' 000	Machines and Equipment SKK ' 000	Vehicles SKK ' 000	Intangibles SKK ' 000	Total SKK ' 000
Cost at 1 January 1999	550,427	19,380	471,254	14,694	80,322	1,136,077
Net additions in 1999	104,240	4,081	68,362	(-1,707)	963	175,939
Cost at 31 December 1999	654,667	23,461	539,616	12,987	81,285	1,312,016
Accum. Dep. at 1 January 1999	(45,670)	-	(225,490)	(7,723)	(63,137)	(342,020)
Charge for the period	(15,842)	-	(84,176)	(456)	(9,537)	(109,981)
Accum. Dep. at 31 December 1999	(61,512)	-	(309,666)	(8,179)	(72,674)	(452,031)
Book value at 31 December 1999	**593,155**	**23,461**	**229,950**	**4,808**	**8,611**	**859,985**
Asset not yet in use	34,910	-	14,767	-	1,955	51,632
Total	**628,065**	**23,461**	**244,717**	**4,808**	**10,566**	**911,617**
Cost at 1 January 1998	505,774	19,288	373,932	11,296	71,616	981,906
Net additions in 1998	44,653	-	97,414	3,399	8,706	154,172
Cost at 31 December 1998	550,427	19,288	471,346	14,695	80,322	1,136,078
Accum. Dep. at 1 January 1998	(32,236)	-	(150,238)	(6,231)	(45,448)	(234,153)
Charge for the period	(13,497)	-	(75,190)	(1,492)	(17,688)	(107,867)
Accum. Dep. at 31 December 1998	(45,733)	-	(225,428)	(7,723)	(63,136)	(342,020)
Book value at 31 December 1998	**504,694**	**19,288**	**245,918**	**6,972**	**17,186**	**794,058**
Asset not yet in use						65,708
Total						**859,766**

10. ACCRUED INTEREST RECEIVABLE AND PREPAYMENTS

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Prepayments	56,085	45,943
Accrued interest receivable	640,448	391,226
Total	**696,533**	**437,169**

11. OTHER ASSETS

	year ended 31 Dec.1999 SKK ' 000	year ended 31 Dec.1998 SKK ' 000
Advances	4,974	4,310
Other assets	64,323	60,727
Provisions	(44)	-
Total	**69,253**	**65,037**

12. DEPOSITS FROM BANKS AND OTHER MONEY MARKET DEPOSITS

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Current accounts	-	-
Term accounts	2,304,300	4,066,605
- in Slovak crowns	2,304,300	2,300,125
- in foreign currencies	-	1,766,480
Clearing accounts	98,437	556,870
- in Slovak crowns	98,437	556,870
- in foreign currencies	-	-
Loans	394,691	441,620
- in foreign currencies	394,691	441,620
Total	**2,797,428**	**5,065,095**

13. AMOUNTS OWED TO OTHER DEPOSITORS

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Current accounts	3,337,948	3,410,535
- in Slovak crowns	2,898,442	2,979,168
- in foreign currencies	439,506	431,367
Term deposits	5,523,505	4,654,775
- in Slovak crowns	5,065,084	4,225,923
- in foreign currencies	458,421	428,852
Savings accounts	1,189,548	1,003,477
- in Slovak crowns	825,433	732,238
- in foreign currencies	364,115	271,239
Deposits from municipality and state government	3,776,417	2,803,275
- in Slovak crowns	3,770,583	2,802,212
- in foreign currencies	5,834	1,063
Negotiable promissory notes	25,000	98,575
Redistribution loans	329,017	-
Total	**14,181,435**	**11,970,637**

14. BONDS PAYABLE

The Bank has issued bonds, in two series, for the total amount of SKK 1,300,000k. The first series, in the amount of SKK 500,000k, was issued in 1996. This series matures in 2002 and carries an interest rate of 8 %. The second series, in the amount of SKK 800,000k, was issued in 1997. This series matures in 2001 and carries an interest rate of 12.5 % p.a.

15. ACCRUED INTEREST PAYABLE AND DEFERRED INCOME

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Accrued interest payable	207,588	222,495
Deferred income and other accruals	763	6,477
Total	**208,351**	**228,972**

16. OTHER LIABILITIES

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Withholding taxes payable	34,723	26,086
Creditors	15,831	14,494
Employees	5,942	6,248
Other	25,267	14,285
Total	**81,763**	**61,113**

17. SHAREHOLDERS EQUITY

	Share capital SKK ' 000	Retained earnings SKK ' 000	Total SKK ' 000
1 January 1999	1,002,000	215,201	1,217,201
Net profit for the year ended 31 December 1999		18,195	18,195
Dividends paid 1999		(110,220)	(110,220)
Other movements in capital in 1999		(46,462)	(46,462)
31 December 1999	**1,002,000**	**76,714**	**1,078,714**

At 31 December 1999 no shareholder held more than 10 % of the outstanding voting shares of the Bank.

18. FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

In the normal course of business, the Bank is party to financial instruments with off-balance sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest and currency rates. These financial instruments include commitments to extend credit, financial guarantees, and commercial letters of credit and forward foreign exchange contracts. These instruments involve, to varying degrees, elements of credit and market risk in excess of the amounts recognised in the Balance Sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments through establishing credit approvals, risk control and monitoring procedures.

