

**G. AUDITORS' REPORT**





**NÁRODNÁ BANKA SLOVENSKA**

**AUDITORS' REPORT AND SUMMARISED  
STATUTORY FINANCIAL STATEMENTS**

**as of 31 December 2002  
and for the year then ended**



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**Deloitte  
& Touche**

## Národná banka Slovenska

### Auditor's Report

To the Bank Board of Národná banka Slovenska:

We have audited the statutory financial statements of Národná banka Slovenska ("the Bank") for the year ended 31 December 2002, in accordance with the Slovak Auditing Standards. The accompanying summarised financial statements, which are included in this annual report, were derived from the audited statutory financial statements.

In our report dated 6 March 2003, we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

The accompanying financial statements are presented in a format comparable with the format used for international financial reporting purposes. In our opinion, the accompanying summarised financial statements, which are included in this annual report, are consistent, in all material respects, with the statutory financial statements from which they were derived.

For a better understanding of the Bank's financial position and the results of its operations for the period and of the scope of our audit, the accompanying summarised financial statements, which are included in this annual report, should be read in conjunction with the statutory financial statements from which they were derived and our audit report thereon.

Bratislava, 6 March 2003



Deloitte & Touche spol. s r.o.  
SKAU Licence Number 014



Ing. Zuzana Letková  
Responsible Auditor  
SKAU Decree Number 865



Deloitte  
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Tohmatsu

**NÁRODNÁ BANKA SLOVENSKA**

**Balance Sheets as at 31 December 2002 and 2001**

**Derived from the Financial Statements prepared in accordance with Slovak Accounting Regulations  
(in millions of Sk)**

<b>Assets</b>	<b>Note</b>	<b>2002</b>	<b>2001</b>
Gold	4	1 026	1 027
Deposits with the International Monetary Fund	5	4 623	5 186
Receivables from foreign banks and international financial institutions	6	26 969	40 233
Receivables from domestic financial institutions and other institutions	7	34 546	43 784
Securities	8	329 943	181 590
Equity shares	9	145	145
Property and equipment	10	6 582	6 700
Other assets	11	1 334	987
<b>Total</b>		<b><u>405 168</u></b>	<b><u>279 652</u></b>
<b>Liabilities</b>			
Currency in circulation	12	93 898	91 189
Liabilities to the International Monetary Fund	5	4 623	5 186
Liabilities to foreign banks and international financial institutions	13	11 956	23 905
Liabilities to domestic financial institutions	14	128 729	89 413
Securities issued	15	42 530	5 254
Liabilities to the State Budget	16	95 391	13 377
Other liabilities and reserves	17	41 974	40 376
<b>Total liabilities</b>		<b><u>419 101</u></b>	<b><u>268 700</u></b>
<b>Equity</b>			
Reserve fund	18	10 165	9 925
Statutory fund	18	467	467
Capital fund	18	82	82
Other funds	18	189	152
Current period loss (-)/profit	18	-24 836	326
<b>Total equity</b>		<b><u>-13 933</u></b>	<b><u>10 952</u></b>
<b>Total</b>		<b><u>405 168</u></b>	<b><u>279 652</u></b>

Ing. Marián Jusko, CSc.

Governor

Ing. Milena Koreňová

Executive Director of Financial Management and Payments  
System Division

Ing. Katarína Taragelová

Director of Budget and Accounting Department

Bratislava, 6 March 2003

**NÁRODNÁ BANKA SLOVENSKA**

Profit and Loss Statement for the years ended 31 December 2002 and 2001

Derived from the Financial Statements prepared in accordance with Slovak Accounting Regulations

(in millions of Sk)

	Note	2002	2001
Interest income		12 061	11 978
Interest expense		-11 015	-5 317
Net interest income	19	<u>1 046</u>	<u>6 661</u>
Dividends income		31	33
Fees and commissions received		141	182
Fees and commissions paid		-33	-24
Income from fees and commissions		<u>108</u>	<u>158</u>
Loss (-)/gain from trading securities	20	-454	589
Loss from foreign exchange transactions and positions	21	-23 523	-3 312
Costs of issue of banknotes and coins		-241	-251
<b>Loss (-)/profit from banking activities</b>		<b><u>-23 033</u></b>	<b><u>3 878</u></b>
Other provisions and reserves		-162	3
Administrative expenses	22	-732	-698
Depreciation	10	-255	-196
Other operating expenses		-666	-630
Total operating expenses		<u>-1 653</u>	<u>-1 524</u>
Extraordinary income and expenses (-)		13	-30
Income tax		-1	-1
<b>LOSS (-)/PROFIT FOR CURRENT YEAR</b>	18	<b><u>-24 836</u></b>	<b><u>2 326</u></b>
Allotments from profit	18	0	-2 000
Loss (-)/profit for current year less allotments	18	<u>-24 836</u>	<u>326</u>

The footnotes on pages 4 to 20 are an integral part of the Summarised Financial Statements.

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## NÁRODNÁ BANKA SLOVENSKA

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001, derived from the Financial Statements prepared in accordance with Directive of the Ministry of Finance of Slovak Republic 65/356/1996, as amended (in millions of Sk)

### 1. General Information

Národná banka Slovenska (The National Bank of Slovakia – herein "NBS" or "the Bank") is the central bank of the Slovak Republic. NBS was established in accordance with the terms of Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (herein "the NBS Act"). It commenced its activities on 1 January 1993 as the central bank of the Slovak Republic. NBS is a legal entity with its seat at Imricha Karvaša 1, Bratislava, IČO 30844789. When handling its own assets, NBS acts as a business entity. NBS has its head office in Bratislava, it has three branches in the Slovak Republic (Bratislava, Banská Bystrica, Košice) as well as organisational units.

The Bank's key objective is to maintain price stability, and therefore the NBS:

- determines monetary policy,
- issues bank notes and coins,
- controls and co-ordinates money in circulation, domestic payment system and processing of the payment system data,
- supervises the safe functioning of the banking system and bank activities,
- represents the Slovak Republic in international financial institutions and ensures the fulfilment of tasks ensuing from such representation,
- represents the Slovak Republic in world financial market operations related to the fulfilment of the monetary policy.

The supreme management body of NBS is the Bank Board of NBS (herein the "Bank Board"). Pursuant to the NBS Act, the Bank Board has eight members: the governor, two vice-governors, two NBS executive directors and three other members. The governor and vice-governors are appointed and withdrawn by the President of the Slovak Republic. Executive directors and other members of the Bank Board are appointed and withdrawn by the government of the Slovak Republic. Pursuant to the Act No. 149/2001 Coll. from 6 April 2001, valid from 1 May 2001, amending the NBS Act, the term of office of the Bank Board members is five years. Until 30 April 2001, the term of office of the governor, vice-governors and executive directors was six years. Term of office of the other members of the Bank Board was four years. Membership of the Bank Board is limited to a maximum of two consecutive terms of office. The NBS is represented by the governor.

In 2002, the members of the Bank Board were as follows:

Name	Position	Term of appointment	
Ing. Marián Jusko, CSc.	Governor	from 30 July 1999	till 30 July 2005
Ing. Elena Kohútiková, CSc.	Vice-Governor	from 28 March 2000	till 28 March 2006
Ing. Ivan Šramko	Vice-Governor	from 11 January 2002	till 11 January 2007
Ing. Ján Mathes	Executive Director	from 1 January 1999	till 1 January 2005
RNDr. Karol Mrva	Executive Director	from 1 December 2000	till 1 December 2006
Prof. Ing. Jozef Košnár, DrSc.	Member	from 1 December 2000	till 1 December 2004



**NÁRODNÁ BANKA SLOVENSKA**

**Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)**

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**2. Basis for preparation of financial statements**

The summarised financial statements for the inclusion in annual report are derived from the audited ordinary statutory financial statements prepared in accordance with the Accountancy Act No. 563/1991, as amended (herein "the Accountancy Act"). The summarized financial statements are presented in a format comparable with the format used for the purpose of reporting according to the International Financial Reporting Standards. For a better understanding of the Bank's financial position and the results of its operations for the period, the summarised financial statements for the inclusion in annual report should be read in conjunction with the statutory financial statements from which they were derived. Total balance of assets and liabilities per the summarized financial statements for the inclusion in annual report differs from the total balance of assets and liabilities per the statutory financial statements (Sk 603 817 million as at 31 December 2002 and Sk 472 761 million as at 31 December 2001), due to netting-off certain items separately presented in assets and liabilities to ensure better presentation of the summarized financial statements for the inclusion in annual report.

The 2002 Financial Statements of the NBS were prepared as ordinary statutory financial statements as at 31 December 2002.

All figures presented in the financial statements for the previous period are in a form comparable with the 2002 figures.

The changes in accounting treatment of interest income and expense on the transactions with the State Treasury and State Funds resulted in changes in presentation of aforementioned items in the Profit and Loss Statement in 2002. Data for the previous accounting period was adjusted to be comparable with 2002.

**3. Accounting rules**

**3.1. Valuation of assets and liabilities**

The Bank has performed a valuation of its assets and liabilities in its accounting records and financial statements in compliance with Articles 24 and 25 of the Accountancy Act.

- Gold was valued at a historical acquisition cost of Sk 62.54451/gram.
- Trading securities were valued at cost of acquisition. A weighted arithmetic average was used for valuation of the disposal of the same type of securities. The Bank created provisions in cases where the market value of the discounted securities in the financial statements was lower than the average cost of acquisition of these securities and accrued interest. The Bank created provisions for fixed interest securities in the financial statements if their market value was lower than their average cost of acquisition.
- Issued NBS treasury bills were valued at the nominal value and difference between their nominal value and selling price (discount) was recorded on accruals accounts and amortised in the Bank's profit and loss on a straight-line basis.
- Equity securities were valued at the cost of acquisition.
- Purchased inventory was valued at the acquisition cost.
- Cash, stamps, and vouchers were valued at nominal value.
- Receivables and liabilities (including a liability from issuance of currency) were valued at nominal value. Provisions were created for receivables in the financial statements for any impairment of their values.
- Property and equipment was recorded in the balance sheet at acquisition cost, or replacement cost. Depreciated property and equipment was decreased by accumulated depreciation.

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These footnotes are an integral part of the Summarised Financial Statements.

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**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

**3.2. Valuation of assets and liabilities denominated in foreign currency**

Assets and liabilities denominated in foreign currency were converted to Slovak currency using the NBS exchange rate as at the transaction date and the exchange rate as at 31 December 2002 in its year-end financial statements.

The exchange rates of the main foreign currencies used for the valuation of assets and liabilities as at 31 December were as follows:

Currency	Amount	2002 exchange rate	2001 exchange rate
USD	1	40.036	48.467
EUR	1	41.722	42.760
JPY	100	33.511	36.915
XDR	1	54.226	60.836

**3.3. Depreciation of property and equipment**

The Bank applied the annual depreciation rates for tangible and intangible assets in 2002 as follows:

Depreciation group	Depreciation period in years	Annual depreciation rate in %
1	4	25.0
2	8	12.5
3	15	6.7
4	30	3.4
5	40	2.5
6	set individually	individual rate

Property and equipment is categorised as follows:

1. Office equipment, data processing machines, passenger vehicles and vans, software
2. Instruments and special technical equipment
3. Security systems
4. Utility equipment
5. Buildings and structures
6. Fixed assets depreciated using an individual rates (e.g. security monitoring systems)

**3.4. Receivables write-off**

When writing off its receivables, the NBS followed the Directive of the Ministry of Finance of the Slovak Republic No. 65/355/1996, as amended, establishing the chart of accounts and accounting procedures for banks, Income Taxes Act No. 366/1999 Coll., as amended, and internal legal regulations of the NBS.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
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(in millions of Sk)

**3.5. Taxes**

In accordance with Article 18 of Act No. 366/1999 Coll. on Income Taxes, as amended, the NBS is a corporate income tax payer and the only taxable income is income subject to withholding tax.

