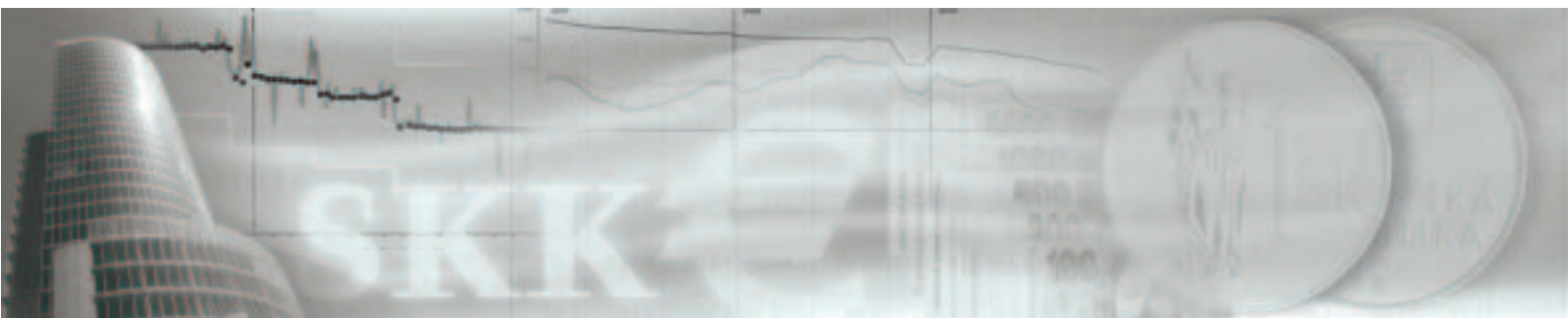


G. REPORT OF INDEPENDENT AUDITORS



REPORT OF INDEPENDENT AUDITORS

To the Bank Board of the Národná banka Slovenska:

- 1 We have audited the accompanying financial statements of Národná banka Slovenska („the NBS“) for the year 2003, that comprises the balance sheet as of 31 December 2003, the related statement of income for the year then ended and the notes thereto. These financial statements are the responsibility of the Bank Board of Národná banka Slovenska. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit 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 from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- 3 In our opinion, the financial statements present fairly, in all material respects, the financial position of Národná banka Slovenska as of 31 December 2003 and the results of its operations for the year then ended in accordance with the Accounting Act of the Slovak Republic and related accounting regulation.



PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No.: 161





Ing. Ján Bubeník
SKAU licence No.: 544

Bratislava, 4 March 2004

BALANCE SHEET
of Národná banka Slovenska at 31 December 2003
in thousands SKK

ASSETS

Line		Notes	Gross value 1	Current year Adjustment 2	Net value 3	Previous year 31.12.2002 4
I	Cash and deposits in foreign banks of issue		28 462		28 462	31 153
	of which: Cash		28 462		28 462	31 153
II	Government bonds without coupons and other securities accepted by the NBS for refinancing					
	a) government bonds					
	b) other securities					
III	Receivables from clients	10.2	8 053 036	15 111	8 037 925	10 148 645
	a) current accounts		8 772		8 772	8 117
	b) standard loans		184 549		184 549	191 157
	c) standard loans with qualification and classified loans		30 205	15 111	15 094	58 200
	d) accounts of government bodies, local government bodies, and funds		7 829 510		7 829 510	9 891 171
IV	Debt securities	7.1	336 661 173		336 661 173	329 943 492
	a) of government bodies	7.1	236 732 600		236 732 600	225 277 500
	b) of other entities	7.1	99 928 573		99 928 573	104 665 992
V	Shares and other investments	7.3	162 677		162 677	24 784
VI	Shares and ownership interests in companies with significant influence	7.2	108 000		108 000	120 000
	a) banks					
	b) other entities		108 000		108 000	120 000
VII	Shares and ownership interests in companies with controlling influence					
	a) banks					
	b) other entities					
VIII	Intangible fixed assets		165 449	140 000	25 449	38 386
	a) software		162 292	138 680	23 612	36 297
	b) other intangible fixed assets		3 157	1 320	1 837	2 089
IX	Tangible fixed assets		8 927 177	2 136 510	6 790 667	6 543 763
	a) land and buildings for operating activities		5 677 419	455 382	5 222 037	5 327 444
	b) other tangible fixed assets		3 249 758	1 681 128	1 568 630	1 216 319
X	Other assets		15 945 707	39 526	15 906 181	1 312 780
	of which: Gold	6	15 482 480		15 482 480	1 025 851
XI	Accruals and prepayments		15 255		15 255	433 764
XII	Receivables from the International Monetary Fund	9	4 197 381		4 197 381	4 668 837

ASSETS

Line	Notes	Gross value 1	Current year Adjustment 2	Net value 3	Previous year 31.12.2002 4
XIII	Receivables from banks of the European System of Central Banks	112 387		112 387	
XIV	Receivables from other foreign entities	49 871 262		49 871 262	26 278 725
	of which: Repurchase transactions	10.1 40 661 729		40 661 729	23 099 192
XV	Loans to domestic banks	12 8 009 465	10 848	7 998 617	11 712 498
XVI	Other receivables from domestic entities	10 399 710		10 399 710	13 253 531
	TOTAL ASSETS	442 657 141	2 341 995	440 315 146	404 510 358
	Special agenda of the NBS	11 483 246	15 094	11 468 152	6 094 660
	Receivables of the state from foreign institutions	6 500 423		6 500 423	8 667 155

LIABILITIES

Line	Notes	Current year 5	Previous year 31.12.2002 6
I	Liabilities to clients	19 413 166	18 548 635
	a) current accounts	159 654	965 330
	b) term deposits	1 197 812	342 523
	c) special-purpose deposits		
	d) accounts of government bodies, local government bodies, and funds	18 055 700	17 240 782
II	Liabilities from debt securities		
	a) issued debt securities		
	b) other liabilities from debt securities		
III	Other liabilities	3 890 547	5 091 557
IV	Accruals and deferred income	2 698	859
V	Provisions	17	15 032 943
VI	Subordinate financial liabilities		
VII	Liabilities to the International Monetary Fund	9	4 155 546
VIII	Liabilities to banks of the European System of Central Banks		
IX	Liabilities to other foreign entities	36 322 174	11 399 101
	of which: Repurchase transactions	13 33 466 694	
X	Monetary reserve accounts of banks with the NBS	11 504 998	21 407 372
XI	Securities issued by the NBS	15	55 759 761
XII	Other liabilities to domestic entities	123 497 930	107 532 965
	of which: Repurchase transactions	13 105 753 442	84 895 478
XIII	Banknotes and coins in issue	16	102 546 365
XIV	Account of the government	14	17 075 247
XV	Government funds and other offsets against the national budget	14	11 026 001
XVI	Offsetting special transactions with funds of the Slovak republic	14	71 380 880
XVII	Capital (Statutory fund)	466 667	466 667
XVIII	Reserve funds and other profit reserves	10 164 859	10 164 859
	a) legal reserve fund		
	b) reserve fund	10 164 859	10 164 859
	c) other profit reserves		
XIX	Other capital funds	76 670	82 435
XX	Valuation variances	6	13 289 763
	a) fund for the revaluation of gold		13 289 763
	b) from revaluation of hedging derivatives		
	c) from revaluation of shares and ownership interests		

LIABILITIES

Line	Notes	Current year 5	Previous year 31.12.2002 6
XXI Gain/losses from revaluation of assets and liabilities from previous y	18	15 900 550	
XXII Loss carried forward	18	-24 836 019	
XXIII Profit/(loss) for the period	18	-31 434 297	-24 836 019
TOTAL LIABILITIES		440 315 146	404 510 358
Special agenda of the NBS		18 555 046	10 984 815
Liabilities of the state to foreign institutions		6 500 423	8 667 155

Off-balance sheet

OFF-BALANCE SHEET ASSETS

Line	Notes	Current year 1	Previous year 31.12. 2002 2
I	Receivables from future loans, borrowings, and guarantees		17 150
	a. receivables from future loans and borrowings		17 150
	b. guarantees and liabilities granted		
II	Guarantees granted		
	a. immovables		
	b. cash		
	c. securities		
	d. other		
III	Receivables from spot transactions with		
	a. interest-rate instruments		
	b. currency instruments		
	c. share instruments		
	d. commodity instruments		
	e. credit instruments		
IV	Receivables from futures and forwards with:	3 051 015	8 777 177
	a. interest-rate instruments	8 1 777 518	1 652 201
	b. currency instruments	1 273 497	7 124 976
	c. share instruments		
	d. commodity instruments		
	e. credit instruments		
V	Receivables from transactions with options with:	3 770 502	6 949 534
	a. interest-rate instruments		
	b. currency instruments	8 3 770 502	6 949 534
	c. share instruments		
	d. commodity instruments		
	e. credit instruments		
VI	Receivables written off	6 128	25
VII	Values given to custody and administration	11 433	131 434
VIII	The NBS's own values for depositing	274 706 238	234 155 091
IX	Balancing and suspense accounts	162 812 934	142 708 689
	TOTAL OFF-BALANCE-SHEET ASSETS	444 358 250	392 739 100

OFF-BALANCE-SHEET LIABILITIES

Line	Notes	Current year 1	Previous year 31.12. 2002 2
I	Commitments from future loans, borrowings, and guarantees		
	a) commitments from future loans and borrowings		
	b) guarantees and liabilities received		
II	Guarantees received	58 488 922	47 376 751
	a) immovables		
	b) loans	24 17 732 008	22 850 407
	c) securities	591 560	719 432
	d) other	242 197	709 613
	e) collaterals - securities	23 39 923 157	23 097 299
III	Liabilities from spot transactions with:		
	a. interest-rate instruments		
	b. currency instruments		
	c. share instruments		
	d. commodity instruments		
	e. credit instruments		
IV	Liabilities from futures and forwards with:	2 908 346	14 377 060
	a. interest-rate instruments	8 1 777 518	1 652 201
	b. currency instruments	1 130 828	12 724 859
	c. share instruments		
	d. commodity instruments		
	e. credit instruments		
V	Liabilities from transactions with options with:	5 496 751	1 167 465
	a. interest-rate instruments		
	b. currency instruments	8 5 496 751	1 167 465
	c. share instruments		
	d. commodity instruments		
	e. credit instruments		
VI	Values taken to custody and administration	48 227	1 661 106
VII	The NBS's own values for depositing	377 416 004	328 156 718
VIII	Balancing and suspense accounts		
	TOTAL OFF-BALANCE SHEET LIABILITIES	444 358 250	392 739 100