The Bank requires collateral to support off-balance sheet financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, other marketable securities, inventory or property, plant and equipment.

Commitments are contractual agreements to extend credit, which generally have fixed

expiration dates or other termination requirements and may require of a fee. Substantially all of the Bank's commitments to extend credit are contingent upon the customer maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitments amounts do not necessarily represent total future cash requirements.

Guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers.

An irrevocable letter of credit represents an extension of credit by the Bank to its customers where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

The Bank's exposure to credit loss under commitments to extend credit, guarantees and commercial letters of credit is limited to the contractual amounts of these instruments, which is as follows:

	year ended 31 Dec. 1999 SKK ' 000	**year ended 31 Dec. 1998 SKK ' 000**
Guarantees granted	1,086,355	1,217,487
Irrevocable letters of credit	36,629	124,034
Commitments	348,184	422,881
Total	**1,471,168**	**1,764,402**

19. INTEREST AND SIMILAR INCOME AND EXPENSES

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
A. Interest and similar income		
Money market operation	225,911	352,041
Clients operations and municipal bonds	1,447,264	1,273,873
Net income from securities	519,672	476,157
Total	**2,192,847**	**2,102,071**

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
B. Interest expense and similar expenses		
Money market operations	178,683	176,259
Client operations	1,345,897	1,260,367
Bonds payable	143,997	156,258
Total	**1,668,557**	**1,592,884**

20. FEE AND COMMISSION INCOME AND EXPENSES

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
A. Income		
Bank operations	11,595	8,476
Client operations	166,578	137,841
Securities	3,725	4,774
Other	-	9,162
Total	**181,898**	**160,253**

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
B. Expenses		
Bank operations	27,397	21,026
Client operations	4,751	621
Securities	3,225	6,928
Total	**35,403**	**28,575**

21. NET GAINS ARISING FROM SECURITIES TRADING

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Net gains arising from trading with FNM bonds	160,944	-
Net gains arising from trading with other securities	559	12,752
Total net gains	**161,503**	**12,752**

The net gains arising from trading with FNM bonds have resulted from the transactions described in note 6 of these financial statements.

22. LOAN PROVISIONS, NET OF RECOVERIES AND PROVISION ON SECURITIES

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Provisions against loan losses	172,184	65,755
Provisions against securities	23,122	15,895
Provisions on other assets	44	(39)
Total charge for the year	**195,350**	**81,611**
Transfer into general reserves from 1998 profit	-	100,000
Total addition to provisions	**195,350**	**181,611**

Movements in the allowance for loan losses are as follows:

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Provisions at the beginning of period	(369,585)	(203,829)
Charge for the year	(172,184)	(65,756)
Transfer from 1998 profit	-	(100,000)
Provisions at the end of period	(541,769)	(369,585)

The Bank fully complies with the requirements of the National Bank regarding allowances for loan losses and adjustments.

23 NET LOSS ON LOANS SOLD

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Proceeds from loans sold	189,998	-
Book value of loans sold	(489,089)	(35,258)
Net loss on loans sold	(299,091)	(35,258)

24. GENERAL AND ADMINISTRATIVE EXPENSES

	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Personnel costs	(150,860)	(151,989)
Depreciation	(112,673)	(107,867)
Rent, advertising and other overhead	(221,443)	(171,028)
Gain (loss) on disposals	537	(1,764)
Total	**(484,439)**	**(432,648)**

25. NET PROFIT

In order to cover the general risk related to the Bank's loan portfolio, the general assembly held in April 1999 decided to transfer SKK 100,000k of the profit for the year ended 31 December 1998 into general risk reserves. Subsequently the net profit for the year ended 31 December 1998 after this movement in reserves amounts to SKK 92,240k.

26. TAXATION

The Slovak Republic was the only tax jurisdiction in which the Bank's income was taxed. The tax provision is calculated by applying the statutory tax rate of 40 % to the Bank's taxable profit reported for Slovak tax purposes.

The following is a reconciliation of the tax basis and the book basis of the taxable profit reported in the financial statements:

	year ended 31 Dec. 1999 SKK ' 000
Profit reported for the purposes of these financial statements	18,195
Exempt income	(772,368)
Non allowable expenses	604,884
Loss for tax purposes	(149,289)

A tax-exempt income arises mainly in the form of interest income earned on debt securities. This interest income is subject to withdrawing tax and is not included in profit subject to corporation tax.

The Bank is in a tax loss position for year 1999. Therefor the Bank has no income tax expense for the year ended 31 December 1999 nor has the Bank any income tax obligations at 31 December 1999.

Loss carry forwards available to shelter future taxable income expire if the subsequent year also results in a tax loss. Because the Bank was in a tax loss situation for the tax year ended 31 December 1999 any tax losses recorded prior to the tax year end of 31 December 1998 have expired and are no longer available to shelter future taxable income.