In 2002, the NBS was a VAT payer. Since 1 March 2003, the NBS has ceased to be a VAT payer.

**3.6. Result of operations for the current year**

For the year ending 31 December 2002, the NBS reported a loss. Pursuant to Article 38 of the NBS Act, the Bank Board decided that the 2002 loss will remain unsettled, and will be transferred to the next accounting period and will be settled from profits for future accounting periods and other NBS sources.

**4. Gold**

The value of gold under NBS administration was Sk 1 026 million (Sk 1 027 million in 2001), e. g. 16.4 million grams of pure gold.

Gold used in swap transactions in the amount of 18.7 million grams has not been included. The NBS purchased put options to secure swap transactions with gold (see Notes 21 and 24).

**5. Deposits with and liabilities to the International Monetary Fund (the "IMF")**

Deposits with and liabilities to the IMF:

	2002	2001
The IMF membership quota	4 623	5 186
<b>Total receivable from the IMF</b>	<b>4 623</b>	<b>5 186</b>
Loan tranche	4 623	5 186
<b>Total liability to the IMF</b>	<b>4 623</b>	<b>5 186</b>

The IMF membership quota was denominated in Special Drawing Rights (XDR), and converted to Sk using the exchange rate regularly set by the IMF.

Liabilities to the IMF represented drawings of a reserve tranche up to the amount of the IMF membership quota paid in XDR.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
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(in millions of Sk)

**6. Receivables from foreign banks and international financial institutions**

Below is the structure of receivables from foreign banks and international financial institutions:

	<u>2002</u>	<u>2001</u>
Current accounts with banks	1 401	1 516
Time deposits with banks	2 471	12 670
Loans under repurchase transactions	23 097	26 047
<b>Total</b>	<b><u>26 969</u></b>	<b><u>40 233</u></b>

Term deposits were made in USD in the amount of Sk 2 471 million (2001: Sk 10 190 million in USD and Sk 2 480 million in EUR respectively).

Under repurchase transactions, the NBS provided loans in EUR in the amount of Sk 23 097 million (in 2001: loans in USD equal to Sk 2 423 million, and loans in EUR equal to Sk 23 624 million) secured with bonds denominated in EUR.

The analysis of receivables from foreign banks and international financial institutions by remaining contractual maturity period is outlined in Note 25.

**7. Receivables from domestic financial institutions and other institutions**

Below is the structure of receivables from domestic financial institutions and other institutions:

	<u>2002</u>	<u>2001</u>
Current accounts	146	130
Loans to support small and middle size businesses	3 274	6 340
Redistribution loans	17 856	21 232
Other receivables	13 270	16 082
Classified receivables	11	11
Provisions for classified receivables	-11	-11
<b>Total</b>	<b><u>34 546</u></b>	<b><u>43 784</u></b>

The Bank has been provided state guarantees for redistribution loans (see Note 24).

The analysis of receivables from domestic financial institutions and other institutions by remaining contractual maturity period is outlined in Note 25.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
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(in millions of Sk)

**8. Securities**

Securities held by the NBS included foreign securities structured as follows:

<u>Issued by</u>	<u>Type of security</u>	<u>2002</u>	<u>2001</u>
Public sector			
	State treasury bills	124 505	53 424
	Medium-term bonds	52 665	33 673
	Long-term bonds	48 378	45 061
	Provisions	-271	-642
		<u>225 277</u>	<u>131 516</u>
Financial institutions			
	Treasury bills	48 618	6 122
	Short-term bonds	20 945	9 495
	Medium-term bonds	24 689	21 823
	Long-term bonds	10 693	12 805
	Provisions	-279	-171
		<u>104 666</u>	<u>50 074</u>
<b>Total</b>		<b><u>329 943</u></b>	<b><u>181 590</u></b>

Foreign securities issued by the public sector included state treasury bills and government bonds issued in EU member countries, the USA and Japan.

The analysis of securities held by the Bank by remaining contractual maturity period is outlined in Note 25.

**9. Equity shares**

The NBS owned 120 shares in Bankové Zúčtovacie Centrum Slovenska, a. s., Bratislava (Slovak Bank Clearing Centre) in the amount of Sk 120 million, representing 39.47% share in the equity. In addition, the Bank owned 2 670 shares in the Bank for International Settlements in Basel, Switzerland, totalling Sk 25 million and representing 0.50% share in it's equity.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
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(in millions of Sk)

**10. Property and equipment**

10.1. Intangible assets

Intangible assets (IA)	Intangible assets	Acquisition of IA	Total
<b>Balance of IA as at 1 January 2002</b>	166	16	182
Additions	23	9	32
Disposals	30	23	53
Transfers			
<b>Balance of IA as at 31 December 2002</b>	<b>159</b>	<b>2</b>	<b>161</b>
<b>Accumulated depreciation as at 1 January 2002</b>	130		130
Depreciation for current year	23		23
Accumulated depreciation of disposed IA	30		30
<b>Accumulated depreciation as at 31 December 2002</b>	<b>123</b>		<b>123</b>
<b>Book value of IA as at 1 January 2002</b>	<b>36</b>	<b>16</b>	<b>52</b>
<b>Book value of IA as at 31 December 2002</b>	<b>36</b>	<b>2</b>	<b>38</b>

10.2. Tangible assets

Tangible assets (TA)	Land	Other TA non-depreciated	Buildings and structures	Technical equipment and machines	Other TA depreciated	Acquisition of TA	Prepayments made	Total
<b>Balance of TA as at 1 January 2002</b>	302	71	1 276	1 297	170	4 810	68	7 994
Additions		6	4 227	570	210	304	14	5 331
Disposals	3		127	65	24	5 009	37	5 265
Transfers		-5			-2			-7
Provisions							-44	-44
<b>Balance of TA as at 31 December 2002</b>	<b>299</b>	<b>72</b>	<b>5 376</b>	<b>1 802</b>	<b>354</b>	<b>105</b>	<b>1</b>	<b>8 009</b>
<b>Accumulated depreciation as at 1 January 2002</b>			205	1 007	128			1 340
Depreciation for current year			66	122	44			232
Accumulated depreciation of disposed TA			23	35	49			107
<b>Accumulated depreciation as at 31 December 2002</b>			<b>248</b>	<b>1 094</b>	<b>123</b>			<b>1 465</b>
<b>Book value of TA as at 1 January 2002</b>	<b>302</b>	<b>71</b>	<b>1 071</b>	<b>290</b>	<b>42</b>	<b>4 810</b>		<b>6 654</b>
<b>Book value of TA as at 31 December 2002</b>	<b>299</b>	<b>72</b>	<b>5 128</b>	<b>708</b>	<b>231</b>	<b>105</b>	<b>1</b>	<b>6 544</b>

These footnotes are an integral part of the Summarised Financial Statements.

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**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

**11. Other assets**

Below is the structure of other assets:

	<u>2002</u>	<u>2001</u>
Accruals	762	515
Other	707	472
Provisions for other assets	-135	0
<b>Total</b>	<u><u>1 334</u></u>	<u><u>987</u></u>

Provisions for other assets mainly related to provisions for supplier financing contracts.

**12. Currency in circulation**

Liabilities from currency in circulation included valid domestic banknotes and coins issued by the Bank.

**13. Liabilities to foreign banks and international financial institutions**

Below is the structure of liabilities to foreign banks and international financial institutions:

	<u>2002</u>	<u>2001</u>
<i>Deposits</i>		
European Investment Bank in Luxembourg (EIB)	1	0
World Bank	1 502	1 598
PHARE Fund	1	1
	<u>1 504</u>	<u>1 599</u>
<i>Loans</i>		
Repurchase transactions	0	7 973
Japan Bank for International Cooperation	9 283	11 554
European Investment Bank in Luxembourg (EIB)	1 169	1 343
Credit balance in Nostro Account	0	1 436
	<u>10 452</u>	<u>22 306</u>
<b>Total</b>	<u><u>11 956</u></u>	<u><u>23 905</u></u>

Loans received from international banks represented long-term loans specified to supplement resources of domestic banks selected to support small and middle size businesses and certain industries in the Slovak Republic.

The Bank plans a premature partial repayment of the Two Step Loans (TSL) from Japan Bank for International Cooperation in 2003 in the amount of Sk 6 755 million (JPY 20 156 million).

The analysis of liabilities to foreign banks and international financial institutions by remaining contractual maturity period is outlined in Note 25.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

**14. Liabilities to domestic financial institutions**

Below is the structure of liabilities to domestic financial institutions:

	<u>2002</u>	<u>2001</u>
Current accounts	2 598	1 954
Term deposits	15 706	10 814
Money reserves of banks	21 374	22 769
Loans under repurchase transactions	84 719	51 366
Other liabilities	4 332	2 510
<b>Total</b>	<b><u>128 729</u></b>	<b><u>89 413</u></b>

Repurchase transactions with domestic banks were carried out to manage the liquidity and the amount of currency in circulation, and were secured with NBS treasury bills (see Note 15).

The analysis of liabilities to domestic financial institutions by remaining contractual maturity period is outlined in Note 25.

**15. Securities issued**

The NBS records liability arising from the issue of treasury bills in the amount of Sk 192 530 million (2001: Sk 145 254 million). Treasury bills were issued to generate sufficient reserves of securities for sterilising repurchase transactions. Such transactions related to the execution of monetary policy in the area of open market transactions.

The NBS treasury bills in the amount of Sk 128 175 million (2001: Sk 57 154 million) were used as sterilising repurchase instruments, thereof Sk 85 645 million (2001: Sk 51 900 million) in the form of sterilising repurchase transactions, and Sk 42 530 million (2001: Sk 5 254 million) in the form of direct issues to the portfolios of domestic banks.

**16. Liabilities to the State Budget**

Below is the structure of liabilities to the State Budget:

	<u>2002</u>	<u>2001</u>
Current accounts of the Slovak Republic	23 185	7 321
Term deposits of the Slovak Republic	<u>72 206</u>	<u>6 056</u>
<b>Total</b>	<b><u>95 391</u></b>	<b><u>13 377</u></b>

Liabilities to the State Budget included current accounts of the Slovak Republic in the amount of Sk 23 185 million and term deposits of the Slovak Republic in the amount of Sk 72 206 million.

The analysis of liabilities to the State Budget by remaining contractual maturity period is outlined in Note 25.



**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
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(in millions of Sk)

**17. Other liabilities and reserves**

Below is the structure of other liabilities and reserves:

	<u>2002</u>	<u>2001</u>
Reserves	15 033	15 490
Deposits of non-budget funds of the Slovak Republic Bodies	14 502	16 539
Special transactions with funds of the Slovak Republic	3 160	1 391
Forward transactions clearing accounts	4 298	5 694
Funds deposited by municipalities	1 158	0
Accruals	537	539
Other	3 286	723
<b>Total</b>	<b><u>41 974</u></b>	<b><u>40 376</u></b>

Reserves included reserves for foreign exchange transactions totalling Sk 15 033 million (2001: Sk 15 480 million), thereof the major portion included reserves for open foreign exchange position in the amount of Sk 13 728 million (2001: Sk 13 441 million), and reserves for gold swap transactions in the amount of Sk 1 305 million (2001: Sk 2 039 million).

