

E. Auditors' Report



INDEPENDENT AUDITORS' REPORT TO THE BANK BOARD OF THE NATIONAL BANK OF SLOVAKIA

We have audited the accompanying balance sheet of the National Bank of Slovakia (the "Bank") as of 31 December 1996 and the related profit and loss account for the year then ended. These financial statements, set out on pages 2 through 12, are the responsibility of the Bank's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Bank is required to prepare financial statements in accordance with Act No. 563/1991 on Accounting, as amended, and with relevant laws and regulations of the Slovak Republic. The accompanying financial statements have been reformatted to make them more comparable in appearance to financial statements issued for international purposes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Slovakia as of 31 December 1996 and the results of its operations for the year then ended in accordance with Act No. 563/1991 on Accounting, as amended, and relevant regulations issued by the Ministry of Finance of the Slovak Republic.

14 March 1997

Deloitte & Touche

NATIONAL BANK OF SLOVAKIA
BALANCE SHEETS
AS OF
31 DECEMBER 1996 AND 1995
in millions of Slovak crowns

ASSETS	Notes	1996	1995
Gold	3.1.	2,285.4	1,904.4
Deposits with the International Monetary Fund	3.2.	24,062.6	28,381.6
*Reserve position with the International Monetary Fund and Special Drawing Rights		11,520.8	
*Guarantee deposits on loans from the International Monetary Fund		12,541.8	
Deposits with foreign banks and international institutions	3.3.	17,351.7	40,062.0
Receivables from domestic banks	3.4.	36,585.1	36,484.6
Receivables from the State budget	3.5.	28,625.6	25,742.1
Securities	3.6.	94,214.2	63,676.4
Investments and participations	3.7.	1,583.4	1,509.6
Other assets	3.8.	4,123.8	4,304.8
Total assets		208,831.8	202,065.5
LIABILITIES AND EQUITY			
Currency in circulation	4.1.	52,223.6	39,795.8
Liabilities to the International Monetary Fund	4.2.	34,227.1	41,899.6
*International Monetary Fund holdings		21,304.8	
*Loans from International Monetary Fund		12,922.3	
Liabilities to foreign banks and international institutions	4.3.	4,785.3	3,167.3
*Deposits from foreign banks and international institutions		1,375.6	
*Loans from foreign banks and international institutions		3,409.7	
Securities issued	4.4.	14,135.0	25,830.7
Deposits of domestic banks	4.5.	31,114.8	24,060.8
Liabilities to the State budget	4.6.	13,044.1	12,213.3
*State financial assets		9,349.8	
*State funds		3,694.3	
Other liabilities	4.7.	50,190.0	46,991.1
Total liabilities		199,719.9	193,958.6
Equity	4.8.	9,111.9	8,106.9
Total liabilities and equity		208,831.8	202,065.5
The notes on pages 4 to 12 form an integral part of the financial statements.			
2			

NATIONAL BANK OF SLOVAKIA
 PROFIT AND LOSS ACCOUNTS
 FOR THE YEARS ENDED
 31 DECEMBER 1996 AND 1995
 in millions of Slovak crowns

EXPENDITURES	Notes	1996	1995
Interest and fee expenditures	5.1.	10,289.0	8,592.0
Staff costs	5.2.	485.3	298.1
Other expenditures	5.3.	6,228.0	6,007.9
Profit		3,467.7	3,590.0
Total		20,470.0	18,488.0
REVENUES			
Interest and fee revenues	6.1.	16,688.9	15,798.8
Net result of foreign currency valuation	6.2.	777.1	2,654.6
Other revenues	6.3.	3,004.0	34.6
Total		20,470.0	18,488.0
PROFIT ALLOCATIONS			
	7.		
Transfer to the State budget		2,381.1	1,530.8
Allocation to funds		1,086.6	2,059.2
Profit		3,467.7	3,590.0
The notes on pages 4 to 12 form an integral part of the financial statements.			
			3

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996**

1. General information

The National Bank of Slovakia (the "Bank") was established in accordance with Act No. 566/1992 Coll. on the National Bank of Slovakia, as amended ("Bank Act") and started its operations as the central bank of the Slovak Republic on 1 January 1993.