27. MATURITIES OF ASSETS AND LIABILITIES

31 December 1999	**Up to 1 month SKK ' 000**	**1 to 3 month SKK ' 000**	**3 months to 1 year SKK ' 000**	**1 to 5 years SKK ' 000**	**Over 5 years SKK ' 000**	**Undefined maturity SKK ' 000**	**Total SKK ' 000**
Assets							
Cash	437,371	-	-	-	-	-	437,371
Due from Central Bank of Slovakia	1,117,591	-	-	-	-	-	1,117,591
Placements with other banks	3,222,821	277,000	300,000	-	-	-	3,799,821
Dealing and equity securities	2,876,386	799	596,262	459,927	13	220,566	4,153,953
Loans and advances to customers	448,937	979,718	2,526,219	3,746,317	587,722	172,639	8,461,552
Fixed assets	-	-	-	-	-	911,617	911,617
Other assets	12,491	366	-	6,260	-	50,136	69,253
Accrued interest receivable	-	-	-	-	-	696,533	696,533
Total assets	**8,115,597**	**1,257,883**	**3,422,481**	**4,212,504**	**587,735**	**2,051,491**	**19,647,691**
Liabilities and Capital							
Deposits from banks	1,949,437	182,769	349,469	315,753	-	-	2,797,428
Amounts owed to other depositors	5,573,902	5,442,241	1,106,013	493,389	251,970	1,313,920	14,181,435
Debt securities	-	-	-	1,300,000	-	-	1,300,000
Accrued interest payable and deferred income	-	-	-	-	-	208,351	208,351
Other liabilities	69,555	-	369	7,093	-	4,746	81,763
Capital	-	-	-	-	-	1,078,714	1,078,714
Total liabilities and capital	**7,592,894**	**5,625,010**	**1,474,046**	**2,116,235**	**251,970**	**2,587,536**	**19,647,691**
Unmatched maturity	**522,703**	**(4,367,127)**	**1,966,630**	**2,096,269**	**335,765**	**(554,240)**	

31 December 1999	Up to 1 month SKK ' 000	1 to 3 month SKK ' 000	3 months to 1 year SKK ' 000	1 to 5 years SKK ' 000	Over 5 years SKK ' 000	Undefined maturity SKK ' 000	Total SKK ' 000
Assets							
Cash	310,672	-	-	-	-	-	310,672
Due from Central Bank of Slovakia	1,112,253	-	-	-	-	-	1,112,253
Placements with other banks	4,498,742	218,239	63,700	-	-	-	4,780,681
Dealing and equity securities	2,616,818	772	248,523	339,700	337,005	245,188	4,006,912
Investment securities							
Loans and advances to customers	736,755	937,792	2,119,253	3,679,505	493,781	103,442	8,270,528
Fixed assets	-	-	-	-	-	859,766	859,766
Other assets	-	-	-	-	-	283,943	65,037
Accrued interest receivable	-	-	-	-	-	437,169	437,169
Total assets	**9,275,240**	**1,156,803**	**2,431,476**	**4,319,205**	**830,786**	**1,929,508**	**19,843,018**
Liabilities and Capital							
Deposits from banks	4,023,253	50,097	430,268	417,951	143,526	-	5,065,095
Amounts owed to other depositors	5,651,738	4,050,417	1,089,116	533,787	13,351	632,228	11,970,637
Debt securities	-	-	-	1,300,000	-	-	1,300,000
Accrued interest payable and deferred income	-	-	-	-	-	228,972	228,972
Other liabilities	-	-	-	-	-	61,113	61,113
Capital	-	-	-	-	-	1,317,201	1,317,201
Total liabilities and capital	**9,674,991**	**4,100,514**	**1,519,384**	**2,251,738**	**156,877**	**2,239,514**	**19,843,018**
Unmatched maturity	**(399,751)**	**(2,943,711)**	**912,092**	**2,067,467**	**673,909**	**(310,006)**	

28. RELATED PARTY TRANSACTIONS

As at 31 December 1999 and 31 December 1998 the Bank had the following loans to clients in which the Bank has a related party relationship (only shareholders holding over 5 % of the Bank's shares are shown):

Related party	year ended 31 Dec. 1999 SKK ' 000	year ended 31 Dec. 1998 SKK ' 000
Bank management	9,901	15,175
Komunálna poisťovňa, a.s. Žilina	129,728	163,205
Technocon	215,139	215,139
Runeko Chémia	100,000	-
Biogastra	60,723	-
Municipality of Žilina	235,400	222,111
Total	**750,891**	**615,630**

As at 31 December 1999 and 31 December 1998 the Bank had the following concentrations in amounts owed to customers.

	31 Dec. 1999 SKK ' 000	31 Dec. 1998 SKK ' 000
FNM	-	432,000
Slovenská poisťovňa	406,752	301,048
Slovenský vodohospodársky podnik	-	256,500
Ministerstvo výstavby a verejných prác	-	238,654
MV a region.rozvoja	427,058	-
EXIM banka SR	270,000	-
Ministerstvo pre správu a privatizáciu verejného majetku	187,568	238,654
Other largest five depositors	556,937	837,801
Total	**1,848,315**	**2,066,003**

At 31 December 1999, the largest ten depositors of the Bank comprise approximately 14 % (19 % at 31 December 1998) of total amounts owed to customers.