The Bank's reserve for open foreign currency position is assessed based on the estimated development of foreign currency reserves and expected changes in the exchange rates and is intended to hedge against the related risk. In 2002, the reserve for the open foreign currency position was used in the amount of Sk 13 441 million. At the same time, due to an expected risk of strengthening of the exchange rate of the Slovak crown in 2003, the NBS created a reserve for the open foreign currency position amounting to Sk 13 728 million.

Reserve for gold swap transactions were recognised to cover differences between market price of gold used in swap transactions and its historical cost to prevent high volatility in exchange rate gains and losses (see Note 21).

As at 31 December 2002, Special Transactions with funds of the Slovak Republic represented special funding received from the European Union Fund administered by the Ministry of Finance of the Slovak Republic in the amount of Sk 3 160 million.

Included in Other were mainly current accounts and term deposits of other clients and amounts due to suppliers.

**18. Equity and allocation of loss (-)/profit**

Equity accounts were summarised as follows:

	<u>2002</u>	<u>2001</u>
Reserve fund	10 165	9 925
Statutory fund	467	467
Capital fund	82	82
Other funds	189	152
Loss (-)/profit of current accounting period	<u>-24 836</u>	<u>326</u>
<b>Total equity</b>	<b><u>-13 933</u></b>	<b><u>10 952</u></b>

These footnotes are an integral part of the Summarised Financial Statements.

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**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

The NBS incurred a loss of Sk 24 836 million for the year ended 31 December 2002. The loss is principally related to foreign currency translation losses incurred. During the year 2002, the exchange rate of the Slovak Crown to the Euro appreciated by 2.4% (from 42.76 SKK/EUR to 41.722 SKK/EUR), the exchange rate of the Slovak Crown to USD appreciated by 17.4% (from 48.467 SKK/USD to 40.036 SKK/USD). The net foreign currency position increased in 2002 by 73.4% from Sk 198 781 million to Sk 344 708 million (see Note 23). This increase is attributable substantially to foreign currency proceeds from the privatisation or sale of State assets.

Pursuant to Article 38 of the NBS Act, the Bank Board, at its meeting held on 24 January 2003, decided that the 2002 loss will remain unsettled, and will be transferred to the next accounting period and will be settled from profits of future accounting periods and other NBS sources (see Note 26). The amount of future profits and probable period of the loss coverage are uncertain. As at 31 December 2002, the Bank has reported negative equity Sk 13 933 million. After the required revaluation of the gold, financial derivatives and marketable securities and after transfer of the social fund, the remuneration fund and the retirement fund from equity to liabilities as at 1 January 2003 (see Note 26), the total equity of the NBS at that date was Sk 1 354 million (positive).

At the meeting held on 20 December 2002, the Bank Board of the NBS decided that allotments to funds would be realised as transfers from the reserve fund.

**19. Net interest income**

The net interest income was created as follows:

	<u>2002</u>	<u>2001</u>
Interest received from domestic banks	1 282	2 530
Interest received from foreign banks and international financial institutions	351	194
Interest income from securities	8 921	8 531
Interest income under repurchase transactions	596	666
Other interest income	911	57
<b>Interest income</b>	<b><u>12 061</u></b>	<b><u>11 978</u></b>
Interest paid to Ministry of Finance of the Slovak Republic	-2 920	-506
Interest paid to domestic banks	-591	-528
Interest paid to foreign banks and international financial institutions	-346	-441
Interest expense under repurchase transactions	-5 802	-2 952
Other interest expense	-1 356	-890
<b>Interest expense</b>	<b><u>-11 015</u></b>	<b><u>-5 317</u></b>
<b>Net interest income</b>	<b><u>1 046</u></b>	<b><u>6 661</u></b>

The interest income from securities including income from bonds in the amount of Sk 5 948 million (2001: Sk 5 914 million) and income from discounted securities in the amount of Sk 2 973 million (2001: Sk 2 617 million) had the most significant effects on the reported net interest income.

Interest paid to the Ministry of Finance of the Slovak Republic included interest on term deposits in the amount of Sk 2 281 million and interest on current accounts in the amount of Sk 639 million.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

**20. Loss (-)/gain from trading securities**

Loss(-)/gain from trading securities were created as follows:

	<u>2002</u>	<u>2001</u>
Capital gain from securities	1 946	2 160
Capital loss from securities	-2 636	-2 098
Use of provisions for securities	786	1 341
Creation of provisions for securities	-550	-814
<b>Loss (-)/gain from trading securities</b>	<b><u>-454</u></b>	<b><u>589</u></b>

Capital gains from securities included income from disposals of securities denominated in USD and EUR. The major portion of the capital loss from securities represented the difference between the nominal value of NBS treasury bills and their selling prices on the primary market in the amount of Sk 1 312 million (2001: Sk 1 462 million) and the loss from interest-bearing securities in the amount of Sk 1 295 million (2001: Sk 598 million).

**21. Loss from foreign exchange transactions and positions**

Loss from foreign exchange transactions was incurred as follows:

	<u>2002</u>	<u>2001</u>
Income from foreign exchange transactions	15 684	8 075
Costs of foreign exchange transactions	-39 654	-12 883
	<u>-23 970</u>	<u>-4 808</u>
Use of reserves for foreign exchange transactions	14 175	1 496
Creation for reserves for foreign exchange transactions	-13 728	0
<b>Loss from foreign exchange transactions</b>	<b><u>-23 523</u></b>	<b><u>-3 312</u></b>

The NBS reported net exchange rate loss from foreign exchange transactions in the amount of Sk 23 882 million (2001: loss Sk 4 243 million), including loss from revaluation of assets and liabilities denominated in a foreign currency in the amount of Sk 7 513 million (2001: Sk 890 million). Furthermore, the NBS reported loss from swap transactions in the amount of Sk 51 million (2001: loss Sk 484 million), and loss from other foreign exchange forward transactions in the amount of Sk 51 million (2001: loss Sk 81 million). The amount of Sk 14 million represented the difference between market and historical prices of gold at the sale of gold coins.

In 2002, the Bank used reserves for gold swap transactions in the amount of Sk 734 million, and reserves for the open foreign exchange position in the amount of Sk 13 441 million. In 2002, the Bank created reserves for the open foreign exchange position in the amount of Sk 13 728 million (see Note 17).

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001, derived from the Financial Statements prepared in accordance with Directive of the Ministry of Finance of Slovak Republic 65/356/1996, as amended (in millions of Sk)

**22. Administrative expenses**

In 2002, administrative expenses represented personnel costs including payroll expenses in the amount of Sk 561 million (2001: Sk 522 million), and social security expenses in the amount of Sk 171 million (2001: Sk 176 million).

Social security expenses included mandatory allotments to medical, retirement, health and unemployment insurance funds in the amount of Sk 146 million and other social costs in the amount of Sk 25 million, thereof the most significant portion included costs of catering for employees, mandatory allotments to the social fund pursuant to Act 152/1994 Coll. on Social Fund, as amended, and Income Taxes Act 366/1999 Coll., as amended, costs of supplementary retirement insurance scheme and costs of additional retirement insurance.

In the accounting period 2002, the average calculated number of bank employees was 1 314 (2001: 1 318), thereof managers 154 (2001: 157).

**23. Currency structure of assets and liabilities**

Below is the structure of assets and liabilities of the NBS denominated in Slovak crowns ("Sk"), and in foreign currencies converted to Slovak crowns:

	Line no.	Slovak crowns Sk	Foreign currency converted to Sk, total	Thereof:					Total
				USD	EUR	JPY	XDR	Other	
<b>2002</b>									
Assets	1	42 098	363 070	112 626	240 980	3 704	4 669	1 091	405 168
Liabilities	2	386 806	18 362	730	3 636	9 372	4 623	1	405 168
Net foreign exchange position	3=1-2	-344 708	344 708	111 896	237 344	-5 668	46	1 090	
<b>2001</b>									
Assets	4	50 906	228 746	73 859	144 061	4 515	5 218	1 093	279 652
Liabilities	5	249 687	29 965	2 378	10 735	11 664	5 186	2	279 652
Net foreign exchange position	6=4-5	-198 781	198 781	71 481	133 326	-7 149	32	1 091	
Total difference	7=3-6	-145 927	145 927	40 415	104 415	1 481	14	-1	

These footnotes are an integral part of the Summarised Financial Statements.

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**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

**24. Off-balance sheet items**

The Bank recorded on its off-balance sheet accounts future irrevocable receivables and payables from forward and option transactions in the following structure:

	2002		2001	
	Receivable	Liability	Receivable	Liability
Currency interest rate swap	5 958	5 775	7 383	7 865
Interest rate swaps	1 652	1 652	1 750	1 750
Swap transactions with gold	1 167	6 950	1 167	8 413
<b>Total forward transactions</b>	<b>8 777</b>	<b>14 377</b>	<b>10 300</b>	<b>18 028</b>
Purchased put options	6 950	1 167	8 413	1 167
<b>Total forward transactions and options</b>	<b>15 727</b>	<b>15 544</b>	<b>18 713</b>	<b>19 195</b>

In order to change the currency structure of FX reserves, the NBS concluded a long-term currency swap exchanging JPY for USD. The final maturity of the swap transaction is in 2010. According to the repayment schedule, instalments were made in March and September in 2002. The NBS plans a premature repayment of the long-term currency swap in the year 2003.

The NBS was engaged in long-term gold swaps. After the revaluation, using the current gold rate of USD 342.75/ozs as at 31 December 2002, the Bank would have recorded a receivable of Sk 8 235 million and had a liability denominated in USD, amounting to Sk 6 950 million after its conversion to Sk.

To eliminate the risk of a decrease in the market value of the gold swapped, the NBS purchased European gold put options. As at 31 December 2002, the Bank reported in respect of these options a receivable denominated in USD amounting to Sk 6 950 million after its conversion to Sk, and would have had recorded a liability of Sk 8 235 million, after its revaluation using the current gold rate.

Using the historical cost of gold, the receivable from long-term swap transactions and the liability from long-term options purchased amounts to Sk 1 167 million.

Bank recorded on off-balance sheet accounts state guarantees received for redistribution loans of Sk 22 850 million (in 2001: Sk 29 132 million). State guarantees consisted of the principal amount and interest by the maturity of loans.

**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

**25. Maturity analysis**

Below is the analysis of assets and liabilities of the NBS as at 31 December 2002 by the remaining contractual maturity period:

	Up to 1 month inclusive	From 1 – 3 months inclusive	Up to 1 year inclusive	From 1 – 5 years inclusive	Over 5 years	Non- specified	Total
<b>Assets</b>							
Gold		410	594			22	1 026
Deposits with the IMF						4 623	4 623
Receivables from foreign banks and international financial institutions	26 311					658	26 969
Receivables from domestic financial institutions and other institutions	1 511	1 289	4 786	22 847	4 113		34 546
Securities	58 094	60 906	91 942	113 910	5 091		329 943
Equity shares						145	145
Property and equipment						6 582	6 582
Other assets	550	460	53	84	128	59	1 334
<b>Total assets</b>	<b>86 466</b>	<b>63 065</b>	<b>97 375</b>	<b>136 841</b>	<b>9 332</b>	<b>12 089</b>	<b>405 168</b>
<b>Liabilities and equity</b>							
Currency in circulation						93 898	93 898
Liabilities to the IMF						4 623	4 623
Liabilities to foreign banks and international financial institutions	846	707	707	5 533	3 505	658	11 956
Liabilities to domestic financial institutions	128 729						128 729
Securities issued	8 530	34 000					42 530
Liabilities to the State Budget	31 737		63 654				95 391
Other liabilities and reserves	20 991	1 503	15 992	3 488			41 974
Reserve fund						10 165	10 165
Statutory fund						467	467
Capital fund						82	82
Other funds						189	189
Current period loss						-24 836	-24 836
<b>Total liabilities and equity</b>	<b>190 833</b>	<b>36 210</b>	<b>80 353</b>	<b>9 021</b>	<b>3 505</b>	<b>85 246</b>	<b>405 168</b>
<b>Difference</b>	<b>-104 367</b>	<b>26 855</b>	<b>17 022</b>	<b>127 820</b>	<b>5 827</b>	<b>-73 157</b>	<b>0</b>

These footnotes are an integral part of the Summarised Financial Statements.