Under the guidelines of the Bank Act, the Bank's main responsibilities are to:

- determine monetary policy, and its implementation,
- issue banknotes and coins,
- direct the circulation of money, coordinate payments and the settlement of accounts between banks and ensure the efficiency and effectiveness of these operations,
- supervise the banking sector,
- administer the accounts of the state budget,
- represent the Slovak Republic in international financial institutions and in world capital market operations.

2. Statement of Accounting Policies

Accounting policies applied in the accompanying financial statements are summarised below.

2.1. Basic principles

The accounting of the Bank is maintained in accordance with the Accounting Act No. 563/1991 Coll., as amended, (the "Accounting Act"). The accompanying financial statements have been reformatted to make them more comparable in appearance to financial statements issued for international purposes. The 1995 comparative information disclosed in the financial statements has been reclassified into a format comparable with the current year information.

2.2. Valuation of individual assets and liabilities

The financial statements are prepared under the historical cost basis of accounting in accordance with the Accounting Act.

The valuation of assets and liabilities considers financial risks known to the Bank at the date of preparation of the financial statements.

The following mandatory methods of valuation were applied:

- purchased supplies were valued at acquisition cost,
- purchased tangible and intangible fixed assets were valued at acquisition cost,
- cash, stamps and vouchers were valued at nominal value,
- securities tradable on the capital market and investments were valued at acquisition cost. Securities traded in the capital market are mainly shares, participation certificates, bonds and mortgage bonds.
- securities tradable on the financial market were valued at their nominal value. Securities traded in the financial market are mainly bills of exchange, cheques, governmentals, treasury notes of the Bank, certificates of deposit and depositary receipts. Discounts related to the securities tradable on the financial market are included in liabilities in the Balance Sheet and in revenues in the Profit and loss account.
- receivables and liabilities were valued at their nominal value.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996**

2.3. Valuation of foreign currency transactions and holdings

The Bank converts assets and liabilities expressed in foreign currency to Slovak currency using the foreign exchange rate determined in the NBS exchange rate listing for accounting purposes on the day of the accounting event and in the financial statements using the foreign exchange rate as of 31 December 1996.

The exchange rates for the main foreign currencies used by the Bank for translation of assets and liabilities as of 31 December 1996 are as follows:

Currency	Unit	Foreign exchange Mid rate
USD	1	31.895
DEM	1	20.514
JPY	100	27.500
SDR	1	45.791

Realised exchange rate gains and losses from the recalculation of foreign currencies to Slovak crowns are included in the Profit and loss account. Unrealised exchange rate losses are included in the Profit and loss account and unrealised exchange rate gains are included in the Balance Sheet.

2.4. Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at their acquisition cost. Depreciation is calculated on the straight-line basis, based on estimated useful lives of the fixed assets.

The estimated useful lives of fixed assets are as follows:

Depreciation category	Type of fixed asset	Useful lives
1	office equipment, data processing machines, personal and delivery cars, and software	4 years
2	instruments and special technical equipment	8 years
3	security equipment	15 years
4	energy production equipment (the Bank does not have any fixed assets in this depreciation category)	30 years
5	buildings, constructions	50 years

2.5. Income tax

The Bank is exempt from income tax under Section 17 of the Income Tax Act No. 286/92 Coll., as amended.

2.6. Profit allocation

The profit generated by the Bank is used to replenish the level of reserve funds and other funds created from profits, and for other purposes according to the Bank budget. The Bank transfers the remaining profit to the State budget of the Slovak Republic.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996

3. Assets

3.1. Gold

This item represents the gold reserves administered by the Bank. The Bank administers in total 36.5 million grams of fine gold, valued at a historical purchase price of Sk 62.54 per gram.

This item does not include 3.6 million grams of gold used for swap operations for foreign currency.

Part of the gold in the amount Sk 570.4 million, resulting from the split of gold reserves of the former State Bank of Czechoslovakia ("ŠBČS"), has not been released to the Bank.

The market value of gold as of 31 December 1996 was 11.881 USD per gram (369.55 USD per OZS), i. e. 378.90 Sk per gram (11,786.80 Sk per OZS). The total market value of gold administered by the Bank as of 31 December 1996 is Sk 13,847.2 million.