Signature of a member (members) of the legal entity's statutory body:

Person responsible for bookkeeping (name, surname, signature):

Person responsible for the statements (name, surname, signature):

Date: 4 March 2004

Prepared by:
Marta Drescherová

Imprint of the stamp:

Národná banka Slovenska
Bratislava

-194-

Ing. Milena Koreňová

Ing. Katarína Taragelová

Phone No.: 5787 2310

INCOME STATEMENT
of Národná banka Slovenska at 31 December 2003
in thousands of SKK

Line	Notes	Current year 1	Previous year 31.12. 2002 2
I	Interest income and similar revenues	10 679 099	9 304 680
	a) interest on debt securities	8 194 898	5 947 960
	b) interest on repurchase transactions	908 858	596 101
	c) interest on derivative transactions	91 355	206 543
II	Interest expense and similar costs	-18 131 271	-12 585 026
	a) interest on debt securities	-3 094 223	-1 312 670
	b) interest on repurchase transactions	-7 451 002	-5 801 955
	c) interest on derivative transactions	-69 929	-257 474
III	Revenues from shares and ownership interests in companies:	28 639	30 848
	a) revenues from shares and ownership interests in companies with significant influence		
	b) revenues from shares and ownership interests in companies with controlling influence		
	c) revenues from shares and other ownership interests in companies	28 639	30 848
IV	Revenues from fees and commissions	144 466	130 004
V	Fees and commissions expenses	-61 391	-32 564
VI	Net profit or net loss from financial transactions	-22 162 670	-20 323 952
VII	Other financial income	17 068	28 653
VIII	Other financial costs	-151 723	-269 297
IX	General operating expenses	-1 155 523	-1 246 010
	a) staff costs	-662 912	-731 411
	aa) salaries	-495 524	-560 821
	ab) social and health insurance	-167 388	-170 590
	b) other general operating expenses	-492 611	-514 599
X	Other operating income	46 434	192 194
XI	Other operating expenses	-133 720	-342 129
XII	Use of provisions and valuation allowances for tangible and intangible assets	5 987	
	a) use of provisions for tangible assets		
	b) use of valuation allowances for tangible assets	5 987	
	c) use of valuation allowances for intangible assets		

Line	Notes	Current year 1	Previous year 31.12. 2002 2
XIII	Depreciation, set-up of provisions and valuation allowances for tangible and intangible assets	-522 079	-292 678
	a) depreciation of tangible assets 11	-451 959	-231 958
	b) set-up of provisions for tangible assets 12	-52 412	-37 767
	d) depreciation of intangible assets 11	-17 708	-22 953
	e) set-up of valuation allowances for intangible assets		
XIV	Use of provisions and valuation allowances for receivables and guarantees, income from assigned receivables and receivables written off	127 903	612
	a) use of provisions for receivables and guarantees		322
	b) use of valuation allowances for receivables and for receivables from guarantees	127 903	290
	c) income from assigned receivables and from receivables written off		
XV	Depreciation, set-up of provisions and valuation allowances for receivables and receivables from guarantees	-53 206	-106 314
	a) set-up of valuation allowances for receivables and for receivables from guarantees	-47 102	-106 298
	b) set-up of provisions for receivables and for receivables from guarantees		
	c) set-up of provisions for guarantees		
	d) written off receivables and receivables from payments for guarantees, loss from assigned receivables	-6 104	-16
XVI	Use of valuation allowances for shares and ownership interests in companies with controlling and substantial influence		
XVII	Set-up of valuation allowances for shares and ownership interests in companies with controlling and substantial influence		
XVIII	Use of other provisions		14 184 501
XIX	Set-up of other provisions 17	-111 640	-13 727 281
XX	Use of other valuation allowances		786 631
XXI	Set-up of other valuation allowances		-579 019
XXII	Profit/(loss) for the period from ordinary activities before the transfer from profit	-31 433 627	-24 846 147
XXIII	Extraordinary income		49 595

Line	Notes	Current year 1	Previous year 31.12. 2002 2
XXIV	Extraordinary expenses		-38 727
XXV	Profit/(loss) for the period from extraordinary activities before the transfer from profit		10 868
XXVI	Income tax - withholding tax	-670	-740
XXVII	Transfer from profit		
XXVIII	Profit/(loss) for the period after transfer from profit	18	-24 836 019
A	Total expenses	-68 021 037	-69 940 485
B	Total income	36 586 740	45 104 466

Date:
4 March 2004

Prepared by:
Viera Lamošová

Signature of a member (members) of the legal entity's statutory body:

Imprint of the stamp:

Národná banka Slovenska
Bratislava
-194-

Person responsible for bookkeeping (name, surname, signature):

Ing. Milena Koreňová

Person responsible for the statements (name, surname, signature):

Ing. Katarína Taragelová

Phone No.: 5787 2310

Notes to the financial statements as at 31 December 2003

Bratislava, 4 March 2004

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

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 Act No. 566/1992 Coll. on the National Bank of Slovakia as amended (“the NBS Act”). It commenced its activities on 1 January 1993 as the central bank of the Slovak Republic. NBS is a legal entity (Corporate ID: 30 844 789) with its seat at Imricha Karvaša 1, Bratislava. With regard to its own assets, 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, therefore the NBS:

- determines the monetary policy,
- issues banknotes and coins,
- manages and co-ordinates money circulation, domestic payment system, and clearing payment system,
- supervises the safe functioning of the banking system and bank activities,
- represents Slovakia in international financial institutions and ensures fulfilment of tasks resulting from such representations,
- represents Slovakia in world financial market operations related to the implementation of the monetary policy.

The NBS’s supreme managing body is the NBS Bank Board (“the Bank Board”). According 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 the vice-governors are appointed and withdrawn by the president of Slovak Republic. Executive directors and other members of the Bank Board are appointed and withdrawn by the government of the Slovak Republic. According to Act No. 149/2001 Coll. of 6 April 2001 amending the NBS Act valid from 1 May 2001, the term of the office of Bank Board members is five years. Until 30 April 2001, the term of office of the governor, vice-governors and the executive directors was six years. The term of office of other Bank Board members was four years. Membership of the Bank Board is limited to maximum of two consecutive terms of office. The NBS is represented by the governor.

In 2003, the members of the Bank Board were as follows:

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

For their activities performed in the Bank’s managing body, the Bank Board members received compensation totalling SKK 5,760 thousand paid from the remuneration fund in 2003 (in 2002 SKK 6,240 thousand).

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

2. Method for preparing the financial statements

The financial statements of the NBS for 2003 have been prepared in accordance with generally binding legal regulations, in particular:

- the Act on Accounting No. 431/2002 Coll. ("Act on Accounting"),
- the Directive No. 20 359/2002-92 of the Ministry of Finance of the Slovak Republic dated 13 November 2002 as amended by the Directive No. 13 593/2003-92 of the Ministry of Finance of the Slovak Republic dated 17 June 2003 that sets out details on accounting procedures and the general chart of accounts for banks, branches of foreign banks, the NBS, the Deposit Protection Fund, dealers with securities, branches of foreign dealers with securities, the Guarantee Fund for Investments, asset management companies, branches of foreign asset management companies, and unit trusts ("the Directive"),
- the Directive No. 21 832/2002-92 of the Ministry of Finance of the Slovak Republic dated 10 December 2002 that sets out details on the arrangement, the description of items in individual financial statements, the contents of these items, and the extent of data from the financial statements designated for publishing for banks, branches of foreign banks, the NBS, the Deposit Protection Fund, dealers with securities, branches of foreign dealers with securities, the Guarantee Fund for Investments, asset management companies, branches of foreign asset management companies, and unit trusts.

The financial statements have been prepared as ordinary financial statements at 31 December 2003.

As the structure of the balance sheet and the income statement has changed as of 1 January 2003, the comparatives (from 1 January 2002 to 31 December 2002) presented in the financial statements have been adjusted accordingly, with no impact to the profit/(loss) or equity.

The total amount of assets and liabilities presented in the financial statements at 31 December 2002 (SKK 603,817,061 thousand), in compliance with the Directive No. 65/356/1996 of the Ministry of Finance of the Slovak Republic, differs from the total amount of assets and liabilities disclosed in these financial statements (SKK 404,510,358 thousand disclosed as Previous year) as certain asset and liability items have been excluded to ensure comparability for the financial statements, under the requirements of the Act on Accounting. The following items have been excluded:

- Receivables from and liabilities to the International Monetary Fund (SKK 21,074,821 thousand), accounted for under the gross method until 31 December 2002;
- NBS treasury bills provided as collateral in sterilising repurchase transactions (SKK 85,645,000 thousand), accounted for under the methodology applicable until 31 December 2002, based on which the Bank recognised both the loan received and the securities provided as well as the receivable relating to the securities provided;
- Securities accepted as collateral in repurchase transactions (SKK 23,097,299 thousand), accounted for under the methodology applicable until 31 December 2002, under which the Bank recognised the loan provided, the accepted securities and the liability to return these securities on balance sheet;
- NBS treasury bills in the Bank's portfolio (SKK 64,355,000 thousand), accounted for under the methodology applicable until 31 December 2002, based on which the Bank recognised in the balance sheet securities and liabilities from the issue of securities that were not sold or provided in repurchase transactions at 31 December 2002;

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

- Suspense accounts of foreign exchange transactions (SKK 4,476,408 thousand), accounted for under the gross method until 31 December 2002;
- Deposits of the Slovak Republic with the World Bank (SKK 658,090 thousand), accounted for under the gross method; and
- A settlement with the national budget (SKK 85 thousand).