Financial Statements

under the Slovak Accounting Standards

BALANCE SHEET

	31 Dec. 1999 SKK '000	31 Dec. 1998 SKK '000
Assets		
Cash and balances with Central Bank of Slovakia	**1,554,961**	**1,422,925**
Cash	437,371	310,672
Balances with Central Bank of Slovakia	1,117,590	1,112,253
Placements with other banks	**3,799,821**	**4,780,682**
Deposits placed in other banks	3,799,821	4,780,682
Loans and advances to customers, net	**7,789,718**	**7,733,420**
Bonds and other interest bearing securities	**1,315,366**	**786,283**
Bonds issued by state and municipal government	1,315,366	786,283
Stocks and other securities	**87,843**	**112,693**
Equity investments with a material equity stake	**44,800**	**44,800**
Other equity investments	**111,888**	**113,889**
Other investment securities	**3,764,099**	**3,526,364**
Intangible fixed assets	**10,565**	**17,715**
Tangible fixed assets	**901,051**	**842,051**
Lands	20,471	19,288
Buildings	592,808	504,757
Other assets	**99,514**	**255,866**
Accruals and prepayments	**696,533**	**437,169**
Assets total	**20,176,159**	**20,073,857**

	31 Dec. 1999 SKK ' 000	31 Dec. 1998 SKK ' 000
Liabilities and shareholders' equity		
Due to banks	**2,698,991**	**4,508,225**
Loans and deposits taken from other banks	2,698,991	4,508,225
Amounts owed to other depositors	**14,129,726**	**11,937,807**
Certificates of deposits and treasury bills	**51,750**	**32,830**
Debt securities	**1,300,000**	**1,300,000**
Liabilities from other values	**0**	**97**
Reserves	**410,881**	**150,752**
Statutory reserves	193,289	0
Other liabilities	**175,455**	**620,833**
Accruals and deferred income	**226,794**	**234,385**
Total share capital	**1,002,000**	**1,002,000**
Shares premium and other capital funds	**198**	**198**
Reserve funds and other funds from net profit	**159,983**	**47,991**
Retained earnings	**2,185**	**52,078**
Net Profit for the year	**18,195**	**186,661**
Liabilities and shareholders' equity total	**20,176,159**	**20,073,857**

PROFIT AND LOSS ACCOUNT

	Year ended 31 Dec. 1999 SKK '000	Year ended 31 Dec. 1998 SKK '000
Expense		
Banking expense	**9,141,148**	**9,000,907**
Cash and Interbank operations expense	206,080	197,285
Client operations expense	1,342,717	1,260,987
Financial leasing expense	296	293
Bonds payable expense	143,997	144,003
Securities transactions expense	7,447,467	7,397,550
Foreign exchange transactions expense	591	687
Other banking operations expense	0	102
General and administrative expense	**484,972**	**438,561**
Personnel costs	150,860	129,299
Rent, advertising and other overhead	221,439	199,631
Depreciation	112,673	109,631
Provisions and Reserves Allocation and out of it:	**628,421**	**313,222**
Provisions	293,767	158,702
Statutory reserves	193,289	0
Other operating expense	**500,538**	**42,613**
Tax	**15,947**	**11,731**
Extraordinary expense	**165,753**	**4,919**
Net profit for the current period	**18,195**	**186,661**
Expense total	**10,954,975**	**9,998,614**

	Year ended 31 Dec. 1999 SKK '000	Year ended 31 Dec. 1998 SKK '000
Income		
Banking income	**10,392,392**	**9,753,529**
Cash and interbank operations income	234,242	369,177
Client operations income	1,459,932	1,277,170
Financial leasing income	0	0
Securities transactions income	8,476,955	7,939,474
Income from dealing in foreign currencies	188,812	124,399
Other banking operations income	32,451	43,309
Provisions and reserves release and out of it:	**346,542**	**236,837**
Provisions	272,017	85,137
Statutory reserves	0	124,296
Other operating income	**197,112**	**6,557**
Extraordinary income	**18,929**	**1,691**
Loss for the current accounting period	**0**	**0**
Income total	**10,954,975**	**9,998,614**

Reclassification

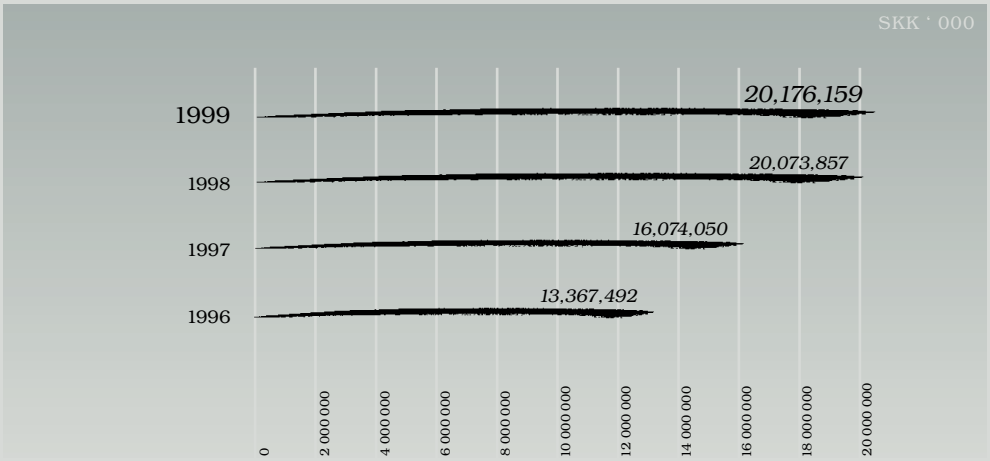
between the Slovak and International Financial Statements