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**NÁRODNÁ BANKA SLOVENSKA**

Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)

Below is the analysis of assets and liabilities of the NBS as at 31 December 2001 by the remaining contractual maturity period:

	Up to 1 month inclusive	From 1 – 3 months inclusive	Up to 1 year inclusive	From 1 – 5 years inclusive	Over 5 years	Non- specified	Total
<b>Assets</b>							
Gold		948				79	1 027
Deposits with the IMF						5 186	5 186
Receivables from foreign banks and international financial institutions	39 444					789	40 233
Receivables from domestic financial institutions and other institutions	1 711	1 430	4 574	29 691	6 378		43 784
Securities	26 947	25 093	43 946	70 542	15 062		181 590
Equity shares						145	145
Property and equipment						6 700	6 700
Other assets	199	297	152	122	129	88	987
<b>Total assets</b>	<b>68 301</b>	<b>27 768</b>	<b>48 672</b>	<b>100 355</b>	<b>21 569</b>	<b>12 987</b>	<b>279 652</b>
<b>Liabilities and equity</b>							
Currency in circulation						91 189	91 189
Liabilities to the IMF						5 186	5 186
Liabilities to foreign banks and international financial institutions	10 219	721	751	6 098	5 327	789	23 905
Liabilities to domestic financial institutions	89 413						89 413
Securities issued	2 000	3 254					5 254
Liabilities to the State Budget	13 377						13 377
Other liabilities and reserves	18 672	441	14 448	6 805		10	40 376
Reserve fund						9 925	9 925
Statutory fund						467	467
Capital fund						82	82
Other funds						152	152
Current period profit						326	326
<b>Total liabilities and equity</b>	<b>133 681</b>	<b>4 416</b>	<b>15 199</b>	<b>12 903</b>	<b>5 327</b>	<b>108 126</b>	<b>279 652</b>
<b>Difference</b>	<b>-65 380</b>	<b>23 352</b>	<b>33 473</b>	<b>87 452</b>	<b>16 242</b>	<b>-95 139</b>	<b>0</b>

These footnotes are an integral part of the Summarised Financial Statements.

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**NÁRODNÁ BANKA SLOVENSKA**

**Footnotes to the Annual Summary Financial Statements as at 31 December 2002 and 2001,  
derived from the Financial Statements prepared in accordance with Directive of the Ministry of  
Finance of Slovak Republic 65/356/1996, as amended  
(in millions of Sk)**

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**26. Events subsequent to 31 December 2002**

The NBS loss for 2002 amounted to Sk 24 836 million (see Note 18). Pursuant to Article 38 of the NBS Act, the Bank Board, at its second meeting held on 24 January 2003, decided that the 2002 loss will remain unsettled, and will be transferred to the next accounting period and will be settled from profits for future accounting periods and other NBS sources.

Pursuant to new Accountancy Act No. 431/2002 Coll., starting 1 January 2003 the Bank is obliged to value and recognise its gold, financial derivatives and marketable securities at fair values. The initial fair value adjustments as of 1 January 2003 were recorded directly in the equity accounts.

Adjustments after 1 January 2003 for changes in fair values will be recorded in the profit and loss statement and in the equity in the balance sheet (changes in fair value of gold). As a result of the fair valuation of the NBS gold to the market price, the Bank created a fund for new valuation of gold. As at 1 January 2003, the outstanding amount of the fund was Sk 13 278 million, representing a difference between the market price of gold of USD 342.75/ozs and historical acquisition cost of gold of Sk/gram 62.54451. The adjustment from revaluation of marketable securities and financial derivatives to market values as at 1 January 2003 amounted to Sk 2 198 million. The total amount of fair value adjustments from the revaluation of gold, financial derivatives and marketable securities amounted to Sk 15 476 million as at 1 January 2003. Also, as at 1 January 2003 the Bank has transferred the social fund, the remuneration fund and the retirements fund from equity to liabilities decreasing equity by Sk 188 million as required by the new Accounting procedures for banks.



**NÁRODNÁ BANKA SLOVENSKA**

**INDEPENDENT AUDITORS' REPORT  
AND INTERNATIONAL FINANCIAL  
STATEMENTS**

**as of 31 December 2002  
and for the year then ended**

**NÁRODNÁ BANKA SLOVENSKA**  
**Financial Statements prepared under International Financial Reporting Standards (IFRS)**  
**31 December 2002 and 2001**  
**(in millions of Sk)**

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<b>Statements of income</b>	<b>3</b>
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**Deloitte  
& Touche**

## INDEPENDENT AUDITOR'S REPORT

### To the Bank Board of Národná banka Slovenska:

We have audited the accompanying balance sheets of Národná banka Slovenska ("the Bank") as of 31 December 2002 and 2001, and the related statements of income, cash flows and changes in equity 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. 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2002 and 2001, the results of its operations, its cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards.

Bratislava, 10 April 2003



Deloitte & Touche spol. s r.o.

Deloitte  
Touche  
Tohmatsu

**NÁRODNÁ BANKA SLOVENSKA**  
**Balance sheets**  
**Prepared under International Financial Reporting Standards (IFRS)**  
**As of 31 December 2002 and 2001**  
**(in millions of Sk)**

	Note	2 002	2 001
<b>Assets</b>			
Current accounts and deposits with banks	5	4 049	14 341
Gold	6	15 472	15 118
Trading securities	7	331 646	182 358
Derivative financial instruments	8	757	696
Loans to banks and other institutions	9	56 017	67 534
IMF membership quota	10	4 623	5 186
Property and equipment	11	6 582	6 638
Other assets	12	1 319	1 012
<b>Total assets</b>		<b>420 465</b>	<b>292 883</b>
<b>Liabilities</b>			
Liabilities to banks and other financial institutions	13	147 634	121 731
Liabilities to the state budget	14	95 391	13 377
Securities issued	15	42 530	5 254
Derivative financial instruments	8	0	178
Loans from the IMF	10	4 623	5 186
Currency in circulation	16	93 898	91 189
Other liabilities	17	22 786	19 344
		<u>406 862</u>	<u>256 259</u>
<b>Equity</b>			
Capital (statutory fund)	18	467	467
Reserves	18	36 798	36 157
Accumulated loss		(23 662)	0
		<u>13 603</u>	<u>36 624</u>
<b>Total liabilities and equity</b>		<b>420 465</b>	<b>292 883</b>

Ing. Marián Jusko, CSc. Governor

Ing. Milena Koreňová Executive Director of Financial Management and Payments System Division

Ing. Katarína Taragelová Director of Budget & Accounting Department

Bratislava, 10 April 2003

The footnotes on pages 6 – 28 are an integral part of the financial statements prepared under International Financial Reporting Standards (IFRS)

**NÁRODNÁ BANKA SLOVENSKA**  
**Statements of income**  
**Prepared under International Financial Reporting Standards (IFRS)**  
**For the years ended 31 December 2002 and 2001**  
**(in millions of Sk)**

	Note	2002	2001
Interest and similar income		12 061	11 978
Interest expense and similar charges		(11 015)	(5 317)
Net interest income	19	<u>1 046</u>	<u>6 661</u>
Dividends income		31	33
Fees and commissions income		141	190
Fees and commissions expense		(33)	(25)
Income from fees and commissions, net		<u>108</u>	<u>165</u>
Gains from trading securities	20	508	298
Foreign exchange losses	21	(23 622)	(3 247)
Operating expenses	22	(2 133)	(1 760)
Provisions for losses	9	687	(1 262)
<b>Net (loss)/profit for the year</b>		<u><b>(23 375)</b></u>	<u><b>888</b></u>

The footnotes on pages 6 – 28 are an integral part of the financial statements prepared under International Financial Reporting Standards (IFRS)

**NÁRODNÁ BANKA SLOVENSKA**  
**Statements of changes in equity**  
**Prepared under International Financial Reporting Standards (IFRS)**  
**For the years ended 31 December 2002 and 2001**  
**(in millions of Sk)**

	Statutory fund	General reserves	Reserve fund	Accumulated loss	Total
<b>As at 1 January 2001</b>	<b>467</b>	<b>14 130</b>	<b>9 925</b>	-	<b>24 522</b>
Impact of IAS 39 implementation – gold and financial derivatives	-	12 693	-	-	12 693
<b>As at 1 January 2001 – restated</b>	<b>467</b>	<b>26 823</b>	<b>9 925</b>	-	<b>37 215</b>
Net profit for the year	-	-	-	888	888
Fair value adjustment of gold	-	521	-	-	521
Reserves distribution	-	(1 112)	-	1 112	-
Transfer of profit to state budget	-	-	-	(2 000)	(2 000)
<b>As at 31 December 2001</b>	<b>467</b>	<b>26 232</b>	<b>9 925</b>	-	<b>36 624</b>
Net loss for the year	-	-	-	(23 375)	(23 375)
Creation of legal reserve fund	-	(283)	283	-	-
Fair value adjustment of gold	-	354	-	-	354
Transfer to reserve for open foreign currency position	-	287	-	(287)	-
<b>As at 31 December 2002</b>	<b>467</b>	<b>26 590</b>	<b>10 208</b>	<b>(23 662)</b>	<b>13 603</b>

The footnotes on pages 6 – 28 are an integral part of the financial statements prepared under International Financial Reporting Standards (IFRS)

**NÁRODNÁ BANKA SLOVENSKA**  
**Statements of cash flows**  
**Prepared under International Financial Reporting Standards (IFRS)**  
**For the years ended 31 December 2002 and 2001**  
**(in millions of Sk)**