The 2002 annual financial statements were approved at the 6th meeting of the Bank Board on 14 March 2003.

3. Accounting principles and accounting methods applied

3.1. Changes in the accounting principles and methods at 1 January 2003

According to the Accounting Act and the Directive, differences from changes in accounting principles and methods were recognised at 1 January 2003. Differences from the changes in accounting principles and accounting methods were recognised in 2003 financial statements and resulted in an increase of the Bank's equity by SKK 29,178,685 thousand. At 1 January 2003 this was attributable to the following:

- The reserve for valuation of gold in the amount of SKK 13,278,135 thousand to reflect the fair value of gold (refer Note 6).
- Initial revaluation to reflect the fair value of securities increased the Bank's equity by SKK 1,702,898 thousand (see Note 7.1).
- Initial revaluation to reflect the fair value of financial derivatives increased the Bank's equity by SKK 495,388 thousand (see Note 8).
- The release of provision for foreign exchange losses from the Bank's open foreign exchange position increased the Bank's equity by SKK 13,727,281 thousand (see Note 17).
- Reclassification of art, museums and galleries from balance sheet to off-balance sheet items reduced the Bank's equity by SKK 25,017 thousand.

3.2. Accounting event

In accordance with the Directives, the Bank posts an accounting entry on the day the accounting event has occurred, i.e. on the day when cash was paid or received, in case of direct debit on the payment day when withdrawing money from a third party account, on the transaction date in case of securities, derivative financial instruments, and gold, on the day the guarantee was issued or received in case of guarantees, in case of cash in foreign currency on the day it was credited according to a message received, in case of property on the day the property title was acquired or terminated, and on the identification day in case of a shortage, deficit, or surplus.

Interest income and interest expense, fees and commissions are recognised when incurred. All costs and expenses are accounted for and disclosed in the financial statements in accordance with the accrual principle.

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

3.3. Principles for classifying receivables

In accordance with the Accounting Act and the Bank's internal regulations, the Bank assesses the level of risk related to receivables. These receivables are classified and provision set up in order to comply with the principle of fair presentation in accounting. Based on the risk assessment the Bank classifies receivables into the following categories: standard, standard with qualification, non-standard, doubtful, and lost.

Bad debts are written off based on a court decision or upon the resolution of the Bank's Board and the related provisions are released into revenues without affecting the profit/(loss).

3.4. Conversion of foreign currencies

Assets and liabilities in foreign currencies are converted to Slovak crowns applying NBS rate on the day of the accounting event and exchange rate at 31 December 2003 for the financial statements. All exchange gains and losses are recorded in the income statement.

Exchange rates of main foreign currencies applied for the valuation of assets and liabilities at 31 December:

Currency	Amount	2003	2002
EUR	1	41.161	41.722
USD	1	32.920	40.036
JPY	100	30.779	33.511
XDR	1	48.742	54.226

3.5. Repurchase and reverse repurchase transactions

From 1 January 2003, in line with changes in the Directives, transactions in which the Bank accepted securities in exchange for cash, along with the commitment to return these securities at a certain date in exchange for the transferred cash amount plus interest (reverse repurchase transaction), are disclosed as loans provided. The collateral accepted in the reverse repurchase transaction is recorded at fair value on the off-balance sheet and fair valued when preparing the financial statements. The revaluation of the collateral does not have impact on either balance sheet or the income statement.

Transactions in which the Bank provided securities or gold in exchange for cash, along with the commitment to accept these securities or gold at a certain date in exchange for the original cash amount plus interest (a repurchase transaction), are shown as received loans with a transfer of a collateral. The collateral provided in a repurchase transaction remains on balance sheet and is fair valued when the financial statements are prepared.

Except for repurchase and reverse repurchase transactions performed by the Bank directly, the Bank has authorised, based on the Securities Lending Agreements, certain banks to trade in securities held by the Bank. Based on these agreements, the selected banks provide securities held by the NBS in the name of the Bank in exchange for cash, along with the commitment to accept these securities back (a repurchase transaction), and subsequently accept securities on the NBS's account in exchange for cash from the previous repurchase transaction, along with the commitment to return these securities (reverse repurchase transactions), or invest the cash

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

received into term deposits under agreed limits. In these transactions, the Bank receives part of the revenue (which is the difference between the cost of the repurchase transactions and revenues from reverse repurchase transactions or term deposits) that is disclosed in the income statement. Transactions with the NBS securities performed under the Securities Lending Agreements were not disclosed on balance sheet at 31 December 2003 and on balance sheet at 31 December 2002 (see Note 20).

The Bank's market and credit risks in these transactions are minimised by specification of instruments in which the cash received can be invested, and there are limited counter-parties with whom deals are allowed to be performed.

3.6. Provisions

Provisions are liabilities of uncertain timing or amount that have arisen from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits, that can be measured under the Accounting Act, and that are disclosed in financial statements.

Since 1 January 2003, it is not allowed, according to the Accounting Act and the Methodical instruction No. 24 658/2003-92 of the Ministry of Finance of the Slovak Republic, to set up provisions for covering general banking risks.

At 1 January 2003, the provision for covering future foreign exchange losses from the open foreign currency position was cancelled and had an impact on the Bank's equity. At 31 December 2003, the NBS set up provisions for liabilities to employees (see Note 17).

3.7. Currency in circulation

The NBS administers issue of banknotes and coins and withdrawal of banknotes and coins from circulation. The respective liability from the issue of currency in circulation is stated on the balance sheet at its nominal value.

3.8. Cost of employee benefits

The social fund, the remuneration fund, and the retirement fund that the NBS set up prior to 1 January 2003 to cover employee benefits were transferred to the respective liability accounts, in accordance with changes in the Directive.

The NBS makes regular contributions to the Social Insurance Agency for health, retirement, sickness, and unemployment insurance, and a contribution to the Guarantee Fund. Contributions are paid in the amounts required by law in the respective year. The Bank also pays a contribution for not employing the obligatory percentage of persons with a disability, as set out in the Employment Act.

In co-operation with agencies offering additional retirement insurance, the NBS has created an additional pension scheme for its employees.

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

3.9. Taxation

The NBS is entity liable to corporate income tax, where, according to § 18 of Act No. 366/1999 Coll. on Income Tax as amended ("Income Tax Act"), only income taxed by a special tax rate is subject to the corporate income tax.

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

3.10. Distribution of profit/(loss) and transfer payments from profit

According to § 38 of the NBS Act, during the accounting period the Bank generates either profit or loss. Profit generated is allocated to statutory reserve fund and to other profit reserves, or for settling losses carried forward. The remaining profit is transferred to the national budget or, upon the Slovak Government's decision, to state financial assets under a special regulation.

The NBS may settle the loss for the current accounting period from the statutory reserve fund or from other reserves, or the Bank's Board may decide to transfer the unsettled loss to the retained loss account (see Note 18).

4. Valuation methods

In the valuation of assets and liabilities, the NBS followed §§ 24 to 28 of the Accounting Act. At the day of the accounting event, assets and liabilities are stated either at acquisition cost, at their nominal value, production costs, or their replacement costs (§ 25 Sec 1 of the Accounting Act). At the balance sheet date, individual items of assets and liabilities are re-valued as follows (§ 27 Sec 1 of the Accounting Act):

- securities at their market value, or at the value based on an appropriate estimate, except for shares in the registered capital of commercial companies and securities issued by the Bank; and
- derivatives at their market value, or at the value set by an expert valuation.

If there is no objective fair value available to the Bank used the valuation methods in accordance with § 25 of the Accounting Act.

4.1. Gold

Gold is recorded at its fair value based on the market price of London's commodity market morning fix of gold in USD/oz. Changes in the fair value of gold are recorded through equity. The sale of gold is reflected in the income statement.

As a result of gold revaluation to its fair value at 1 January 2003, a valuation reserve was created, the balance of which represented the difference between the market price of gold at 31 December 2002 of 342.75 USD/oz. and its historical acquisition cost of 62.54451 SKK/g (see Note 6). When selling gold, the revaluation reserve is transferred to the profit/(loss) for the current period.

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Until 31 December 2002, swap transactions with gold were recorded off-balance sheet. Since 1 January 2003, these transactions are recorded in accordance with the effective regulations as repurchase transactions with gold. This means that gold used in these transactions as a collateral is part of the balance sheet amount under the item Gold.

4.2. Securities in the portfolio

According to the Accounting Act and the Directive, based on purposes of acquisition, the Bank classifies securities into the following categories:

- securities held for trading,
- securities available for sale,
- securities held to maturity,
- securities originated by the enterprise, not designated for trading, and
- shares and investments in companies with controlling influence and in companies with significant influence.

Valuation of securities is done in line with § 24 and § 27 of the Accounting Act.

4.2.1. Securities held for trading and available for sale

At 1 January 2003, the Bank classified securities held in its portfolio into the held-for-trading and available-for-sale categories. Fair value adjustment at 1 January 2003 was recorded to Bank's equity. Subsequent changes to the fair value are recorded to profit and loss account.

As of 2003, when initially recognised, bonds without coupons are stated at their acquisition cost that is gradually increased by the accrued difference between the acquisition cost and the nominal value – the discount. This accrued discount forms part of interest income.

Bonds with coupons, when initially recognised, are stated at net acquisition cost (without the purchased coupon) that is gradually adjusted for the accrued difference between the net acquisition costs and the nominal value (discount or premium) that is part of interest income. The coupon is an interest income that is accrued on a monthly basis. At the balance sheet date, securities classified as held for trading or available for sale are fair valued, fair values being the market price. If the market price is not available, an appropriate estimate is used.

Upon disposal, securities are disposed at the weighted average cost. This valuation method is used only for the same type of securities, if they are from the same issuer and in the same currency.