	SKK ' 000	Balance sheet according to SKAS	DR	CR	Adjustment total	Balance sheet according to IAS
	Assets					
	Cash	**437,371**	**-**	**-**	**-**	**437,371**
	Balances with the Central Bank of Slovakia	**1,117,590**	**-**	**-**	**-**	**1,117,591**
	Placements with other banks	**3,799,821**	**-**	**-**	**-**	**3,799,821**
	Treasury bonds and dealing securities	**5,212,108**	**2,219**	**(1,172,263)**	**(1,170,044)**	**4,042,065**
1	municipal bonds in loans	-	-	(997,407)	(997,407)	-
2	promissory notes purchased in loans	-	-	(156,230)	(156,230)	-
3	general provisions (other reserves) - securities	-	-	(18,626)	(18,626)	-
4	clearing account of stock exhcanges (DR bal.)	-	2,163	-	2,163	-
5	unamortised accrued interest - municipal bonds	-	56	-	56	-
	Loans and advances to customers, net	**7,789,718**	**1,182,546**	**(510,711)**	**671,835**	**8,461,552**
1	municipal bonds	-	997,407	-	997,407	-
2	promissory notes purchased	-	156,230	-	156,230	-
6	general reserves - loans	-	-	(100,000)	(100,000)	-
7	general provisions (legal reserves) - loans	-	-	(193,289)	(193,289)	-
8	general provisions (other reserves) - loans	-	-	(198,922)	(198,922)	-
9	other debtors - loans	-	28,909	-	28,909	-
10	deferred income - loans	-	-	(18,444)	(18,444)	-
5	unamortised accrued interest - municipal bonds	-	-	(56)	(56)	-
	Investment securities	**111,888**	**-**	**-**	**-**	**111,888**
	Property and equipment, net	**911,616**	**-**	**-**	**-**	**911,617**
	Other assets	**99,514**	**855**	**(31,116)**	**(30,261)**	**69,253**
9	other debtors - loans	-	-	(28,909)	(28,909)	-
4	clearing account of stock exchanges (DR bal.)	-	-	(2,163)	(2,163)	-
11	general provisions (other reserves)	-	-	(44)	(44)	-
12	state budget clearing account (DR bal.)	-	855	-	855	-
		-	-	-	-	-
	Accrued interest receivable and prepayments	**696,533**	**-**	**-**	**-**	**696,533**
13	**Rounding**		**2**			
	Total assets	**20,176,159**	**857**	**(529,325)**	**(528,468)**	**19,647,691**

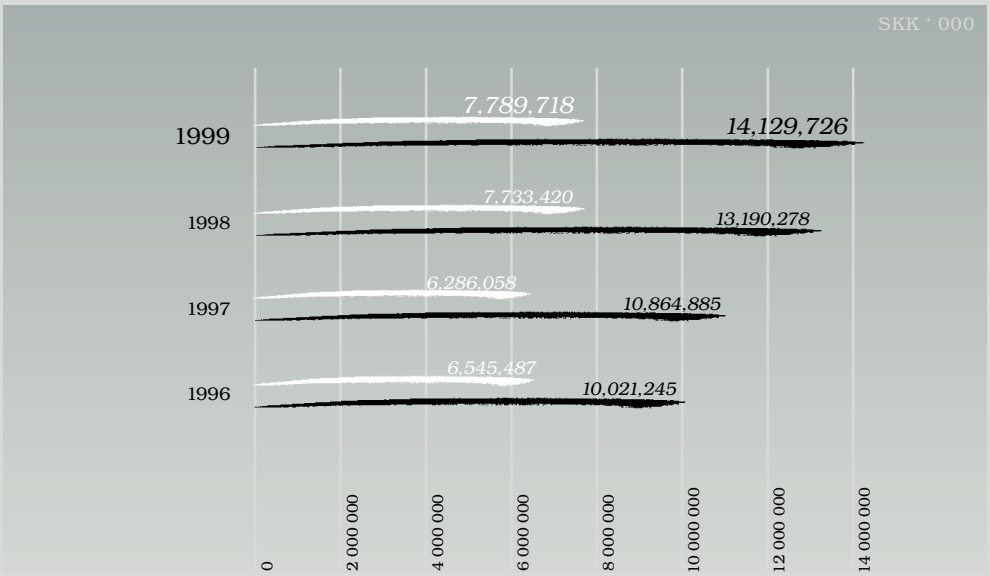
	SKK ' 000	Balance sheet according to SKAS	DR	CR	Adjustment total	Balance sheet according to IAS
	Liabilities					
	Deposits from banks and other MM deposits	**(2,698,991)**	**98,437**	**0**	**98,437**	**(2,797,428)**
14	Domestic subsidiaries and offices	-	98,437	-	-	-
	Amounts owed to other depositors	**(14,181,476)**	**42**	**0**	**42**	**(14,181,435)**
15	other amounts due to clients	-	42	-	-	-
	Bonds payable	(1,300,000)	-	-	-	(1,300,000)
	Accrued interest payable and differed income	**(226,795)**	**18,444**	**-**	**18,444**	**(208,351)**
10	deferred income and other accruals	-	18,444	-	18,444	-
	Other liabilities	**(175,456)**	**3,847**	**(97,540)**	**(93,693)**	**(81,763)**
12	state budget clearing account (DR bal.)	-	-	855	855	-
14	domestic subsidiaries and offices	-	-	(98,437)	(98,437)	-
16	obligations to employees	-	3,847		3,847	-
15	other amounts due to clients	-	-	42	42	-
	Share capital and retained earnings	**(1,022,577)**	**-**	**-**	**-**	**(1,022,578)**
	Reserve funds and other funds from net profit	**(159,983)**	**103,847**	**-**	**103,847**	**(56,136)**
6	risk asset covering fund	(100,000)	100,000	-	100,000	-
16	other funds from net profit	-	3,847	-	3,847	-
	General reserves	(410,881)	410,881	-	410,881	0
7	general provisions (legal reserves) - loans	(193,289)	193,289	-	193,289	-
8	general provisions (other reserves) - loans	(198,922)	198,922	-	198,922	-
3	general provisions (other reserves) - securities	(18,626)	18,626	-	18,626	-
11	general provisions (other reserves)	(44)	44	-	44	-
13	**Rounding**	-	-	2	-	-
	Total liabilities and Share capital	**(20,176,159)**	**529,325**	**(857)**	**528,468**	**(19,647,691)**