3.2. Deposits with the International Monetary Fund

This item consists of receivables from the International Monetary Fund ("IMF") resulting from the membership of the Slovak Republic in the IMF. Special drawing rights ("SDR") within the reserve tranche are equal to the Slovak Republic's membership quota paid to the IMF in SDR and Slovak crowns. Based on the IMF rules and regulations, "Guarantee deposits on loans from the IMF" are deposits in Slovak crowns and represent the counterpart of loans which were granted to the Slovak Republic (see Note 4.2. "Liabilities to the International Monetary Fund").

3.3. Deposits with foreign banks and international institutions

This item consists primarily of deposits held in foreign banks, mainly denominated in German marks and United States dollars.

3.4. Receivables from domestic banks

As of 31 December 1996, this item represents long-term redistribution loans in the amount of Sk 31,088.9 million, re-financing loans in the amount of Sk 1,602.4 million and loans granted to commercial banks to support the development of small and medium-size enterprises in the amount of Sk 3,203.9 million. It also includes other current and short-term deposit accounts with commercial banks in the amount of Sk 689.9 million. Reserves have been created to cover risks relating to the redistribution loans (see Note 4.7. "Other liabilities").

3.5. Receivables from the State budget

Transactions with the Slovak Republic regarding State budget operations are set forth in Section 25 of the Bank Act.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996

The balances of the Slovak Republic in the amount of Sk 28,625.6 million represent the direct liabilities of the State taken over from the former Czech and Slovak Federal Republic (the "ČSFR"), deficits of the State Budget of Slovak Republic for years 1991 and 1992 before the split of the ČSFR, the delimited share of the former ČSFR state budget deficit and the deficit of the State Budget of Slovak Republic for the 1996 year, after taking into account the coverage of State treasury bills.

3.6. Securities

As of 31 December 1996, the Bank has in its portfolio short-term securities traded on the financial market consisting primarily of treasury bills of the United States of America and of the Federal Republic of Germany and securities of the Bank for International Settlements ("BIS") in the amount of Sk 54,136.8 million, after deducting a provision of Sk 257.9 million, and medium-term and long-term securities traded on the capital market, which consist of government treasury notes of the United States of America and government bonds of the Federal Republic of Germany in the amount of Sk 40,077.4 million, after deducting a provision of Sk 93.8 million.

3.7. Investments and participations

The Bank holds participations in the following companies and institutions (in millions of Sk):

	Share in Capital	1996	1995
Československá obchodná banka, a. s., Prague (Czechoslovak Commercial Bank)	24.13%	1,438.6	1,364.8
Bankové zúčtovacie centrum Slovenska, a. s., Bratislava (Bank Clearing Centre of Slovakia)	40.27%	120.0	120.0
Other investments with less than 1% ownership		<u>24.8</u>	<u>24.8</u>
Total		1.583.4	1.509.6

Other investments include participation in S.W.I.F.T. - Society for Worldwide Interbank Financial Telecommunication, La Hulpe, Belgium and BIS - Bank for International Settlements, Basle, Switzerland.

3.8. Other assets

This item includes the following (in millions of Sk):

	1996	1995
Accruals and prepaid expenses	1,574.1	2,050.2
Tangible and intangible fixed assets	2,201.2	2,029.6
Other	<u>348.5</u>	<u>225.0</u>
Total	4,123.8	4,304.8

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996

4. Liabilities and Equity

4.1. Currency in circulation

This item comprises valid domestic banknotes and coins in circulation issued by the Bank.

4.2. Liabilities to the International Monetary Fund

The item "International Monetary Fund holdings" includes deposits of the International Monetary Fund in Slovak crowns held by the Bank.

The item "Loans from International Monetary Fund" includes loans provided in fully convertible currency to strengthen the balance of payments of the Slovak Republic and its foreign exchange reserves. These loans are secured by guarantee deposits with the International Monetary Fund (see Note 3.2. "Deposits with the International Monetary Fund").

4.3. Liabilities to foreign banks and international institutions

"Deposits from foreign banks and international institutions" represents short-term fully convertible currency deposits held at the Bank.