4.2.2. Shares and ownership interests in companies with significant influence

The Bank has a stake and ownership interest with significant influence in the company RVS, a.s. Bratislava (see Note 7.2). Based on the resolution of the General Meeting, the company Bankové zúčtovacie centrum Slovenska, a.s. Bratislava (The Slovak National Clearing Centre) has been transformed into RVS, a.s. By the entry into the Commercial Register on 17 September 2003, the company's business name, statutes, and executive body have been changed. Shares of RVS, a.s. Bratislava are stated at acquisition cost.

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4.2.3. Other investments

The Bank has an investment in the Bank for International Settlement, Basel, Switzerland ("BIS"). Shares in the BIS are stated at acquisition cost. The equity interest in the BIS is disclosed in the amount of the paid-up share (25%). The unpaid part (75%) is due upon request.

Upon the BIS General Meeting's resolution, the clearing unit "golden frank" has changed, as of 1 April 2003, to a new clearing unit – Special Drawing Rights (SDR). After transfer to the new clearing unit, both the number of shares and the share in the capital remained unchanged. Dividends are paid out from the total of the NBS's share in the BIS in Swiss francs (see Note 7.3).

4.3. Derivative financial instruments

Derivative financial instruments represent fixed and option contracts that the NBS recorded on its off-balance sheet accounts at the value of the underlying instrument till 31 December 2002. In accordance with the intent of purchase, derivative financial instruments have been classified as held for trading as of 1 January 2003, as these instruments did not meet criteria for classification for hedging. In spite of this, the Bank does not hold them in order to gains benefits from short-term market price movements, foreign exchange or interest rate changes. As of 1 January 2003, according to the effective regulations, derivative financial instruments are recorded on the balance sheet at their fair value. The initial fair value adjustment of derivative financial instruments at 1 January 2003 was recorded in the Bank's equity (see Note 3.1).

Derivative financial instruments are recorded at fair value, based on market prices, discounted cash flows, or from the Black-Scholes model in case of options. Changes in fair values are recorded to the income statement.

4.4. Loans and provisions

Loans are disclosed at the principal amount increased by the accrued interest less any provisions for potential losses. The set-up, use and the release of provisions are recorded to the income statement.

4.5. Securities issued

The Bank issues short-term securities falling due within one year (the NBS treasury bills). In 2003, they were issued for creating a sufficient stock of securities to perform sterilising repurchase transactions. Sterilising repurchase transactions were connected with the implementation of the monetary policy in transactions on the open market.

From the settlement date of the issue to the due date, the valuation of issued and sold NBS treasury bills is gradually increased by the accrued interest expense (the so-called accumulated value). On the balance sheet, the issued NBS treasury bills are shown set off by any bills repurchased to the NBS portfolio, including the accrued interest.

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4.6. Non-current assets

Non-current assets include tangible and intangible assets, the acquisition cost of which is higher than the limit set out in the Income Tax Act as amended and the economic useful life is longer than one year. On the balance sheet, they are stated at cost, including the related acquisition costs. The book value of depreciated non-current assets is shown net of accumulated depreciation. The respective valuation allowance reflects the difference between the lower realisable value of the asset and its carrying value after deducting the accumulated depreciation. Land, collections of art, and tangible fixed assets under construction are not subject to depreciation.

The NBS's non-current assets were classified into individual depreciation groups and depreciated on a straight-line basis in accordance with the depreciation plan effective as of 1 January 2003.

Depreciation group	2003		2002	
	Depreciation period in years	Annual depreciation rate in %	Depreciation period in years	Annual depreciation rate in %
1. Office equipment, data processing machines, passenger cars and vans	4	25.0	4	25.0
2. Devices and personal technical equipment	6	16,7	8	12,5
3. Security equipment	12	8,4	15	6,7
4. Energy equipment	20	5	30	3,4
5. Buildings and structures	30	3,4	40	2,5
6. Objects and subjects depreciated under a special rate	separately specified	separately specified	separately specified	separately specified

4.7 Inventories

Inventories are stated at cost, i.e. including the costs related to their acquisition.

5. The use of financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

The NBS's balance sheet contains, to a large extent, financial instruments. These instruments expose the Bank to several financial risks. The main objective is to ensure the minimum level of risks related to the administration of financial instruments, including the derivatives. This means that the most important task is safe administration of financial instruments. All other criteria are subordinated to this goal.

To ensure these goals, the Bank sets principles for administering financial instruments. These principles set out types and limits for the acceptable risk relating to the operation of the NBS as a conservative investor on financial and capital markets.

The Bank uses and recognises gold as a financial instrument (see Notes 4.1 and 6).

Derivative financial instruments are recorded on balance sheet at their fair value. As the conditions for assessing fixed and option contracts the Bank has concluded in the past they do not meet criteria for hedge accounting, therefore the Bank has classified these derivative financial instruments as trading.

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5.1. Credit risk

Credit risk management is a priority for the Bank, as the entire investment may be lost if a contractual partner defaults.

To reduce the credit risk, limits are set for investments that should prevent the concentration of risk of single issuer. Limits for individual issuers or counter-parties, as well as for individual types of transactions, are continuously adjusted according to rating changes or to market conditions. The NBS uses the regularly updated data of the Fitch rating agency as the main source of information for assessing the quality of its transaction partners. For assessing the quality of securities the Bank is trading in, the assessments of the Standard & Poor's and Moody's rating agencies are used. At the end of 2003, about 90% of investments were allocated into debt instruments with the highest AAA rating – issued by governments of the G7 countries, the BIS, agencies sponsored by the US Administration, or into mortgage bonds of the public sector in Germany. Up to 10% of investments were deposit and repurchase transactions with selected financial institutions and transactions with gold.

The credit risk from repurchase transactions is minimised, as all loans are secured by high-liquidity securities collateral with the highest investment rating.

Loans that the NBS has granted to domestic financial and other institutions are secured by state guarantees (see Note 24), and monitoring the indebtedness of these institutions significantly reduces the credit risk.

The analysis of loans granted by the remaining time to maturity at 31 December 2003:

	due within 1 month	due within 1 – 3 months	3 months – 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Foreign banks	35 718 222	4 943 507					40 661 729
Loans granted in repurchase transactions in foreign currency	35 718 222	4 943 507					40 661 729
Domestic banks	234 564	172 461	1 198 441	2 770 338	3 622 813		7 998 617
Redistribution loans	234 564		1 052 701	1 876 416	3 428 295		6 591 976
Loans granted to domestic banks for supporting business activities from JBIC and EIB funds in SKK		124 320	99 586	783 338	193 955		1 201 199
Loans granted to domestic banks for supporting business activities from EIB funds in foreign currency		48 141	46 154	110 584	563		205 442
Other financial institutions	751 572		2 335 776	7 224 787			10 312 135
Total loans to banks	36 704 358	5 115 968	3 534 217	9 995 125	3 622 813		58 972 481
Standard loans	138 289	1 150 106	1 152 120	5 443 069	139 247		8 022 831
Employees	8 779	106	2 120	43 069	139 247		193 321
General Government	129 510	1 150 000	1 150 000	5 400 000			7 829 510
Classified loans	15 094						15 094
Non-financial organisations	15 094						15 094
Total loans to clients	153 383	1 150 106	1 152 120	5 443 069	139 247		8 037 925
Total	36 857 741	6 266 074	4 686 337	15 438 194	3 762 060		67 010 406

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The analysis of loans granted by the remaining time to maturity at 31 December 2002:

	due within 1 month	due within 1 – 3 months	due within 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Foreign banks	23 099 192						23 099 192
Loans granted in repurchase transactions in foreign currency	23 099 192						23 099 192
Domestic banks	608 240	375 497	1 381 976	4 961 756	4 385 029		11 712 498
Redistribution loans	608 240		1 089 728	2 816 878	3 837 321		8 352 167
Loans granted to domestic banks for supporting business activities from JBIC and EIB funds in SKK		324 988	245 465	1 954 348	532 010		3 056 811
Loans granted to domestic banks for supporting business activities from EIB funds in foreign currency		50 509	46 783	190 530	15 698		303 520
Other financial institutions	791 160		2 403 770	9 913 006			13 107 936
Total loans to banks	24 498 592	375 497	3 785 746	14 874 762	4 385 029		47 919 626
Standard loans	199 329	1 021 067	1 002 100	7 739 577	128 372		10 090 445
Employees	8 158	117	2 100	39 577	128 372		178 324
Non-financial organisations		20 950					20 950
General Government	191 171	1 000 000	1 000 000	7 700 000			9 891 171
Classified loans	35 800	22 400					58 200
Non-financial organisations	35 800	22 400					58 200
Total loans to clients	235 129	1 043 467	1 002 100	7 739 577	128 372		10 148 645
Total	24 733 721	1 418 964	4 787 846	22 614 339	4 513 401		58 068 271

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5.2. Market risk

The market risk that the Bank is exposed to arises from the open foreign exchange position and from the open position in interest rates.