	2 002	2 001
<b>Net cash flow from operating activities</b>		
Net (loss)/profit for the year	(23 375)	888
Adjustments to reconcile net (loss)/profit to cash flows provided by operating activities:		
Dividends received	(31)	(33)
Provisions for loans	(514)	1 262
Gain from revaluation of trading securities	(1 199)	(239)
Unrealised foreign exchange (gains)/losses	2 287	(192)
Depreciation	255	196
Gain from financial instruments	(240)	(568)
Other	(10)	(4)
<b>Net cash flow from operating activities before changes in operating assets and liabilities</b>	<u>(22 827)</u>	<u>1 310</u>
<b>Changes in operating assets and liabilities</b>		
Decrease in gold	1	1
(Increase)/decrease in securities	(148 090)	17 054
Decrease/(increase) in loans to banks and other financial institutions	12 161	(26 701)
(Increase)/decrease in other assets	(27 711)	1 592
Total change in operating assets	<u>(163 639)</u>	<u>(8 054)</u>
Increase/(decrease) in liabilities to banks and other financial institutions	5 867	(5 195)
Increase/(decrease) in securities issued	37 276	(19 646)
Increase in liabilities to state budget	82 015	1 097
(Decrease)/increase in liabilities to IMF	(1 342)	508
Increase in currency in circulation	2 709	15 245
Increase/(decrease) in other liabilities and accruals	30 856	(1 096)
Total change in operating liabilities	<u>157 381</u>	<u>(9 087)</u>
<b>Net cash flow used in operating activities</b>	<u>(29 085)</u>	<u>(15 831)</u>
<b>Cash flow from investment activities</b>		
Purchase of property and equipment	(199)	(370)
Dividends received	31	33
Increase/(decrease) in IMF quota	1 342	(508)
<b>Net cash flow provided by/(used in) investing activities</b>	<u>1 174</u>	<u>(845)</u>
<b>Net cash flow from financing activities</b>		
Contribution paid to state budget	0	(2 000)
Increase in loans received	20 037	30 887
<b>Net cash flow provided by financing activities</b>	<u>20 037</u>	<u>28 887</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(7 874)</u>	<u>12 211</u>
(Loss)/gain on foreign currency cash	(2 287)	192
Cash and cash equivalents at the beginning of year	13 552	1 149
<b>Cash and cash equivalents at the end of year</b>	<u><u>3 391</u></u>	<u><u>13 552</u></u>

The footnotes on pages 6 – 28 are an integral part of the financial statements prepared under International Financial Reporting Standards (IFRS)

**NÁRODNÁ BANKA SLOVENSKA**  
**Footnotes to the financial statements**  
**Prepared under International Financial Reporting Standards (IFRS)**  
**As of 31 December 2002 and 2001 and for the years then ended**  
**(in millions of Sk)**

**1. General Information**

Národná banka Slovenska (herein "NBS" or "the Bank") is the central bank of the Slovak Republic. NBS was established in accordance with the terms of Act No. 566/1992 Coll. on the NBS as amended (herein "the NBS Act"). It commenced its activities on 1 January 1993 as the central bank of the Slovak Republic. The NBS is a legal entity with its seat at Imricha Karvaša 1, Bratislava, IČO 30844789. When handling its own assets, the NBS acts as a business entity. The NBS has its head office in Bratislava, it has three branches in the Slovak Republic (Bratislava, Banská Bystrica, Košice) as well as organisational units.

The Bank's key objective is to maintain price stability, and therefore NBS:

- determines monetary policy,
- issues banknotes and coins,
- controls and co-ordinates money in circulation, domestic payment system and processing of the payment system data,
- supervises the safe functioning of the banking system and bank activities,
- represents the Slovak Republic in international financial institutions and ensures the fulfilment of tasks ensuing from such representation,
- represents the Slovak Republic in world financial market operations related to the fulfilment of the monetary policy.

The supreme management body of NBS is the Bank Board of NBS (herein the "Bank Board"). Pursuant to the NBS Act, the Bank Board has eight members: the governor, two vice-governors, two NBS executive directors and three other members. The governor and vice-governors are appointed and withdrawn by the President of the Slovak Republic. Executive directors and other members of the Bank Board are appointed and withdrawn by the government of the Slovak Republic. Pursuant to the Act no. 149/2001 Coll. from 6 April 2001, valid from 1 May 2001, amending the NBS Act, the term of office of the Bank Board members is five years. Until 30 April 2001, the term of office of the governor, vice-governors and executive directors was six years. Term of office of the other members of the Bank Board was four years. Membership of the Bank Board is limited to a maximum of two consecutive terms of office. The NBS is represented by the governor.

In 2002, the members of the Bank Board were as follows:

Name	Position	Term of appointment	
Ing. Marián Jusko, CSc.	Governor	from 30 July 1999	till 30 July 2005
Ing. Elena Kohútiková, CSc.	Vice-Governor	from 28 March 2000	till 28 March 2006
Ing. Ivan Šramko	Vice-Governor	from 11 January 2002	till 11 January 2007
Ing. Ján Mathes	Executive Director	from 1 January 1999	till 1 January 2005
RNDr. Karol Mrva	Executive Director	from 1 December 2000	till 1 December 2006
Prof. Ing. Jozef Košnár, DrSc.	Member	from 1 December 2000	till 1 December 2004

The footnotes on pages 6 – 28 are an integral part of the financial statements prepared under International Financial Reporting Standards (IFRS)



## **2. Basis for preparation of financial statements**

The accompanying financial statements of the NBS as at 31 December 2002 were prepared in accordance with International Financial Reporting Standards (IFRS). All figures in the financial statements for the previous period are presented on a comparable basis.

In 2001 the NBS applied international Accounting Standard (IAS) 39, Financial Instruments: Recognition and Measurement ("IAS 39") for the first time. IAS 39 has introduced a comprehensive framework of accounting for all financial instruments. According to this standard, the Bank must categorise its assets and liabilities into categories (held for trading, held for hedging, available for sale, investments held to maturity, loans and receivables originated by the Bank) and value them accordingly. The principal effects of adoption of IAS 39 have been that substantially all of the Bank's investments in securities are now classified as held-for-trading, and similarly together with gold and financial derivatives have been reported on balance sheet at fair values. The effects of the re-measurement of financial instruments to fair value have been reported with effect from 1 January 2001. Purchases of financial instruments are recorded at cost at the transaction date.

The financial statements are prepared under the historical cost basis and modified by the revaluation of certain financial instruments to fair value. The book value of certain financial statement items reported at acquisition cost approximates their fair value.

## **3. Summary of significant accounting policies**

### **3.1. Gold**

Gold is reported in financial statements according to the accounting standards for financial instruments. The Bank categorised gold as "available-for-sale". In balance sheet, the gold is reported at fair value, derived from its market price (see Note 6). The categorisation of gold as "available-for-sale" is due to the nature of its usage as foreign currency reserves of the Bank. The Bank has been using gold in repurchase transactions, to generate income from gold deposits and in swaps. Currently the Bank has no intention to sell the gold.

Changes in a fair valuation of the gold are reported through the statement of changes in equity.

### **3.2. Trading securities**

Trading securities on money and capital markets are reported as at the balance sheet date at fair value, which is based on market prices. Changes in the fair value of these securities are recognised in the statement of income.

### **3.3. Equity investments**

Equity investments are included in the "available-for-sale" category. Equity investments are valued at cost due to non-existent market prices.

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**3.4. Derivative financial instruments**

The Bank's derivative financial instruments include cross-currency swaps, gold interest rate swap and put options for gold. The Bank categorised them according to IAS 39 accounting rules as held for trading because they do not meet criteria to be classified as hedging. However, the NBS does not hold them to benefit from short-term market fluctuations in prices, changes in foreign currency and interest rates (See Note 8). As at the financial statements date, they are valued at fair value, which is based on market prices, discounted cash flow methods and option valuation models.

In compliance with IAS 39, derivative financial instruments are recorded in the balance sheet as assets, if their fair value is favourable for the Bank, and as liabilities, if their fair value is not favourable.

After the initial adoption of IAS 39 on 1 January 2001, the effect of changes in valuation of derivative financial instruments to the fair value is recognised in the statement of income.

**3.5. Repurchase and resell transactions**

Transactions related to securities purchased under re-purchase agreements ("reverse REPOs") are reported as loans and transactions related to securities, or gold, sold under re-purchase agreements ("REPOs") are recorded as borrowings collateralised by those securities or gold.

**3.6. Loans and provisions**

Loans provided to banks and other financial institutions are stated in the balance sheet at the amount of principal outstanding less any provisions for potential losses. Additions to provisions are recognised as an expense in the statement of income. Release of provisions when reasons for their creation cease to exist are reported in the statement of income.

The discounted cash flow method was used for the calculation of provisions related to the loan provided to the Deposit Protection Fund (herein "DPF").

**3.7. Property and equipment**

Property and equipment is valued in the balance sheet at its acquisition cost including expenses related to its acquisition. Depreciated fixed assets are decreased by accumulated depreciation. The acquisition cost of property and equipment does not include value-added tax, except for passenger vehicles.

Property and equipment is depreciated on a straight-line basis.

Property and equipment of the NBS is categorised into individual depreciation groups as follows:

	%
1. Office equipment, data processing systems, cars and vehicles, software	25.0
2. Instruments and special technical equipment	12.5
3. Security systems	6.7
4. Utility equipment	3.4
5. Buildings and structures	2.5
6. Fixed assets depreciated using an individual depreciation rate (e.g., security monitoring systems)	Individual rates

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**3.8. Valuation of assets and liabilities denominated in foreign currency**

The Bank converts its assets and liabilities denominated in foreign currency to Slovak crowns using the NBS exchange rates list as at the transaction date and in the financial statements using the exchange rate as at 31 December. All foreign exchange gains and losses are included in the statement of income.

Exchange rates for principal foreign currencies used for valuation as at 31 December were as follows:

Currency	Unit	2002 Rate	2001 Rate	2000 Rate
USD	1	40.036	48.467	47.389
EUR	1	41.722	42.760	43.996
JPY	100	33.511	36.915	41.397
XDR	1	54.226	60.836	61.751

**3.9. Securities issued**

The NBS treasury bills issued are recorded at nominal value. In the balance sheet, they are shown net of repurchased treasury bills in the NBS portfolio, including accrued discount.

**3.10. Currency in circulation**

The NBS administers the issue and withdrawal of domestic banknotes and coins. The corresponding liability from the issued currency in circulation is recorded in the balance sheet.

**3.11 Taxes**

In accordance with Article 18 of Act No. 366/1999 Coll. on Income Taxes, as amended, the NBS is a corporate income tax payer and the only taxable income is income subject to withholding tax.

Since 1 March 2003 the Bank is not a VAT payer.

**3.12 Results of operations**

In accordance with Article 38 of the NBS Act the result of the Bank's operations for the accounting period is either a generated profit or incurred loss. NBS will use generated profit to replenish the reserve fund and other funds created from profit, or to settle the loss from previous years. The Bank shall transfer the remaining profit to the state budget of the Slovak Republic.

NBS may settle the loss incurred in the accounting period from the reserve fund or from other funds or, the Bank Board may decide that any unsettled loss, shall be transferred to the next accounting period.

**3.13. Operating revenues and expenses**

Interest income and expense, and fees and commissions are recognised on their occurrence. They are recorded and disclosed in the financial statements on an accrual basis.

#### 3.14. Employee benefits

To cover the costs of employee benefits, the NBS creates social, remuneration and retirement funds, which are reflected in the decrease of the profit/loss in the statement of income.

The NBS makes regular allotments to the state Social Insurance Company, which are reflected in the Statement of income.

In 2002, the average number of employees was 1 314 (2001: 1 318), thereof 154 managers (2001: 157).

#### 3.15. Cash and cash equivalents

For the purposes of statements of cash flows, cash and cash equivalents include cash, current and deposit accounts and time deposits with maturity within 90 days. Cash and cash equivalents exclude deposits with the World Bank due to their capital deposit nature.

### 4. Use of financial instruments

A financial instrument is every contract based on which a financial asset arises in one company and a financial liability instrument arises in another company.

In accordance with IAS 39, the gold has been used and reported as a financial instrument (see Notes 3.1 and 6.).

The NBS balance sheet is comprised in a large extent of financial instruments. These instruments expose the Bank to several financial risks. The main objective is to minimise risks associated with financial instruments, including derivative financial instruments, i.e. the most important task is safe administration of financial instruments. Any other criteria are subject to this objective.