Financial Highlights in Graphs

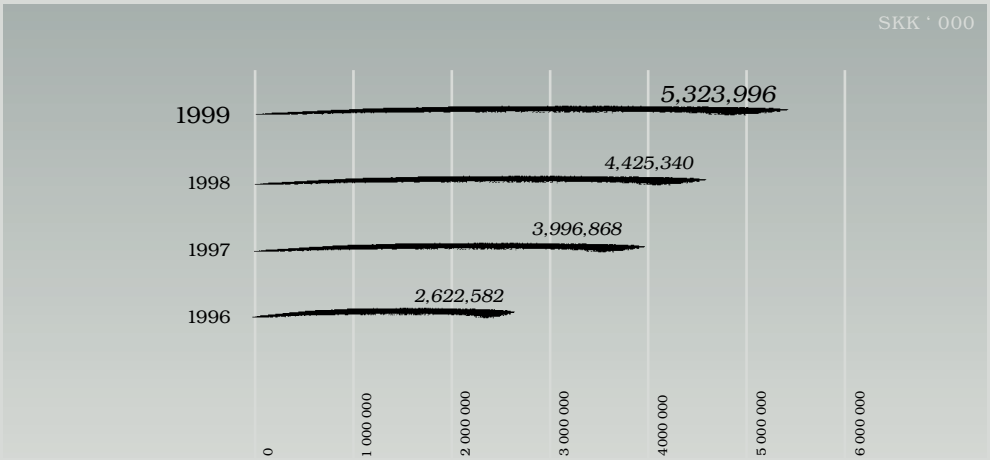
TOTAL ASSETS



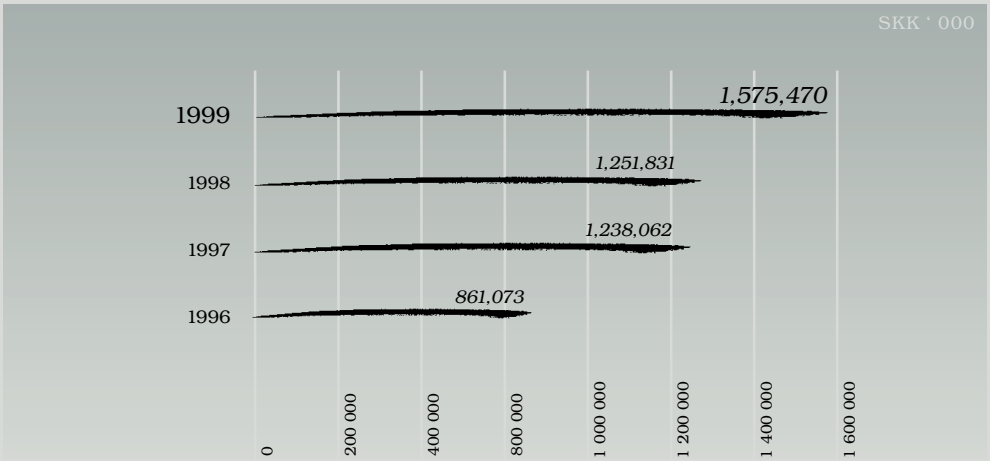
LOANS & CUSTOMER FUNDS



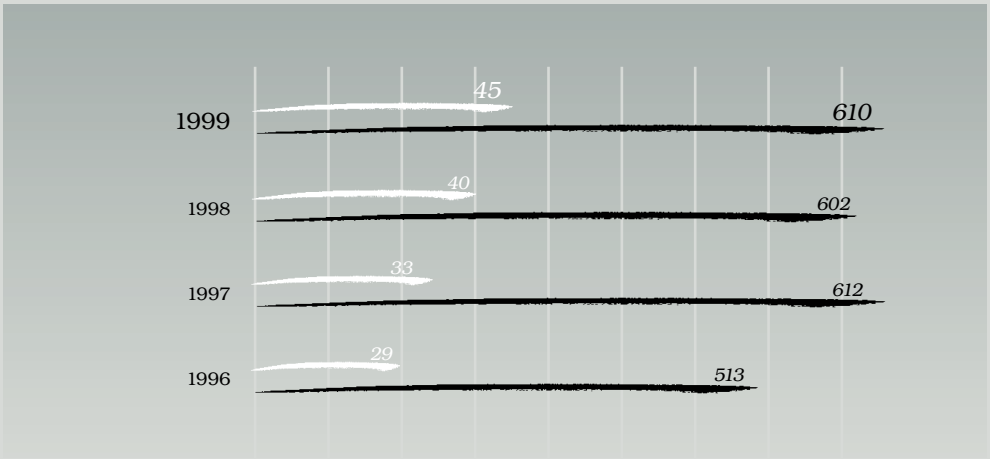
DEALING & INVESTMENT SECURITIES



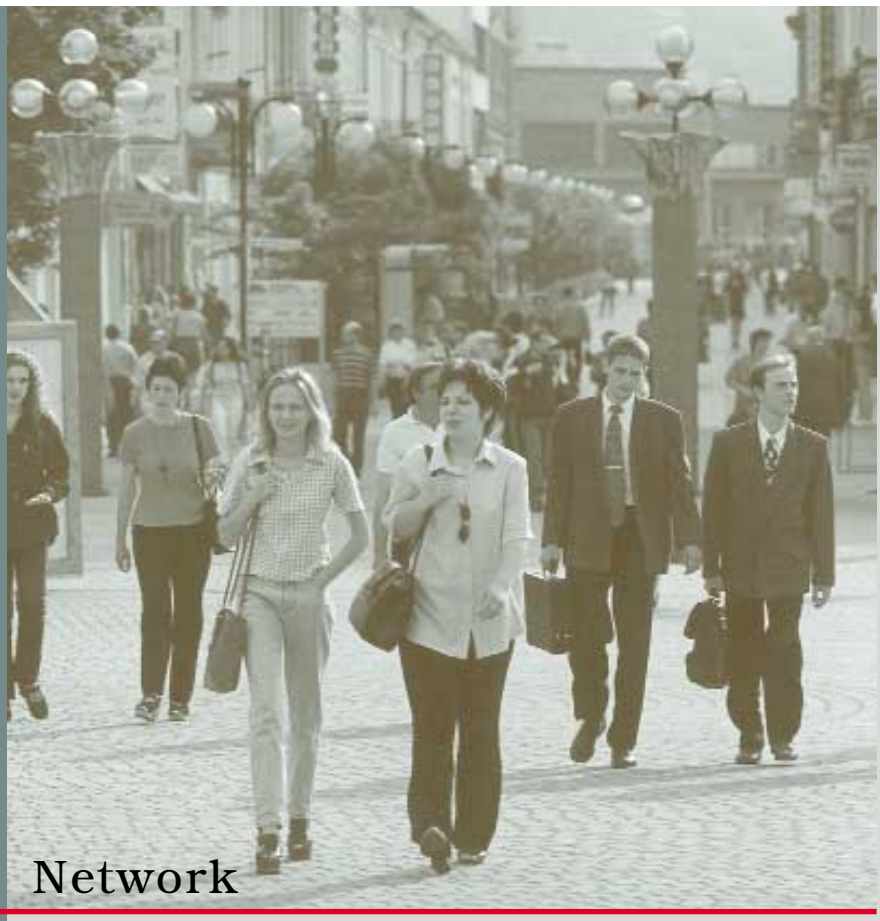
CAPITAL RESOURCES



BRANCHES & EMPLOYEES



This wide network of branches became easily accessible to general public as well as to municipalities



Branches Network

Headquarters

- Žilina, Hodžova 11, 010 11

District Branches

- Banská Bystrica, Horná 25, 974 00
- Bratislava, Šafárikovo nám. 3, 811 02
- Košice, Hlavná 7, 040 01
- Nitra, Farská 7, 949 01
- Trenčín, Hviezdoslavova 2, 911 00
- Trnava, Hlavná 7, 917 01
- Žilina, Hodžova 9, 010 11

Regional Branches

- Banská Štiavnica, Kammerhofská 8, 969 00
- Bardejov, Radničné nám. 36, 085 01
- Bratislava, Račianska 29, 831 02
- Brezno, B. Němcovej 15, 977 01
- Čadca, Nám. Slobody 16, 022 01