The analysis of the Bank's assets and liabilities by the remaining time to maturity at 31 December 2003:

	due within 1 month	due within 1 – 3 months	due within 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Cash and deposits with foreign banks of issue	28 462						28 462
Receivables from clients	153 383	1 150 106	1 152 120	5 443 069	139 247		8 037 925
Debt securities	43 975 144	24 576 757	91 255 437	170 486 664	6 367 171		336 661 173
Shares and other investments						162 677	162 677
Shares and ownership interests in companies with significant influence						108 000	108 000
Non-current assets						6 816 116	6 816 116
Other assets	1 263 340	2 484 966	3 433 509	5 780 063		2 944 303	15 906 181
Accruals and prepayments	1 469	1 657	12 129				15 255
Receivables from the IMF						4 197 381	4 197 381
Receivables from banks of the ESCB	112 387						112 387
Receivables from other foreign entities	44 926 635	4 943 678	195			754	49 871 262
Loans to domestic banks	234 564	172 461	1 198 441	2 770 338	3 622 813		7 998 617
Other receivables from domestic entities	839 147		2 335 776	7 224 787			10 399 710
Assets	91 534 531	33 329 625	99 387 607	191 704 921	10 129 231	14 229 231	440 315 146
Liabilities to clients	19 102 064	42 225	153 892	114 985			19 413 166
Other liabilities	3 672 696	2 587	34 045	14 857	3 000	163 362	3 890 547
Accruals and deferred income	990	1 708					2 698
Provisions	28 215	67 202	16 223				111 640
Liabilities to the IMF	4 155 546						4 155 546
Liabilities to other foreign entities	25 539 559	5 553 073	592 547	4 566 891	70 104		36 322 174
Monetary reserve accounts of banks with the NBS	11 504 998						11 504 998
Securities issued by the NBS		55 759 761					55 759 761
Other liabilities to domestic entities	123 417 122	10 468				70 340	123 497 930
Banknotes and coins in issue						102 546 365	102 546 365
Account of government	17 075 247						17 075 247
Government funds and other offsets against the national budget	11 026 001						11 026 001
Offsetting special transactions with funds of the Slovak republic	3 835 240		67 545 640				71 380 880
Liabilities	219 357 678	61 437 024	68 342 347	4 696 733	73 104	102 780 067	456 686 953

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The analysis of the Bank's assets and liabilities by the remaining time to maturity at 31 December 2002:

	due within 1 month	due within 1 – 3 months	due within 1 year	due within 1 – 5 years	due after more than 5 years	Not defined	Total
Cash and deposits with foreign banks of issue	31 153						31 153
Receivables from clients	235 129	1 043 467	1 002 100	7 739 577	128 372		10 148 645
Debt securities	58 094 088	60 906 090	91 942 136	113 910 170	5 091 008		329 943 492
Shares and other investments						24 784	24 784
Shares and ownership interests in companies with significant influence						120 000	120 000
Non-current assets						6 582 149	6 582 149
Other assets	18 496	524 635	644 498	44 374		80 777	1 312 780
Accruals and prepayments	228 710	205 054					433 764
Receivables from the IMF						4 668 837	4 668 837
Receivables from other foreign entities	26 278 725						26 278 725
Loans to domestic banks	642 240	375 497	1 381 976	4 927 756	4 385 029		11 712 498
Other receivables from domestic entities	891 813	10 742	2 403 970	9 947 006			13 253 531
Assets	86 420 354	63 065 485	97 374 680	136 568 883	9 604 409	11 476 547	404 510 358
Liabilities to clients	17 137 584	1 145 458	159 343	106 250			18 548 635
Other liabilities	414 394	254 554	1 722 100	2 511 263		189 246	5 091 557
Accruals and deferred income			859				859
Provisions	50 987	95 975	14 102 184	783 797			15 032 943
Liabilities to the IMF	4 623 090						4 623 090
Liabilities to other foreign entities	845 886	714 191	714 191	5 619 757	3 505 076		11 399 101
Monetary reserve accounts of banks with the NBS	21 407 372						21 407 372
Securities issued by the NBS	8 530 000	34 000 000					42 530 000
Other liabilities to domestic entities	107 462 625					70 340	107 532 965
Banknotes and coins in issue						93 898 056	93 898 056
Account of government	23 094 921						23 094 921
Government funds and other offsets against the national budget	8 657 987						8 657 987
Offsetting special transactions with funds of the Slovak republic	3 160 549		63 654 381				66 814 930
Liabilities	195 385 395	36 210 178	80 353 059	9 021 067	3 505 076	94 157 642	418 632 416

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5.2.1. Currency risk

The impact of exchange rate changes on NBS performance is dominant, as the currency risk is closely related not only to the volatility of the SKK/EUR exchange rate, but also to changes in the EUR/USD exchange rate. The currency risk results from the NBS's open foreign exchange position.

The Bank Board has set the currency composition of the open foreign exchange position to 70:30 in favour of EUR against USD. The permitted deviation of USD's share in the open foreign exchange position was set at $\pm 2\%$ and this limit is kept through mutual purchases and sales of the respective currencies.

Considering the foreign exchange structure of assets and liabilities on the Bank's balance sheet that results from the NBS specific position and its priority task of maintaining price stability, the Bank cannot effectively hedge itself against the currency risk.

The day-to-day currency risk management means preserving the respective part of foreign currency assets in accordance with the currency composition of foreign exchange liabilities and the structure of the open foreign exchange position, in compliance with the Bank Board's resolution. Monitoring and measuring sensitivity are focused on measuring current exchange rate differences and on estimating future impacts of the adverse development in exchange rates (from the profit/(loss) point of view) through the calculation of sensitivity indicators.

During 2003, the exchange rate of the Slovak crown to EUR strengthened by 1.34% (from EUR 1 = SKK 41.722 to EUR 1 = SKK 41.161) and to USD by 17.77% (from USD 1 = SKK 40.036 to USD 1 = SKK 32.920). Such strengthening of the Slovak currency has significantly contributed to the loss for the year (see Notes 18 and 21).

In 2003, the net open foreign exchange position increased by 5.71% from SKK 344,706,689 thousand to SKK 364,377,251 thousand compared to the previous year.

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The structure of the open foreign exchange position:

	Line No.	Slovak crowns	Foreign currencies converted to SKK - total	of which:		
				USD	EUR	Other
2003						
Assets	1	33 523 936	406 791 210	127 994 918	274 213 617	4 582 675
Cash and deposits with foreign banks of issue			28 462	10 086	13 106	5 270
Receivables from clients		8 037 925				
Debt securities			336 661 173	98 845 300	237 815 873	
Shares and other investments			162 677			162 677
Shares and ownership interests in companies with significant influence		108 000				
Non-current assets		6 807 479	8 637		8 637	
Other assets		362 753	15 543 428	15 530 186	1 744	11 498
Accruals and prepayments		14 894	361			361
Receivables from the IMF			4 197 381			4 197 381
Receivables from banks of the ESCB			112 387		99 929	12 458
Receivables from other foreign entities			49 871 262	13 609 346	36 068 886	193 030
Loans to domestic banks		7 793 175	205 442		205 442	
Other receivables from domestic entities		10 399 710				
Liabilities	2	397 901 187	42 413 959	8 770 350	28 203 147	5 440 462
Liabilities to clients		19 413 166				
Other liabilities		3 837 057	53 490	51 137	2 315	38
Accruals and deferred income		2 698				
Provisions		111 640				
Liabilities to the IMF			4 155 546			4 155 546
Liabilities to other foreign entities		785 931	35 536 243	8 714 327	25 537 038	1 264 878
Monetary reserve accounts of banks with the NBS		11 504 998				
Securities issued by the NBS		55 759 761				
Other liabilities to domestic entities		123 497 930				
Banknotes and coins in issue		102 546 365				
Account of government		17 075 247				
Government funds and other offsets against the national budget		11 026 001				
Offsetting special transactions with funds of the Slovak republic		68 712 200	2 668 680	4 886	2 663 794	
Share capital		466 667				
Reserve funds and other profit reserves		10 164 859				
Other capital funds		76 670				
Valuation variances		13 289 763				
Gain/losses from the revaluation of assets and liabilities from previous years		15 900 550				
Loss carried forward		-24 836 019				
Profit/(loss) for the period		-31 434 297				
Open foreign exchange position	3=1-2	-364 377 251	364 377 251	119 224 568	246 010 470	-857 787
2002						
Assets	4	42 098 837	362 411 521	111 968 208	240 979 442	9 463 871
Liabilities	5	386 805 526	17 704 832	72 243	3 636 632	13 995 957
Open foreign exchange position	6=4-5	-344 706 689	344 706 689	111 895 965	237 342 810	-4 532 086
Total y/y difference	7=3-6	-19 670 562	19 670 562	7 328 603	8 667 660	3 674 299

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5.2.2. Interest rate risk

The interest rate risk arises from the fluctuation of the value of financial instruments as a result of market interest rate changes, which affects the financial position and the cash flow of the Bank.

Most of the financial assets and liabilities of the Bank bear a fixed interest rate. A floating interest rate is used on swaps, repurchase transactions in Slovak crowns, redistribution loans and Two Step Loans and Apex Global Loans (AGL) provided to domestic banks (Note 10). A contractually agreed floating rate is calculated from the NBS base rate, which is the NBS limit interest rate on two-week repurchase tenders. Compared to the end of 2002, in September 2003 the base rate dropped by 25 percentage points: from 6.50% to 6.25%, and by another 25 percentage points in December, to 6.00%.

In the case of securities, the interest rate risk management is reflected in the structure of benchmarks (a benchmark is a risk-neutral portfolio against which an actual portfolio is measured), as well as in the structure of the intervention portfolio. Trading securities comprise more than two-thirds of the fixed interest rate financial assets. The average maturity of a benchmark (duration) has been approved by the Bank Board within the overall foreign exchange reserves management policy, at 1.5 years with maximum deviation \pm 6 months from the determined neutral value.

In order to minimise the adverse effect of market price fluctuations on the Bank's operation, an analysis is performed simulating statistically greatest changes in interest rates expected in the following period. The results of this analysis are then taken into account for determining the benchmark's duration of each investment portfolio.

As a supplementary method for the needs of global and comparable measurement of risk, the Value at Risk (VaR) method is used, which the NBS has applied to monitor the administration of foreign exchange assets since 2001. The NBS calculates the value of each portfolio as well as the benchmarks on a monthly basis in order to visualize absolute and relative (compared to the benchmark) risk exposure of portfolios with an exposure period longer than the average maturity period.

Interest on assets and liabilities of the Bank are based on the rates that are close or equal to the market value, except for the interest rate on loans provided to other financial institutions (see Note 10). The interest rate on monetary reserves of banks approved by the Bank Board is 1.5%.

The majority of interest-free financial liabilities relate to liabilities from the issue of currency in circulation.