To achieve these objectives, the Bank sets principles for financial instruments administration. The principles outline types and limits of acceptable risk associated with the NBS acting as a prudent investor on financial and capital markets.

Derivative financial instruments are recorded in the balance sheet at fair value. As the valuation terms of forward and option transactions concluded by the Bank in the past do not meet the strict criteria defined by IAS 39 for accounting and reporting of hedging, the Bank included derivative financial instruments into the "held for trading" category.

#### 4.1. Financial risks

##### 4.1.1 Foreign currency risk

Foreign currency risk is understood as a risk caused by the change in exchange rates of the Slovak Crown. The change in the exchange rate has major impact on the operations of NBS as foreign currency risk is not only associated with the volatility of EUR/SKK exchange rate but also with changes in EUR/USD exchange rate. Foreign currency risk results from the open foreign currency position of the NBS.

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The Bank Board determined the structure of the open foreign currency position as 70:30 in favour of EUR to USD with the maximum acceptable deviation of +/- 2% and this limit is maintained by mutual purchases and sales of the respective currencies.

Structure of the Bank's foreign currency assets and receivables, that results from the specific role of the NBS, and the NBS key objective to sustain the price stability, unables the Bank to effectively protect against the foreign currency risk.

During 2002 the exchange rate of Slovak Crowns to EUR appreciated by 2.4% (from 42.76 SKK/EUR to 41.722 SKK/EUR), the exchange rate of the Slovak Crown to USD appreciated by 17.4% (from 48.467 SKK/USD to 40.036 SKK/USD). This strengthening had a material impact on the loss generated by the NBS.

Net foreign currency position increased by 72.5%, from Sk 205 621 million to Sk 354 581 million in 2002. This increase is mainly attributable to proceeds from privatisation or sale of state assets (see Note 14).

Day-to-day foreign currency risk management means maintaining the relevant portion of foreign currency assets under the currency structure of foreign currency liabilities and the structure of open foreign currency position in line with the decision of the Bank Board. Monitoring and sensitivity measurement are focused on measurement of effective exchange rate differences and estimates of future impacts of negative development of exchange rates (in terms of results of operations) through calculating the sensitivity ratios.

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The following tables summarise the level of foreign currency fluctuation risk:

	Line No.	SKK	Total foreign currency	thereof:				
				USD	EUR	JPY	XDR	Other
<b>2002</b>								
<b>Assets</b>	<b>1</b>	<b>40 618</b>	<b>379 847</b>	<b>129 096</b>	<b>242 326</b>	<b>3 691</b>	<b>4 669</b>	<b>65</b>
<b>thereof:</b>								
Current accounts and deposits with banks		146	3 903	3 174	356	287	46	40
Gold			15 472	15 472				
Trading securities			331 646	109 681	218 561	3 404		
Derivative financial instruments			757	757				
Loans to banks and other institutions		32 620	23 397		23 397			
IMF membership quota			4 623				4 623	
Property and equipment		6 582						
Other assets		1 270	49	12	12			25
<b>Liabilities</b>	<b>2</b>	<b>381 596</b>	<b>25 266</b>	<b>7 633</b>	<b>3 638</b>	<b>9 371</b>	<b>4 623</b>	<b>1</b>
<b>thereof:</b>								
Liabilities to banks and other financial institutions		129 574	18 060	7 607	1 170	9 283		
Liabilities to state budget		95 391						
Securities issued		42 530						
Derivative financial instruments								
Loans from IMF			4 623				4 623	
Currency in circulation		93 898						
Other liabilities		20 203	2 583	26	2 468	88		1
<b>Open FX position</b>	<b>3=1-2</b>	<b>(340 978)</b>	<b>354 581</b>	<b>121 463</b>	<b>238 688</b>	<b>(5 680)</b>	<b>46</b>	<b>64</b>
<b>2001</b>								
<b>Assets</b>	<b>4</b>	<b>48 708</b>	<b>244 175</b>	<b>89 705</b>	<b>144 612</b>	<b>4 563</b>	<b>5 218</b>	<b>77</b>
<b>thereof:</b>								
Current accounts and deposits with banks		130	14 211	11 007	2 621	510	32	41
Gold			15 118	15 118				
Trading securities			182 358	60 423	117 939	3 996		
Derivative financial instruments			696	696				
Loans to banks and other institutions		41 085	26 449	2 423	24 026			
IMF membership quota			5 186				5 186	
Property and equipment		6 638						
Other assets		855	157	38	26	57		36
<b>Liabilities</b>	<b>5</b>	<b>217 705</b>	<b>38 554</b>	<b>10 967</b>	<b>10 735</b>	<b>11 664</b>	<b>5 186</b>	<b>2</b>
<b>thereof:</b>								
Liabilities to banks and other financial institutions		90 223	31 508	10 638	9 316	11 554		
Liabilities to state budget		13 377						
Securities issued		5 254						
Derivative financial instruments			178	178				
Loans from IMF			5 186				5 186	
Currency in circulation		91 189						
Other liabilities		17 662	1 682	151	1 419	110		2
<b>Open FX position</b>	<b>6=4-5</b>	<b>(168 997)</b>	<b>205 621</b>	<b>78 738</b>	<b>133 877</b>	<b>(7 101)</b>	<b>32</b>	<b>75</b>
<b>Total year-on-year difference</b>	<b>7=3-6</b>	<b>(171 981)</b>	<b>148 960</b>	<b>42 725</b>	<b>104 811</b>	<b>1 421</b>	<b>14</b>	<b>(11)</b>

The footnotes on pages 6 – 28 are an integral part of the financial statements prepared under International Financial Reporting Standards (IFRS)

#### 4.1.2. Interest rate risk

The NBS is exposed to the risk of market interest rate fluctuations on its financial position and cash flow.

The majority of the financial assets of the Bank bear interest. Nearly 87% of financial assets are at fixed rates at 31 December 2002. Approximately 8% of financial assets bear variable interest rates, used for repurchase transactions, redistribution loans, loans from Two Step Loan and Apex Global Loan sources provided to domestic banks (see Note 9). In this case, the contractually agreed variable interest rate is derived from the NBS prime rate (changed to the fortnight repo tenders rate in 2001). This prime rate increased from 7.75% to 8.25% in April 2002, decreased to 8% in October 2002, and from November 2002 is 6.5%. Approximately 5% of the Bank's financial assets bear no interest.

Interest rate risk management for securities is also based on the benchmark structure (benchmark is a risk-neutral portfolio used as a benchmark/criterion against which the actual portfolio is measured), as well as in the structure of intervention portfolio. Trading securities represent more than two-thirds of the fixed interest rate financial assets. The average benchmark maturity (duration) approved by the Bank Board within the complex policy of foreign currency reserves administration is 1.5 years, with maximum tolerable variances of plus/minus 6 months from the determined risk-neutral value.

Approximately 60% of the financial liabilities of the Bank are at fixed interest rates. Approximately 24% of financial liabilities bear no interest, the most significant being liabilities from the Currency in circulation. The remaining balance of the financial liabilities of the Bank is at variable interest rates.

The interest bearing assets and liabilities bear interest rates that are close to, or equal to the market values, with the exception of the interest rate on the loan to DPF (see Note 9) and interest rate on the accounts of money reserves of domestic banks (see Note 13), that are stated at 1.5%.

As the fixed interest rate financial assets and liabilities represent a significant proportion of the Bank's balance sheet, the interest rate risk can be assessed from the tables that analyse assets and liabilities by remaining contractual maturity period (see Note 4.1.4.).



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The following tables summarise the effective interest rates of financial assets and liabilities (weighted arithmetic average for securities) per core currencies:

<b>2002</b>	<b>EUR</b>	<b>USD</b>	<b>XDR</b>	<b>JPY</b>	<b>SKK</b>
<b>Assets</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Current accounts with banks	2.35	1.13	2.12	0.00	3.44
Gold		0.38			
Trading securities	3.50	2.00		1.00	
Loans to banks and other institutions	3.94	1.75			7.39
Derivative financial instruments		2.05		2.60	
IMF membership quota			0.00		0.00
Loans to clients					8.37
<b>Liabilities</b>					
Liabilities to banks and other financial institutions	3.29	1.75		3.15	5.06
Derivative financial instruments		3.49			
Liabilities to state budget					6.5
Securities issued					7.53
Loans from the IMF			0.00		0.00
Liabilities to other clients	2.00				4.66
<b>2001</b>					
<b>Assets</b>	<b>EUR</b>	<b>USD</b>	<b>XDR</b>	<b>JPY</b>	<b>SKK</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Current accounts with banks	2.65	3.47	3.41	0.00	4.63
Gold		0.50			
Trading securities	5.27	6.81		1.00	
Loans to banks and other institutions	4.57	3.88			7.88
Derivative financial instruments		2.05		2.60	
IMF membership quota			0.00		0.00
Loans to clients					7.31
<b>Liabilities</b>					
Liabilities to banks and other financial institutions	3.91	3.88		3.15	4.22
Derivative financial instruments		4.62			
Liabilities to state budget					5.12
Securities issued					7.75
Loans from the IMF			0.00		0.00
Liabilities to other clients	1.66	1.00			7.75

#### 4.1.3. Credit risk

Credit risk is understood as a risk of financial loss in relation to the counterparty performance of an investment and its perception by investors. For the Bank, credit risk management is a priority because if a counterparty fails to meet its liabilities the Bank is exposed to the risk of investment losses. In the Bank, credit risk management is regulated by stated rules.



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The NBS has specified limits to mitigate credit risk exposures to individual counterparties and/or the particular type of transactions. The NBS's principal information source for the assessment of counterparty creditworthiness includes regularly updated information from the credit rating agency run by Fitch. Quality of trading securities is measured using the ratings issued by Standard & Poor's and Moody's.

Credit risk arising from repurchase transactions is minimised as all loans are secured with liquid and zero risk securities.

Risk related to loans provided by the NBS to domestic financial institutions and to other institution is provided for by state guarantees and by monitoring of indebtedness of those institution.

Both the size and the concentration of the Bank's credit risk exposure can be obtained directly from the balance sheets and the notes to the Financial Statements describing the amount of the NBS's financial assets and their structure. Of the total amount of loans granted 71.5% were secured by state guaranties, securities or by other means.

#### 4.1.4. Liquidity risk

The Bank's liquidity risk exposures arise from liquidity needs relating to interventions on financial foreign currency markets, and also to fulfil liabilities of both the NBS and the Slovak Government. The reduction of liquidity risk exposures is managed through an intervention portfolio, which was created to cover the anticipated liquidity need. The amount of the portfolio is based on both the anticipated volume of intervention transactions and the repayment schedule of the NBS payments and payments relating to servicing the state debts. When deciding on the amount of the portfolio it is necessary to optimally estimate liquidity needs in order to avoid its insufficiency or relative surplus. The structure, and the approach, and criteria of administering the intervention portfolio follow from requirements for securing the sufficient ability of the NBS to intervene effectively and fulfil its liabilities.

In the Bank, a liquidity portfolio has been established with benchmark duration of five months, and to enable conversion of over 90% of total foreign exchange reserves into cash within 2 – 3 business days.