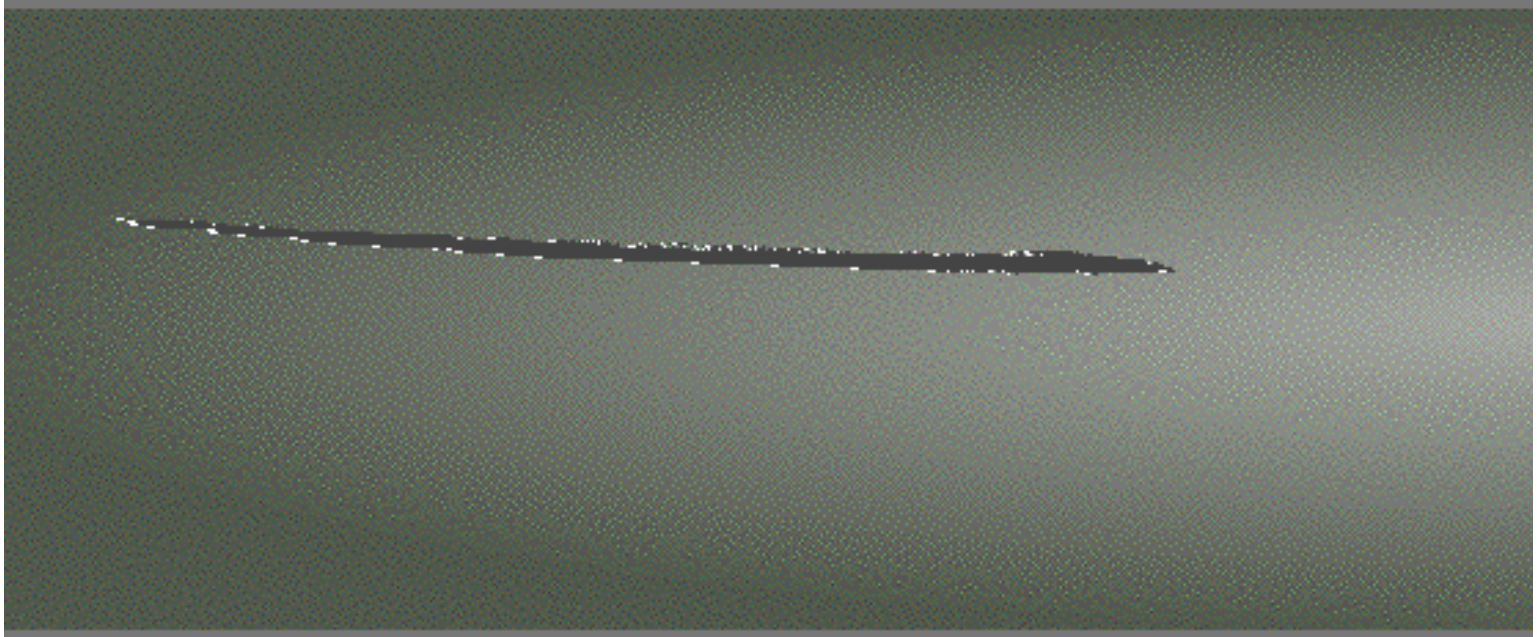
- Komárno, Dunajské nábrežie 2, 945 01
- Levice, Nám. Hrdinov 1, 934 01
- Liptovský Hrádok, Ul. SNP 137, 033 01
- Liptovský Mikuláš, Garbiarska 4, 031 01
- Lučenec, Kármána 18, 984 01
- Malacky, Radlinského 2, 901 01
- Michalovce, Nám. Osloboditeľov 62, 071 01
- Myjava, Kpt. Miloša Uhra 54, 907 01
- Námestovo, Hviezdoslavovo nám. 204/4, 029 01
- Nové Mesto nad Váhom, Námestie slobody 1/1, 915 01
- Pezinok, Moyzesova 2, 902 15
- Piešťany, Teplická 22, 921 01
- Považská Bystrica, M. R. Štefánika 171/24, 017 01
- Prešov, Hlavná 117, 080 01
- Prievidza, Dlhá 5, 971 01
- Ružomberok, Dončova 43, 034 16
- Skalica, Kráľovská 2, 909 01
- Spišská Nová Ves, Štefánikovo nám. 10, 052 80
- Turčianske Teplice, Kollárova 18, 039 01
- Vysoké Tatry - Nový Smokovec, Hotel Park 42, 062 01

Operations

- Bratislava, Zohorská 1, 811 04
- Bratislava, Námestie SNP 30, 811 01
- Brezová pod Bradlom - expozitúra, Hurbanova 333, 906 13
- Dubnica nad Váhom - expozitúra, Obrancov mieru 344/2, 018 41
- Košice, Žižkova ul. 13, 040 01
- Senica, Námestie oslobodenia 5, 905 01
- Vráble, Hlavná 557/34, 952 01

Representation Offices

- Dunajská Streda, Obchodná 789/3, 929 01
- Humenné, Kukorelliho 34, 066 28
- Martin, Vajanského Nám. 1, 036 01
- Rimavská Sobota, Hlavné nám 23, 979 01
- Svidník, MUDr. Pribulu 2, 089 01
- Trstená, Krakovská cesta 763/24, 028 01



PKB