In order to meet monetary policy objectives NBS performed sterilisation repo transactions in 2003, using the main instrument - two weeks sterilisation repo tenders. The objective of sterilisation transactions is to reduce the existing structural surplus of liquidity on interbank market to the level that will not represent a risk of failure to comply with the monetary policy objectives. Sterilised cash cannot be reinvested, because the effectiveness of the monetary policy tool would be eliminated as a result. Therefore, the sterilisation transaction only resulted in an interest expense for NBS.

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Since the majority of balance sheet assets and liabilities have a fixed interest rate, the level of interest rate risk can be assessed based on tables analysing the assets and liabilities of the Bank according to their date to maturity (see Note 5.1 and 5.2).

The following table gives a summary (in percentage) of the average interest rate on financial assets and liabilities for 2003 and 2002 according to the main currencies:

					v %
2003	EUR	USD	XDR	JPY	SKK
Assets					
Current accounts and deposits in banks	1,25	0,85	1,70	0,00	3,42
Gold		0,43			
Securities held for trading	3,28	1,98			
Loans to banks and other financial institutions	3,10	1,10			6,34
Derivative financial instruments		2,05		2,93	
Receivables from the IMF			0,00		0,00
Loans to clients					7,23
Liabilities					
Liabilities to banks and other financial institutions	2,45	0,73		3,15	4,28
Derivative financial instruments		2,73			
Liabilities to government					5,14
Securities issued by NBS					6,41
Liabilities to the IMF			0,00		0,00
Liabilities to other clients	0,92	0,63			3,96
					v %
2002	EUR	USD	XDR	JPY	SKK
Assets					
Current accounts and deposits in banks	2,35	1,13	2,12	0,00	3,44
Gold		0,38			
Securities held for trading	3,50	2,00		1,00	
Loans to banks and other financial institutions	3,94	1,75			7,39
Derivative financial instruments		2,05		2,60	
Receivables from the IMF			0,00		0,00
Loans to clients					8,37
Liabilities					
Liabilities to banks and other financial institutions	3,29	1,75		3,15	5,06
Derivative financial instruments		3,49			
Liabilities to government					6,50
Securities issued by NBS					7,53
Liabilities to the IMF			0,00		0,00
Liabilities to other clients	2,00				4,66

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5.2.3. Liquidity risk

Liquidity risk results from the need of liquidity for interventions on inter-bank money market and settlement of Bank's and Government's liabilities. The amount of intervention portfolio is based on the expected volume of interventions, as well as on the time schedule for NBS payments and the debt service of the state. In determining the size of this portfolio, it is necessary to make an optimum assessment of future liquidity needs in order to avoid its possible insufficiency or relative excess. The structure, manner and criteria for its management are based on the requirement of ensuring the NBS's satisfactory ability to effectively intervene and satisfy its liabilities.

The bank has set up a liquid portfolio with a benchmark duration of 5 months, whilst more than 90% of the total foreign exchange reserves of the Bank can be realised within 2-3 working days.

5.2.4 Operational risk

Operational risk is a risk of direct or indirect loss, resulting from inadequate or incorrect internal processes and working procedures, human or system failure, including risk related to usage of information systems.

In NBS this risk is limited by clear definition of responsibilities and working procedures in order to eliminate possible errors, losses and incorrect processing. Compliance with the regulations is inspected on a regular basis.

6. Gold

Gold comprises the following

	2003 at 31. 12. Fair value	2003 at 1. 1. Fair value	2002 at 31. 12. Book value
Bullion in standard form	15 332 558	15 317 452	1 004 020
Gold in other form	149 922	153 998	21 831
Total	15 482 480	15 471 450	1 025 851

At 31 December 2003 the item "gold" comprised 1,127 thousand ounces, of which 516 thousand ounces were deposited in correspondent banks, 200 thousand ounces were received on account in the Bank of England (after maturity of a repurchase transaction with gold in October 2003 – see Note 8), 400 thousand ounces were used in repurchase transactions, and 11 thousand ounces in another form.

The value of gold provided as a collateral in repurchase transactions amounted to SKK 5,496,751 thousand at 31 December 2003 (see Note 13) (SKK 1,167,465 thousand at 31 December 2002 at historical cost; which was SKK 8,235,191 thousand at 31 December 2002 when re-calculated at market value).

The market value of gold was 417.25 USD/oz. at 31 December 2003 (342.75 USD/oz. at 31 December 2002). Revaluation of gold at fair value had a positive effect on the amount reported in the item gold (balance sheet – assets, line X) and on the reserve for new valuation

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of gold (balance sheet – liabilities, line XX). At 31 December 2003 the reserve balance was SKK 13,289,763 thousand (SKK 13,278,135 thousand at 1 January 2003).

81% of trades with gold were performed with European countries outside the Euro zone (83% in 2002), 19% of trades were performed with counterparties from the United States (17% in 2002).

7. Securities**7.1. Securities held for trading**

At 31 December 2003, the Bank's portfolio of securities held for trading comprised the following:

	2003 at 31. 12. Fair value	2003 at 1. 1. Fair value	2002 at 31. 12. Value in the accounting
State bodies' securities - Total	236 732 600	226 651 924	225 277 500
State coupon bonds	158 634 604	100 089 965	98 742 531
State zero coupon bonds	76 179 900	124 464 137	124 437 147
Coupons	1 918 096	2 097 822	2 097 822
Securities of other entities - Total	99 928 573	104 994 463	104 665 992
Zero coupon bonds of foreign Central Banks	2 056 881		
Other coupon bonds	71 450 656	55 566 161	55 262 116
Other zero coupon bonds	25 388 906	48 637 796	48 613 370
Coupons	1 032 130	790 506	790 506
Total securities	336 661 173	331 646 387	329 943 492

At 1 January 2003, the Bank classified its securities as securities held for trading and securities available for sale. Initial revaluation at fair value at 1 January 2003 of SKK 1,702,898 thousand was posted to equity.

In relation with early repayment of the whole TSL I loan and parts of TSL II and TSL III loans from the Japan Bank for International Cooperation (see Note 13), by April 2003 the Bank sold the long-term State coupon bonds in JPY in nominal value of SKK 2,981,344 thousand categorised as available for sale. Currently, the Bank does not record any securities available for sale.

The Bank trades with the securities on the foreign financial markets, particularly in New York, London, Zürich and the Euro zone countries. These mostly involve transactions outside the stock exchanges.

64% of securities for trading were issued by counterparties in Euro zone countries, 12% in other European countries and 24% in the United States.

7.2. Shares and ownership interest in companies with significant influence

Since 1993, the Bank has held 120 shares at nominal value SKK 1,000 thousand in the company Bankové zúčtovacie centrum Slovenska, a.s. Bratislava (The Slovak Banking Clearing Centre, since year 2003 renamed to RVS, a.s. Bratislava), which was 39.47% of the share capital.

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As a result of changes entered in the Commercial Register (see Note 4.2.2), the share capital of RVS, a.s. Bratislava was divided into shares with a nominal value of SKK 100 thousand each, whereby the NBS's ownership of 120 shares changed into 1,200 shares, with no effect on the share in the registered capital.

Based on the decision of the General Meeting of RVS, a.s. Bratislava and based on a contract, the company re-purchased 120 shares at a price of SKK 100 thousand per share. As a result of this transaction, the Bank's share in the share capital of the company was reduced by SKK 12,000 thousand and dropped from the original 39.47% to 35.53%.

At 31 December 2003, the Bank held 1,080 certificated shares of SKK 108,000 thousand (balance sheet – assets, line VI).

Even though the Bank's share in RVS, a.s. Bratislava, is significant, in accordance with the provisions of § 22 of Act on Accounting, the Bank does not prepare consolidated financial statements.

7.3. Other investments

At 31 December 2003, the Bank held 2,670 shares in BIS of SKK 650,706 thousand, which is a 0.45% share in the registered capital of BIS. Each share has been paid up at 25% of its nominal value. Liabilities from unpaid share at 75% of the nominal value of each share amounts to SKK 488,029 thousand. Share in BIS is disclosed in the balance sheet at SKK 162,677 thousand, which represents 25% of the paid share (balance sheet – assets, line V) (SKK 24,784 thousand at 31 December 2002 in a clearing unit – golden franc).

In 2003, BIS paid dividends to NBS of SKK 28,639 thousand (SKK 30,848 thousand in 2002-Income statement line-III c).

8. Derivative financial instruments

The fair value of derivative financial instruments is given in the table below:

	2003 at 31.12.		2003 at 31. 12.		2003 at 1. 1.		2002 at 31. 12.	
	Fair value	Off Balance sheet	Fair value	Off-balance sheet	Fair value	Off-balance sheet	Fair value	Off-balance sheet
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Cross-currency interest rate swap P03					583 308		5 957 511	5 775 325
Cross-currency interest rate swap P04	141 076		1 273 497	1 130 828				
Interest rate swap	46 355		1 777 518	1 777 518	29 083		1 652 201	1 652 201
Purchased put options	40 681		3 770 502	5 496 751	145 256		6 949 534	1 167 465
Total	228 112		6 821 517	8 405 097	757 647		14 559 246	8 594 991

Initial revaluation of financial derivatives at fair value at 1 January 2003 increased the Bank's equity by SKK 495,388 thousand.

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On 25 April 2003, the NBS terminated a cross-currency interest rate swap P03 in relation with the early repayment of the whole TSL I loan and a part of TSL II and TSL III loans from the Japan Bank for International Cooperation. The P03 swap matured in 2003 with profit of USD 7.5 million.

In 2003, the Bank entered into a cross-currency interest rate swap P04 of JPY 5.7 billion, with the aim of hedging the remaining part of TSL II and TSL III loans from the Japan Bank for International Cooperation with maturity on 10 March 2005, under which the payment in JPY is converted to USD. During the swap period, the NBS shall pay a semi-annual floating interest rate in USD and receive a semi-annual fixed interest rate of 2.5% or 3.25% in JPY, dependent on the loan tranche. The exchange of agreed amounts is made semi-annually.