"Loans from foreign banks and international institutions" represents loans granted by the Export-Import Bank of Japan, the European Investment Bank of Luxembourg and money from fund PHARE from the European Union. The loans are designed to provide financing to selected domestic banks, to support small and medium businesses and certain sectors of the economy of the Slovak Republic.

4.4. Securities issued

As of 31 December 1996 "securities issued" includes medium-term and long-term bonds in Japanese yen with maturity periods of 5 and 7 years, placed on international capital markets. In 1994 the Bank issued bonds, maturing in 1999, in the amount of JPY 25,000 million with a coupon of 6.3%. This item also includes bonds issued in 1993, maturing in 1998 and 2000, in the amount of JPY 25,000 million with coupons of 7.75% and 8.0%, and bonds, maturing in 1997, issued by the former ŠBČS in the amount of JPY 1,400 million with a coupon of 8.5%.

During 1994, the Bank entered into contracts on long-term swap operations to convert the risk of foreign exchange rate changes from JPY to DEM in respect of Bank bonds issued in 1993 and 1994. These swap contracts mature one day before the due date of the respective bonds.

4.5. Deposits of domestic banks

As of 31 December 1996 this item represents primarily the obligatory minimum reserves of domestic banks deposited at the Bank in the total amount of Sk 28,797.9 million. The remaining balance represents other deposits from domestic banks.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996**

4.6. Liabilities to the State budget

"State financial assets" in the form of deposits in the accounts of the Bank as of 31 December 1996 amount to Sk 9,349.8 million.

"State funds" in the amount of Sk 3,694.3 million represent other deposits of the State in the Bank.

4.7. Other liabilities

Other liabilities comprise the following (in millions of Sk):

	1996	1995
Accruals	2,071.3	1,484.9
Unrealised exchange gains	3,589.9	3,340.0
Reserves	8,731.1	6,785.0
Other	<u>35,797.7</u>	<u>35,381.2</u>
Total	<u>50,190.0</u>	<u>46,991.1</u>

The main component in reserves as of 31 December 1996 are reserves in the amount of Sk 5,397.7 million to cover risks resulting from long-term redistribution loans (see Note 3.4. "Receivables from domestic banks"). This item further includes reserves in the amount of Sk 2,080.9 million for foreign currency swap operations, reserves in the amount of Sk 1,132.4 million to cover for the difference between the market value and the historical cost of gold used for swap operations, reserves for unrealised exchange losses in the amount of Sk 110.4 million and other reserves in the amount of Sk 9.7 million.

The main component in "Other" represents the amount incurred from the activity of separating the assets and liabilities of the former ŠBČS. The final amount will be determined as a part of the final settlement regarding the division of the former ŠBČS assets and liabilities.

"Other" also includes deposits of clients and employees of the Bank in the amount of Sk 2,348.6 million as of 31 December 1996.

4.8. Equity

As of 31 December 1996 this item represents the capital taken over from the separation of assets and liabilities of the former ŠBČS in the amount of Sk 466.7 million, the legal reserve fund in the amount of Sk 8,573.1 million and the capital fund in the amount of Sk 72.1 million.

The balance of equity as of 31 December 1995 in the amount of Sk 8,106.9 million increased during 1996 by additions to the legal reserve fund in the amount of Sk 1,000.0 million (see Note 7. "Profit allocations") and by an increase in the capital fund in the amount of Sk 5.0 million.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996**

5. Expenditures

5.1. Interest and fee expenditures

Interest and fee expenditures comprise the following (in millions of Sk):

	1996	1995
Interest and fees paid to State treasury	705.5	673.5
Interest and fees paid to foreign banks and international institutions	645.8	1,083.8
Expenditures on bonds issued	1,019.9	1,123.3
Expenditures on securities operations	1,235.1	944.9
Expenditures on swap operations	1,756.8	1629.1
Other interest and fees	4,925.9	3,137.4
Total	10,289.0	8,592.0

5.2. Staff costs

"Staff costs" consist of wage and social costs. Social costs represent mainly costs for compulsory contributions to the Health Insurance Fund, Social Security Fund, Pension Fund and Employment Fund, and compulsory additions to the social fund in accordance with the Social Fund Act No. 152/1994 Coll. and in terms of the amendment to the Income Tax Act No. 286/1992 Coll.