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The tables analyse assets and liabilities of the NBS by remaining contractual maturity period:

As at 31 December 2002	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non- specified	Total
<b>Assets</b>							
Current accounts and deposits with banks	3 391					658	4 049
Gold		2 893	6 934		5 491	154	15 472
Trading securities	58 096	60 911	91 999	115 425	5 215		331 646
Derivative financial instruments				757			757
Loans to banks and other institutions	24 462	1 289	4 786	21 356	4 113	11	56 017
IMF membership quota						4 623	4 623
Property and equipment						6 582	6 582
Other assets	526	389	4	39	128	233	1 319
<b>Total assets</b>	<b>86 475</b>	<b>65 482</b>	<b>103 723</b>	<b>137 577</b>	<b>14 947</b>	<b>12 261</b>	<b>420 465</b>
<b>Liabilities and equity</b>							
Liabilities to banks and other financial institutions	136 522	707	707	5 533	3 505	660	147 634
Liabilities to state budget	31 737		63 654				95 391
Securities issued	8 530	34 000					42 530
Derivative financial instruments							
Loans from the IMF						4 623	4 623
Currency in circulation						93 898	93 898
Other liabilities	22 058	250	183	106		189	22 786
Capital						467	467
Reserves						36 798	36 798
Accumulated loss						(23 662)	(23 662)
<b>Total liabilities and equity</b>	<b>198 847</b>	<b>34 957</b>	<b>64 544</b>	<b>5 639</b>	<b>3 505</b>	<b>112 973</b>	<b>420 465</b>
<b>Net position</b>	<b>(112 372)</b>	<b>30 525</b>	<b>39 179</b>	<b>131 938</b>	<b>11 442</b>	<b>(100 712)</b>	<b>0</b>

The gold due within three months represents gold deposits, gold due from 3 months to 1 year is represented by gold deposits and gold repo transactions due in October 2003. Category over five years consists of gold repo transactions with a maturity prolonged to 2007 and gold in non-specified category consists of gold in other forms.

The Bank plans a premature partial repayment of the Two Step Loans in 2003 (see Note 13), that are included in the Liabilities to banks and other financial institutions, in the amount of JPY 20 156 million (Sk 6 715 million).

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As at 31 December 2001	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Non- specified	Total
<b>Assets</b>							
Current accounts and deposits with banks	13 552					789	14 341
Gold		6 529		8 042		547	15 118
Trading securities	26 977	25 128	44 168	70 996	15 089		182 358
Derivative financial instruments				696			696
Loans to banks and other institutions	27 638	1 430	4 574	27 514	6 378		67 534
IMF membership quota						5 186	5 186
Property and equipment						6 638	6 638
Other assets	158	284	92	53	130	295	1 012
<b>Total assets</b>	<b>68 325</b>	<b>33 371</b>	<b>48 834</b>	<b>107 301</b>	<b>21 597</b>	<b>13 455</b>	<b>292 883</b>
<b>Liabilities and equity</b>							
Liabilities to banks and other financial institutions	99 632	721	751	14 510	5 328	789	121 731
Liabilities to state budget	13 377						13 377
Securities issued	2 000	3 254					5 254
Derivative financial instruments					178		178
Loans from the IMF						5 186	5 186
Currency in circulation						91 189	91 189
Other liabilities	18 582	270	209	131		152	19 344
Capital						467	467
Reserves						36 157	36 157
Accumulated loss							
<b>Total liabilities and equity</b>	<b>133 591</b>	<b>4 245</b>	<b>960</b>	<b>14 641</b>	<b>5 506</b>	<b>133 940</b>	<b>292 883</b>
<b>Net position</b>	<b>(65 266)</b>	<b>29 126</b>	<b>47 874</b>	<b>92 660</b>	<b>16 091</b>	<b>(120 485)</b>	<b>0</b>

#### 4.1.5. Market risk

The Bank is exposed to market risk from its open foreign currency and interest rate positions.

Since 2001, the Value-at-Risk method of global and benchmark risk measurements has been used in the Bank as a supplementary method for monitoring the foreign exchange asset management. The method is based on probability analysis of various changes in market conditions. The NBS calculates values of individual portfolios and benchmarks on a monthly basis to evaluate both absolute and relative exposures (compared to benchmarks) to risks arising from portfolios with longer average maturity period.

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4.1.6. Operating risk

Operating risk is a risk of direct or indirect loss as a result of inappropriate or incorrect internal processes or working procedures, human or system failure. It includes risk associated with the use of information systems and other potential weaknesses.

Operating risk is very difficult to quantify. NBS manages this risk by setting the limits for individual portfolio managers and working procedures for dealing department. Responsible staff, internal control and NBS audit monitor their compliance.

**5. Current accounts and deposits with banks**

The structure of current accounts and deposits with banks was as follows:

	2002	2001
Foreign currency in cash	31	25
Current accounts	889	857
Term deposits	2 471	12 670
Deposits with the World Bank	658	789
<b>Total</b>	<b><u>4 049</u></b>	<b><u>14 341</u></b>

Deposits with the World Bank earn no interest.

Term deposits with banks are due within 1 month (see Note 4.1.4.).

**6. Gold**

Gold includes the following:

	2002		2001	
	Thousand of Troy ounces	Fair value Sk mil.	Thousand of Troy ounces	Fair value Sk mil.
Gold bullion in standard form	1 116	15 318	1 116	14 959
Gold in other forms	11	154	12	159
<b>Total</b>	<b><u>1 127</u></b>	<b><u>15 472</u></b>	<b><u>1 128</u></b>	<b><u>15 118</u></b>

The market value of the gold is 342.75 USD/Troy ounce as at 31 December 2002 (276.5 USD/Troy ounce as at 31 December 2001).

Gold in standard form includes 516 thousand Troy ounces deposited with correspondent banks, and 600 thousand Troy ounces used in repurchase transactions.

Gold deposits earn a fixed interest in USD paid upon the termination of the respective deposit (see Note 4.1.2.).

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**7. Trading securities**

Trading securities held by the NBS include foreign securities structured as follows:

<i>Issued by</i>	<i>Type of security</i>	2002		2001	
Public sector	State treasury bills	124 463		53 464	
	Medium-term bonds	52 440		33 226	
	Long-term bonds	47 650		43 131	
	Coupon yield on bonds	2 098		2 021	
		<u>226 651</u>		<u>131 842</u>	
Foreign financial institutions	Treasury bills	48 638		6 121	
	Short-term bonds	20 454		9 530	
	Medium-term bonds	24 558		21 706	
	Long-term bonds	10 554		12 464	
	Coupon yield on bonds	791		695	
	<u>104 995</u>		<u>50 516</u>		
<b>Total</b>		<b><u>331 646</u></b>		<b><u>182 358</u></b>	

Foreign trading securities of the public sector include state treasury bills and government bonds issued by EU countries, the USA and Japan.

**8. Derivative financial instruments**

The following table summarises the fair values of derivative financial instruments:

	2002		2002		2001		2001	
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cross-currency swap	5 957	5 775	583	-	7 383	7 865	-	(178)
Interest rate swap	1 652	1 652	29	-	1 750	1 750	9	-
Put options purchased	6 949	8 235	145	-	8 413	8 042	687	-
<b>Total</b>			<u>757</u>	<u>-</u>			<u>696</u>	<u>(178)</u>

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**Cross-currency swap**

In 1997, the Bank received a long-term loan in the amount of JPY 20 000 million (see Note 13). In 1998, the NBS executed a cross-currency swap due in 2010 in order to change the structure of its foreign exchange position. The swap effectively converts the repayment of the JPY loan to a USD basis at variable interest rate in USD. At the beginning of the swap, the Bank exchanged JPY 20 000 million for USD 162 million. During the swap period, the NBS pays the variable interest in USD on a semi-annual basis, and receives a fixed interest in JPY on a semi-annual basis at the rate of 2.40% or 2.60% according to the tranche. The variable interest rate in USD has been chosen with regard to the Bank's portfolio of the average maturity up to 2 years. The first reversal exchange of notional amount of the swap was due in March 2002; next exchanges of notional amounts are due semi-annually. The Bank plans premature termination of the long-term cross-currency swap in 2003.

**Gold interest rate swap**

The NBS executed a long-term gold interest rate swap due in 2005 in order to increase interest income from gold deposit. On a quarterly basis, the Bank pays a variable interest equal to a 3M LIBOR-GOFO in USD, and the counterparty pays a fixed interest on notional amount at the rate of 2.05% in USD. The notional amount is equal to the market price of 129 407 Troy ounces of gold two working days before the beginning of the respective quarter.

**Put option purchased**

In 1998 and 1999 the NBS purchased European put options for gold with basis prices for gold at 295.30 USD/Troy ounce and 259 USD/Troy ounce respectively, for which the Bank paid option premiums in the amount of USD 8 million. One option is due in October 2003. In respect of other options originally due in 2003, the Bank Board decided on prolongation of the maturity until 2007.

**9. Loans to banks and other institutions**

Loans to banks and other institutions include the following:

	2002	2001
Loans granted under repo transactions	23 097	26 047
Two Step Loan and Apex Global Loan	3 274	6 340
Redistribution loans	17 856	21 232
Other loans and amounts due from banks	13 270	16 082
Classified receivables	11	11
Provisions for other loans and classified receivables	<u>(1 491)</u>	<u>(2 178)</u>
<b>Total</b>	<b><u>56 017</u></b>	<b><u>67 534</u></b>

Loans granted to foreign banks under repo transactions are secured with collateral in the form of long-term state bonds in EUR.

The two Step Loan and Apex Global Loan are aimed to support the development of small and medium-sized business in Slovakia and are provided from the sources of the Japan Bank for International Cooperation and the European Investment Bank.

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Credit risk arising from redistribution loans provided by the Bank is eliminated by the state guarantees obtained in 1999 for the total outstanding principal amount including interest and charges. If a debtor fails to settle its obligation at the due date, the respective obligation will be transferred to the Slovak Ministry of Finance, which will realise the aforementioned guarantee.

In 2001 the Bank granted a loan to DPF in the amount of Sk 15 614 million. The balance of the loan as at 31 December 2002 was Sk 13 074 million. Repayments of the DPF loan have not been jeopardized. Loan instalments are linked to legally enforceable membership allotments paid by the domestic banks to DPF.

As at 31 December 2002, provisions for other loans and classified receivables included fair value adjustment provisions for the DPF loan in the amount of Sk 1 480 million and provisions for classified receivables due from AG Banka, Nitra, in the amount of Sk 11 million.

The provision for the DPF loan was created due to granted prime interest rate of 1.5% compared to standard interest rates valid at the time of granting the loan in October 2001. The loan was granted with a fixed interest rate for the whole duration. Use of the provision relates to reflection of real value of the DPF loan as at 31 December 2002.

Movements in provisions:

	2002	2001
As at 1 January	2 178	916
(Release)/creation	(687)	1 262
As at 31 December	<u>1 491</u>	<u>2 178</u>

**10. Deposits and amounts due to the International Monetary Fund (hereinafter "IMF")**

	2002	2001
Membership quota in the IMF	4 623	5 186
<b>Total receivable from the IMF</b>	<u><b>4 623</b></u>	<u><b>5 186</b></u>
Loan tranche	4 623	5 186
<b>Total liability to the IMF</b>	<u><b>4 623</b></u>	<u><b>5 186</b></u>

The IMF membership quota has been denominated in Special Drawing Rights (XDR) and is translated into Slovak crowns by the exchange rate stated by the IMF on a regular basis.

Accounts payable to the IMF represent drawings of a reserve tranche up to the amount of the due membership quota denominated in XDR.