The bank entered into a long-term gold interest rate swap with maturity in 2005 in order to increase the revenue from gold deposits. NBS pays the counterparty a floating interest rate at 3 months LIBOR-GOFO in USD on a quarterly basis and the counterparty pays quarterly a fixed interest rate of 2.05% in USD on the notional value of 129,407 ounces of gold.

In order to eliminate the risk of reducing the market value of gold, the NBS purchased European put options for gold. The put option for gold concluded with Merrill Lynch Bullion LDN (200 thousand ounces of gold) was due in October 2003. The realizable value of the put option was 295.30 USD/oz. therefore the Bank did not exercise the put option. Currently, the Bank records two European put options for 400 thousand ounces of gold with realizable value of 259.00 USD/oz. and 295.30 USD/oz. due on 12 January and 22 March 2007 respectively, (see Note 6).

80% of derivatives at 31 December 2003 were traded with counterparties in European countries outside the Euro zone (100% in 2002), 20% with counterparties in the United States.

9. Receivables from and liabilities to the International Monetary Fund

At 31 December 2003, the Bank recorded a receivable from the International Monetary Fund ("IMF") in the amount of SKK 18,462,821 thousand (SDR 357,000 thousand) from the Slovak Republic membership quota, converted using a representative SDR exchange rate determined by the IMF (balance sheet – assets, line XII). In accordance with the IMF statutes, 25% of the quota is due in SDR and 75% in Slovak crowns.

The Bank also recorded a liability to the IMF in amount of the paid up SDR part of the quota, converted to Slovak crowns by the representative SDR exchange rate. The Bank recorded a liability of the Slovak Government to IMF, in the form of a non-transferable, non-interest bearing promissory note payable on demand, in the amount of SKK 18,462,821 thousand.

Member quota in SKK and related liability are netted off in the Balance sheet, since 1 January 2003. The receivable from and the payable to IMF recorded in the Balance sheet at 31 December 2003 represent 25% of quota paid in SDR converted to Slovak crowns by NBS exchange rate.

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10. Loans provided**10.1. Loans provided to banks and other financial institutions**

At 31 December 2003, the NBS provided loans to banks and other financial institutions:

	2003	2002
Foreign banks	40 661 729	23 099 192
Loans provided within repurchase transactions in foreign currency	40 661 729	23 099 192
Domestic banks	7 998 617	11 712 498
Re-distribution loans	6 591 976	8 352 167
Loans provided to domestic banks for the support of activities from the JBIC and EIB sources in SKK	1 201 199	3 056 811
Loans provided to domestic banks for the support of activities from EIB sources in foreign currency	205 442	303 520
Other financial institutions	10 312 135	13 107 936
Total	58 972 481	47 919 626

At 31 December 2003, the Bank recorded receivables from repurchase transactions with foreign parties of SKK 40,661,729 thousand ((SKK 23,099,192 thousand at 31 December 2002, balance sheet – assets, line XIV), of which 4,945,927 was in USD and 35,715,802 in EUR.

Collaterals for the repurchase transactions with securities are recorded in off-balance sheet (see Note 23).

Credit risk arising from redistribution loans provided by the Bank is eliminated by the state guarantees 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 Ministry of Finance of the Slovak Republic, which will realise the aforementioned guarantee.

In 2001, the Bank provided a loan to the Deposit Protection Fund (the Fund). The loan balance including accrued interest at 31 December 2003 was SKK 10,312,135 thousand (SKK 13,107,936 thousand at 31 December 2002). There is no risk of default on the loan. The payments are tied to the commercial banks contributions to the Fund, which are obligatory by law.

10.2. Loans provided to clients

At 31 December 2003, the Bank provided the following loans to clients:

	2003	2002
Standard loans	8 022 831	10 090 445
employees	193 321	178 324
non-financial organisations		20 950
public administration	7 829 510	9 891 171
Classified loans	15 094	58 200
non-financial organisations	15 094	58 200
Total	8 037 925	10 148 645

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11. Non-current tangible and intangible fixed assets

Non-current tangible and intangible assets in 2003:

	Land	Other non-depreciable assets	Buildings and constructions	Machines and equipment	Other depreciated assets	Software and other intangible assets	Acquisition of tangible and intangible assets	Total
Acquisition cost at 1. 1. 2003	298 501	72 561	5 376 250	1 801 500	354 658	159 354	106 456	8 169 280
Additions	3 962	170	168 059	269 171	40 785	5 505	902 770	1 390 422
Disposals	18 515	31 151	13 729	35 716	14 389	401	581 408	695 309
Transfers	0	0	0	0	181 211	0	0	181 211
Acquisition cost at 31.12.2003	283 948	41 580	5 530 580	2 034 955	562 265	164 458	427 818	9 045 604
Accumulated depreciation at 1. 1. 2003			247 940	1 094 536	122 951	122 693	0	1 588 120
Expensed accumulated depreciation			180 191	213 540	58 228	17 708	0	469 667
Accumulated depreciation on disposed tangible and intangible assets			-49 544	36 278	-168 092	401	0	-180 957
Accumulated depreciation at 31.12.2003			477 675	1 271 798	349 271	140 000	0	2 238 744
Net book value of tangible and intangible assets at 1. 1. 2003	298 501	72 561	5 128 310	706 964	231 707	36 661	106 456	6 581 160
Net book value of tangible and intangible assets at 31.12.2003	283 948	41 580	5 052 905	763 157	212 994	24 458	427 818	6 806 860

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Non-current tangible and intangible assets in 2002:

	Land	Other non-depreciable assets	Buildings and constructions	Machines and equipment	Other depreciated assets	Software and other intangible assets	Acquisition of tangible and intangible assets	Total
Acquisition cost at 1. 1. 2002	301 623	70 936	1 276 168	1 297 641	169 633	166 009	4 826 024	8 108 034
Additions		6 257	4 226 809	569 099	210 092	23 115	312 715	5 348 087
Disposals	3 122	1	126 727	65 240	24 366	29 770	5 032 283	5 281 509
Transfers		-4 631			-701			-5 332
Acquisition cost at 31.12.2002	298 501	72 561	5 376 250	1 801 500	354 658	159 354	106 456	8 169 280
Accumulated depreciation at 1. 1. 2002			205 370	1 007 051	127 993	129 462		1 469 876
Expensed accumulated depreciation			65 606	121 554	44 789	22 953		254 902
Accumulated depreciation on disposed tangible and intangible assets			23 036	34 069	49 831	29 722		136 658
Accumulated depreciation at 31.12.2002			247 940	1 094 536	122 951	122 693		1 588 120
Net book value or tangible and intangible assets at 1. 1. 2002	301 623	70 936	1 070 798	290 590	41 640	36 547	4 826 024	6 638 158
Net book value or tangible and intangible assets at 31.12.2002	298 501	72 561	5 128 310	706 964	231 707	36 661	106 456	6 581 160

In October 2002 the Bank entered into a long-term contract to lease out an administrative building in Vazovova Street, until 2007. At 31 December 2003, the acquisition cost was SKK 186,239 thousand and the net book value was SKK 143,064 thousand. The Bank does not have a market valuation of the building available. However, the estimated fair value does not differ significantly from the net book value. The building is depreciated in accordance with a depreciation plan.

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12. Provisions against assets

In 2003, the Bank set up, used, or released the following provisions:

	2002	Set-up	Use/ Release	2003
Provisions for securities in FC	550 011	0	550 011	0
Provision for classified receivables from banks	10 848	0	0	10 848
Provision for classified receivables from clients	28 816	15 095	28 800	15 111
Provision for various receivables	106 622	32 007	99 103	39 526
Provision for advances provided	43 754	0	5 987	37 767
Provision for temporary diminution in value of assets	0	52 412	0	52 412
Total	740 051	99 514	683 901	155 664

In accordance with the Act on Accounting, effective from 1 January 2003, provisions for securities of SKK 550,011 thousand were cancelled and the securities were recorded at fair value.

A major part of the 2003 provisions represents the provision of SKK 52,412 thousand (Income statement – line XIII c) created for a building in Záhradnícka ulica in accordance with the Accounting Act, Article 26, paragraph 3, following the stock-count result performed in 2003.

During the first half of 2003, a provision for the receivable for late delivery of the Head Office building was re-assessed and cancelled at SKK 99,000 thousand. At the same time, a new provision of SKK 32,000 thousand was set up.

At the end of 2003, a provision for classified receivables from clients was re-assessed and cancelled at SKK 28,800 thousand. At the same time a new provision was created at SKK 15,095 thousand.

The provision of SKK 5,987 thousand for advance payments made was used due to the write-off of the receivable.

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13. Loans received

At 31 December 2003, the structure of loans received was as follows:

Loan source	Type of loan	Due date year	FC code	2003		2002	
				FC	SKK	FC	SKK
JBIC	TSL I	2003	JPY			2 461 360	824 827
	TSL II	2005	JPY	1 196 103	368 149	7 589 486	2 543 313
	TSL III	2005	JPY	2 978 427	916 729	17 915 371	6 003 619
EIB	AGL II	2010	EUR	19 033	783 410	28 294	1 180 456
Domestic banks	Repo transactions	2004	-		105 753 442		84 895 478
Foreign banks	Repo transactions	2004	USD	150 134	4 942 395		
Foreign banks	Repo transactions	2004	EUR	601 355	24 752 368		
JP Morgan	Gold repo	2007	USD	88 633	2 917 812		
UBS Warburg	Gold repo	2007	USD	25 945	854 119		
Total					141 288 424		95 447 693

Based on the decision of the Bank Board, in 2003 the Bank made an early repayment of the outstanding TSL I loan from the Japan Bank for International Cooperation (JBIC).

In 2003, the repurchase gold transaction with Merrill Lynch Bullion LDN matured. Before 31 December 2002, the repurchase transactions with gold were recorded off-balance sheet as gold swaps. From 1 January 2003, they were reclassified to repurchase transactions with gold and are posted to the balance sheet. The loans received within gold repo transactions amounted to SKK 3,771,931 thousand.