As of 31 December 1996 the Bank had 1,258 employees including 6 members of the Bank Board which represents an increase of 71 employees compared to 31 December 1995.

5.3. Other expenditures

Other expenditures include the following (in millions of Sk):

	1996	1995
General operating expenditures	285.0	266.5
Expenditures on banknotes and coins	137.6	259.8
Depreciation of fixed assets	228.8	164.4
Creation of provisions	351.7	0.0
Creation of reserves	4,926.4	5,145.7
Other	298.5	171.5
Total	6,228.0	6,007.9

The main component in "Other expenditures" for 1996 represents the creation of reserves of Sk 4,926.4 million, comprising reserves created in 1996 to cover risks resulting from long-term redistribution loans in the amount of Sk 1,566.4 million (see Note 3.4. "Receivables from domestic banks" and Note 4.7. "Other liabilities"), reserves created in 1996 for foreign currency swap operations in the amount of Sk 2,080.9 million, reserves created in 1996 to cover for the difference between the market price and historical cost of gold used for swap operations in the amount of Sk 1,159.0 million, reserves created in 1996 for unrealised exchange losses in the amount of Sk 110.4 million and other reserves created in 1996 in the amount of Sk 9.7 million (see Note 4.7. "Other liabilities").

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996**

6. Revenues

6.1. Interest and fee revenues

Interest and fee revenues comprise the following (in millions of Sk):

	1996	1995
Interest and fees received from State treasury	2,721.0	3,413.8
Interest and fees received from domestic banks	6,877.9	5,951.6
Interest and fees received from foreign banks and international institutions	2,973.8	3,316.3
Revenues from securities operations	3,085.1	1,993.0
Revenues from swap operations	987.7	1,084.4
Other interest and fees	43.4	39.7

Total	16.688.9	15.798.8
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6.2. Net result of foreign currency valuation

This item reflects the net translation differences resulting from realised exchange rate gains and losses and unrealised exchange rate losses.

6.3. Other revenues

Other revenues comprise the following (in millions of Sk):

	1996	1995
Revenues from the issue of banknotes and coins	5.8	5.0
Use of reserves	2,980.3	2.0
Other operating revenues	17.9	27.6

Total	3.004.0	34.6
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The main component of other revenues represents the use of reserves created to cover for the difference between the market price and historical cost of gold used for swap operations in the amount of Sk 2,971.7 million and the use of other reserves in the amount of Sk 8.6 million.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1996**

7. Profit allocations

The activities of the Bank resulted in an overall profit for the 1996 year of Sk 3,467.7 million of which Sk 2,381.1 million was transferred to the State Budget in accordance with Bank Board decisions.

The remaining balance of the 1996 profit, in the amount of Sk 1,086.6 million, was used to replenish the following funds (in millions of Sk):

	1996	1995
Legal reserve fund	1,000.0	1,782.5
Other funds	86.6	276.7
Total	1.086.6	2.059.2

8. Off- balance sheet items

As of 31 December 1996 the Bank had off-balance sheet receivables in the amount of Sk 14,027.0 million and liabilities in the amount of Sk 17,836.3 million from foreign exchange term operations, which consist of the following items:

- deferred receivables in the amount of Sk 13,750.0 million and deferred liabilities in the amount of Sk 16,334.4 million from the long-term foreign exchange swap operations which were entered into to convert the risk of foreign exchange rate changes from JPY to DEM in respect of Bank bonds issued in 1993 and 1994 (see Note 4.4. "Securities issued"),
- deferred receivables in the amount of Sk 53.1 million and liabilities in the amount of Sk 53.9 million from short-term foreign exchange swap operations which were entered into in order to hedge the Bank's risk of foreign exchange rate changes, and to manage the foreign currency reserves,
- deferred receivables from gold swap operations in the amount of Sk 223.9 million and deferred liabilities in the amount of Sk 1,448.0 million.

The Bank provides guarantees on loans granted by foreign banks and international institutions to domestic commercial banks up to the current balance of these loans amounting to Sk 3,409.7 million as of 31 December 1996.