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**11. Property and equipment**

The balance and movements in property and equipment are as follows:

	Land	Other non-depreciated assets	Buildings and structures	Technical equipment & devices	Software	Other	Properties under construction	Total
<b>Balance at cost</b>								
as at 1 January 2002	302	71	1 276	1 297	166	170	4 826	8 108
Additions		6	4 227	570	23	210	358	5 394
Disposals	3		127	65	30	24	5 032	5 281
Transfers		(5)				(2)		(7)
Provisions							(44)	(44)
<b>Balance at cost</b>								
as at 31 December 2002	<u>299</u>	<u>72</u>	<u>5 376</u>	<u>1 802</u>	<u>159</u>	<u>354</u>	<u>108</u>	<u>8 170</u>
<b>Accumulated depreciation</b>								
as at 1 January 2002			205	1 007	130	128		1 470
Accumulated depreciation expensed			66	122	23	44		255
Accumulated depreciation of disposed property and equipment			23	35	30	49		137
<b>Accumulated depreciation</b>								
as at 31 December 2002			<u>248</u>	<u>1 094</u>	<u>123</u>	<u>123</u>		<u>1 588</u>
<b>Net book value</b>								
as at 1 January 2002	<u>302</u>	<u>71</u>	<u>1 071</u>	<u>290</u>	<u>36</u>	<u>42</u>	<u>4 826</u>	<u>6 638</u>
<b>Net book value</b>								
as at 31 December 2002	<u>299</u>	<u>72</u>	<u>5 128</u>	<u>708</u>	<u>36</u>	<u>231</u>	<u>108</u>	<u>6 582</u>

The NBS headquarter's building was put in use in September 2002.

The NBS has concluded a long-term rent contract for administration building at Vazovova street maturing in 2007. Acquisition cost of the building is Sk 186 million, net book value is Sk 149 million as at 31 December 2002. The Bank has no official valuation for the building, but the estimated fair value approximates it's book value. The building is being depreciated in accordance with depreciation plan. Rental income in 2002 was Sk 2 million.

**12. Other assets**

Other assets include the following:

	2002	2001
Equity investments	145	145
Other receivables from debtors	952	776
Other assets	222	91
<b>Total</b>	<u>1 319</u>	<u>1 012</u>

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The NBS has equity investments in the following institutions (at book values):

	Share in capital (%)	2002	2001
Bankové Zúčtovacie Centrum Slovenska, a. s., Bratislava ("BZCS")	39.47	120	120
Bank for International Settlements in Basel, Switzerland	0.50	25	25
<b>Total</b>		<u><u>145</u></u>	<u><u>145</u></u>

Despite the significant influence in the BZCS, the Bank does not prepare consolidated financial statements due to insignificance of the financial investment in BZCS.

**13. Liabilities to banks and other financial institutions**

	2002	2001
<b>Deposits</b>		
Current accounts	22 566	15 278
Monetary reserves of banks	21 374	22 769
World Bank	1 502	1 598
European Investment Bank	1	0
PHARE funds	1	1
Other liabilities to domestic banks	70	0
	<u>45 514</u>	<u>39 646</u>
<b>Loans</b>		
Loans under repo transactions with securities	84 719	59 339
Loans under repo transactions with gold	6 949	8 413
Japan Bank for International Cooperation	9 283	11 554
European Investment Bank in Luxembourg	1 169	1 343
Credit balance in Nostro Account	0	1 436
	<u>102 120</u>	<u>82 085</u>
<b>Total</b>	<u><u>147 634</u></u>	<u><u>121 731</u></u>

The purpose of repo transactions with domestic banks in the amount of Sk 84 719 million (2001: Sk 51 366 million) is to manage the liquidity and the volume of currency in circulation, and are secured with the NBS treasury bills (see Note 15).

From 1994 to 1997, the Bank received long-term loans under the Two Step Loan scheme in JPY from the Japan Bank for International Cooperation that amount to Sk 9 283 million as at 31 December 2002 (2001: Sk 11 554 million). Of the total balance of received loans, the Two Step Loan III received in 1997 in the amount of JPY 20 000 million, is Sk 5 958 million as at 31 December 2002. The loan is due in 2010, with the first payment made in March 2002. The principal and interest on the loan is paid on a semi-annual basis. The interest rate is fixed at 2.4% or 2.6% in JPY, depending on the tranche. The Bank entered into a long-term cross currency swap, which effectively converts the Two Step Loan III repayment and interest to a USD basis (see Note 8).

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The Bank plans a premature partial repayment of the Two Step Loans in 2003 in the amount of JPY 20 156 million (Sk 6 755 million). According to the adjusted repayment calendar, repayment of the residual portion of the Two Step Loans will be by 2005.

**14. Liabilities to the State Budget**

Liabilities to the State Budget are as follows:

	2002	2001
Current accounts of the Slovak Republic	23 185	7 321
Term deposits of the Slovak republic	72 206	6 056
<b>Total</b>	<u>95 391</u>	<u>13 377</u>

The major part of term deposits of the Slovak Republic is from proceeds from privatisation or sale of state assets (see Note 4.1.1).

**15. Securities issued**

	2002	2001
Issue of the NBS treasury bills	42 530	5 254
<b>Total</b>	<u>42 530</u>	<u>5 254</u>

As at 31 December 2002, the NBS issued treasury bills totaling Sk 192 530 million (2001: Sk 145 254 million), of which treasury bills in the amount of Sk 64 355 million (2001: Sk 88 100 million) are in the Bank's own portfolio. The purpose of the aforementioned issue was to create sufficient reserves of securities to perform sterilising repo transactions. Sterilising repo transactions relate to performing the monetary policy in the area of open market transactions.

As at 31 December 2002, the NBS Treasury bills in the amount of Sk 128 175 million (2001: Sk 57 154 million) were used in sterilising activities, thereof Sk 85 645 million (2001: Sk 51 900 million) in the form of collateral for sterilising repo transactions (see Note 13) and Sk 42 530 million (2001: Sk 5 254 million) in the form of direct issue into the domestic bank portfolios.

**16. Currency in circulation**

Currency in circulation represents valid indigenous banknotes and coins issued by the NBS:

	2002	2001
Coins in circulation	2 099	1 926
Banknotes in circulation	91 799	89 263
<b>Total</b>	<u>93 898</u>	<u>91 189</u>

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**17. Other liabilities**

Other liabilities of the Bank include the following:

	2002	2001
Current accounts of clients	966	109
Non-budgetary funds of Slovak authorities and other funds of the Slovak Republic	17 233	16 660
Settlements of special transactions with funds of the Slovak Republic	3 160	1 391
Client term deposits	342	361
Payables to suppliers	75	65
Liabilities to state budget and social security institutions	277	36
Social security funds	189	152
Accruals and estimated liabilities	492	539
Other	52	31
<b>Total</b>	<b><u>22 786</u></b>	<b><u>19 344</u></b>

**18. Equity and reserve funds**

As at 31 December 2002, the NBS's capital is represented by the Statutory Fund in the amount of Sk 467 million taken over from the split of both the assets and liabilities of the former Czechoslovak State Bank ("ŠBČS") as at 1 January 1993.

As at 31 December 2002, reserves include the Legal Reserve Fund in the amount of Sk 10 208 million, and General Reserves in the amount of Sk 26 590 million.

General reserves have been created by allocation from the retained profits and from revaluation of certain financial instruments in accordance with IAS 39 (see Notes 6 and 8).

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**19. Net interest income**

Net interest income includes the following:

	2002	2001
<b>Interest income:</b>		
Interest received from domestic banks	1 282	2 530
Interest received from foreign banks and international institutions	351	195
Interest income from securities	8 921	8 531
Interest income from REPO transactions	596	666
Other interest income	911	56
	<u>12 061</u>	<u>11 978</u>
<b>Interest expense:</b>		
Interest paid to state treasury	(2 920)	(506)
Interest paid to domestic banks	(591)	(528)
Interest paid to foreign banks and international institutions	(346)	(441)
Interest expense from REPO transactions	(5 802)	(2 951)
Other interest expense	(1 356)	(891)
	<u>(11 015)</u>	<u>(5 317)</u>
<b>Net interest income</b>	<u><u>1 046</u></u>	<u><u>6 661</u></u>

**20. Gains from trading securities**

Gains from trading securities include the following:

	2002	2001
Income from trading securities	3 883	3 758
Losses from trading securities	<u>(3 375)</u>	<u>(3 460)</u>
<b>Gains from trading securities</b>	<u><u>508</u></u>	<u><u>298</u></u>

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## 21. Foreign exchange losses

Foreign exchange losses include the following:

	2002	2001
Gains from foreign exchange transactions and revaluations	16 516	9 494
Losses from foreign exchange transactions and revaluations	<u>(40 138)</u>	<u>(12 741)</u>
<b>Foreign exchange losses</b>	<b><u>(23 622)</u></b>	<b><u>(3 247)</u></b>

Increase in foreign exchange losses primary relates to increase in foreign currency assets, strengthening the Slovak Crown (see Note 4.1.1) and to the revaluation of derivative financial instruments.

## 22. Operating expenses

Operating expenses include the following:

	2002	2001
Personnel		
Wages and bonuses	(565)	(522)
Social security expenses	<u>(257)</u>	<u>(171)</u>
Total	<u>(822)</u>	<u>(693)</u>
Fixed asset depreciation	(255)	(196)
Costs of printing banknotes and coins	(241)	(250)
Other operating costs	(815)	(621)
<b>Total operating expenses</b>	<b><u>(2 133)</u></b>	<b><u>(1 760)</u></b>

## 23. Post balance sheet events

No material events occurred after the balance sheet date to the date at which the financial statements had been prepared, that would require adjustment to the 2002 financial statements.

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**24. Reconciliation of net (loss)/profit and equity recognised according to Slovak Accounting Standards ("SAS") and IFRS**

	2002	2001
<b>Net (loss)/profit for the year</b>		
Net (loss)/profit in the SAS Financial Statements	(24 836)	2 326
Creation/(release) of reserve for open foreign currency positions	287	(435)
Trading securities revaluations	935	(314)
Provisions for losses	687	(1 262)
Reclassifications of recorded social security funds and retirement funds to expenses	(86)	0
Other	0	5
Effects of adoption of IAS 39 – Derivative financial instruments	(362)	568
<b>Net (loss)/profit for the year in the IFRS Financial Statements</b>	<b>(23 375)</b>	<b>888</b>
	2002	2001
<b>Equity</b>		
Balance in the SAS Financial Statements	(13 933)	10 952
Reclassifications of social security fund, remuneration fund, and retirement fund to liabilities	(189)	(152)
General reserves classified as liabilities in the SAS financial statements	13 951	12 042
Effect of adoption of IAS 39 – Revaluation of gold to fair value at 31 December 2002	13 278	12 924
Effects of adoption of IAS 39 – Derivative financial instruments	496	858
<b>Equity in the IFRS Financial Statements</b>	<b>13 603</b>	<b>36 624</b>

In 2002, the NBS incurred a SAS loss of Sk 24 836 million (2001: profit of Sk 2 326 million) and reported negative equity of Sk 13 933 million (2001: positive Sk 10 952 million). The Bank Board decided that the 2002 loss will remain unsettled and will be transferred to the next accounting period and settled from profits of future accounting periods and other NBS sources.

As a result of changes in statutory accounting legislation effective from 1 January 2003, the equity of the Bank in the SAS financial statements as of that date is Sk 1 354 million (positive). As of 1 January 2003, the main difference between the SAS and IFRS equity is a Reserve for Open Foreign Currency Position which remains classified as a liability in the SAS financial statements.