Within the sterilized repurchase transactions in the Slovak inter-bank market, the Bank recorded a liability totalling SKK 105,753,442 thousand at 31 December 2003 (SKK 84,895,478 thousand at 31 December 2002) (balance sheet – liabilities, line XII). For sterilized activities, the Bank provided NBS treasury bills of SKK 106,389,000 thousand (SKK 85,645,000 thousand at 31 December 2002) (see Note 15).

At 31 December 2003, the Bank recorded liabilities of SKK 33,466,694 thousand from the repurchase transactions with foreign parties (balance sheet – liabilities, line IX), of which, those in USD totalled SKK 4,942,395 thousand, and those in EUR totalled SKK 24,752,368 thousand, where the NBS provided long-term State coupon bonds as collateral in USD equal to SKK 4,965,905 thousand, and in EUR equal to SKK 24,463,876 thousand.

At 31 December 2003 62% of loans were taken from counterparties in Japan (89% in 2002) and 38% from counterparties in United States (11% in 2002).

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14. Liabilities to government

At 31 December 2003, the Bank's liabilities arising from the state's ordinary performance and from the debt service financing amounted to SKK 17,075,247 thousand (SKK 23,094,921 thousand at 31 December 2002, balance sheet – liabilities, line XIV).

Government funds of SKK 11,026,001 thousand (SKK 8,657,987 thousand at 31 December 2002, balance sheet – liabilities, line XV) represented other deposits of the government in the NBS.

The settlement of special operations with SR finance of SKK 71,380,880 thousand (66,814,930 thousand at 31 December 2002, balance sheet – liabilities, line XVI) represented, particularly, the term deposit of the Ministry of Finance of the Slovak Republic of SKK 67,545,640 thousand and finance provided from the EU funds administered by the Ministry of Finance of the Slovak Republic at SKK 3,823,154 thousand.

15. Issued securities

At 31 December 2003, the NBS recorded an issue of bills of SKK 205,759,761 thousand (SKK 192,530,000 thousand at 31 December 2002) (see Note 4.5).

At 31 December 2003, NBS treasury bills of SKK 162,148,761 thousand were used for the sterilisation activities (SKK 128,175,000 thousand at 31 December 2002), of which SKK 106,389,000 thousand (SKK 85,645,000 thousand at 31 December 2002) was in the form of a sterilized repurchase transaction, and SKK 55,759,761 thousand (SKK 42,530,000 thousand at 31 December 2002) was in the form of a direct issue in the portfolio of domestic banks (balance sheet – liabilities, line XI).

16. Currency in circulation

The issue of banknotes and coins (balance sheet – liabilities, line XIII) represents the valid national banknotes and coins in circulation:

As of 31 December 2003, validity of the 10 and 20 heller coins was terminated. The NBS will continue to exchange the coins for free until 31 December 2008.

	2003	2002
Issued coins	2 177 660	2 099 217
Issued banknotes	100 368 705	91 798 839
Total	102 546 365	93 898 056

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17. Provisions

In the 2003 accounting period, the Bank set up and cancelled the following provisions:

	2002	Set-up	Cancellation	2003
Provision for golden swaps	1 305 662	0	1 305 662	0
Provision for open foreign exchange position	13 727 281	0	13 727 281	0
Provision for staff costs	0	111 640	0	111 640
Total	15 032 943	111 640	15 032 943	111 640

As of 1 January 2003, swap transactions with gold are stated as repurchase transactions with gold. Therefore, the provision of SKK 1,305,662 thousand for gold swaps was cancelled (see Note 4.2 and 6).

The provision of SKK 13,727,281 thousand to cover foreign exchange losses from the open foreign exchange position was cancelled at 1 January 2003 and was credited to equity.

In accordance with the Bank's internal regulations, a provision of SKK 111,640 thousand was set up for unpaid bonuses, salary compensation and related transfers to insurance funds. (Balance sheet – liabilities, line V)

18. Use of the profit/loss

The Bank's 2003 loss amounted to SKK 31,434,297 thousand (loss amounted to SKK 24,836,019 thousand at 31 December 2002) (Balance sheet – liabilities line XXIII). In accordance with the provisions of Article 38 of the NBS Act, in its meeting in December, the Bank Board agreed that the 2003 loss should be offset from previous years' profit of SKK 15,900,550 thousand (Balance sheet – liabilities line XXI) generated from the changes in accounting methods at 1 January 2003. The remaining SKK 15,533,747 thousand will be carried forward and will increase the previous years' losses to an aggregate of SKK 40,369,766 thousand. These losses will be offset against the future periods' profit, as well as against other NBS sources.

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19. Net interest expense

Net interest expense comprises the following items:

	2003	2002
Total interest received (Income statement - line I)	10 679 099	9 304 680
Interest received on securities	8 194 898	5 947 960
Interest received on loans relating to repurchase transactions	908 858	596 101
Interest received on swap transactions	91 355	206 543
Other interest received	1 483 988	2 554 076
Total interest paid (Income statement - line II)	-18 131 271	-12 585 026
Interest paid on securities	-3 094 223	-1 312 670
Interest paid on loans relating to repurchase transactions	-7 451 002	-5 801 955
Interest paid on swap transactions	-69 929	-257 474
Other interest paid	-7 516 117	-5 212 927
Net interest expense	-7 452 172	-3 280 346

20. Fees and commissions

Income from fees and commission consists of:

	2003	2002
Income from fees and commissions (Income statement - line IV)	144 466	130 004
Expenses from fees and commissions (Income statement - line V)	-61 391	-32 564
Net income from the fees and commissions	83 075	97 440

At 31 December 2003 cash received in repo transactions and cash given in reverse repo transactions, or term deposits based on "Securities lending" agreements was in amount SKK 32,834,831 thousand (SKK 8,556,794 thousand at 31 December 2002), of which transactions in USD were in amount SKK 6,540,175 thousand (SKK 8,556,794 thousand at 31 December 2002) and transactions in EUR were in amount SKK 26,294,656 thousand. The result of Securities lending transactions for 2003 was fee income in amount SKK 63,546 thousand (SKK 95,693 thousand in 2002).

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21. Net loss on financial operations

Net loss on financial operations comprise:

	2003	2002
Loss(-)/profit from marketable securities	766 153	3 595 051
Revenues from marketable securities	5 761 169	4 919 257
Costs of marketable securities	-4 995 016	-1 324 206
Loss from foreign exchange operations	-22 780 380	-23 919 003
Revenues from FX operations	19 574 189	15 477 491
Costs of FX operations	-42 354 569	-39 396 494
Net loss from term operations	-148 443	
Profit from the valuation of term operations	201 786	
Loss from the valuation of term operations	-350 229	
Net loss from financial operations (Income statement - line VI)	-22 162 670	-20 323 952

The 2003 net loss on financial operations included mainly loss on foreign exchange operations of SKK 22,780,380 thousand (SKK 23,867,619 thousand in 2002).

At 31 December 2003, the NBS recorded a net FX loss from FX operations of SKK 22,786,634 thousand (loss of SKK 23,882,081 thousand at 31 December 2002), due to the strengthening position of SKK exchange rate. At 31 December 2003 the Bank recorded a profit from the sale of gold commemorative coins in the amount of SKK 6,254 thousand (SKK 14,461 thousand at 31 December 2002).

The Bank recorded net interest income from swaps operations in the amount SKK 21,426 thousand (net interest loss in amount SKK 50,931 thousand at 31 December 2002 – see note 19)

22. General operating costs

The structure of NBS's general operating costs is as follows:

	2003	2002
Salaries and bonuses	-495 524	-560 821
Social costs	-167 388	-170 590
Total personnel costs (Income statement - line IX a)	-662 912	-731 411
Other general operating costs	-492 611	-514 599
Total general operating costs (Income statement - line IX)	-1 155 523	-1 246 010

The most significant share of general operating costs represented fees for telecommunication systems and data transmission, security expenses, custody of inventories of currency in circulation and updates of IT systems.

Audit expenses in 2003 were SKK 8,323 thousand and included part of expenses on the audit of 2002 financial statements and the 2003 financial statements.

NÁRODNÁ BANKA SLOVENSKA

Notes to the Financial Statements as at 31 December 2003 in accordance with the Directive of
Ministry of Finance of the Slovak Republic No 21 832/2002-92

(In thousands of SKK)

In the 2003 accounting period, the average staff number was 1,319 (1,314 in 2002), of which 152 were management (154 in 2002).

23. Collaterals received in repurchase transactions

The value of securities received as collateral in the repurchase transactions at 31 December 2003 was SKK 39,923,157 thousand (SKK 23,097,299 thousand at 31 December 2002) (off balance sheet – liabilities, line II e), of which, those in EUR equal to SKK 34,991,521 thousand (SKK 23,097 299 thousand at 31 December 2002), and those in USD equal to SKK 4,931,636 thousand (see Note 10.1).

24. State guarantees

At 31 December 2003, the NBS holds state guarantees of SKK 17,732,008 thousand for re-distribution loans in the off-balance sheet records (off- balance sheet – liabilities, line II b) (SKK 22,850,407 thousand at 31 December 2002). The state guarantee is provided for the amount of principal plus interest to maturity

25. Other information

At 1 May 2004, the Bank will become a member of the European System of Central Banks. With regard to the accession process and in accordance with the statutes of the European Central Bank, NBS will make an initial minimum contribution to the ECB's capital. The amount of total share capital of individual national central banks is calculated using a capital index, determined by the statistical categories of gross domestic product and population. The ECB's Steering Committee determines the percentage of the minimum capital contribution to the total share. The current percentage of the minimum contribution is stated at 5% of the total capital contribution, which is currently EUR 1,975 thousand. However, the percentage of minimum contribution can be increased, on the basis of a decision from the ECB's Steering Committee.


26. Post balance-sheet events

After 31 December 2003 there were no events that would require adjustments to the Financial statements or presentation in the Financial statements.

Bratislava, 4 March 2004


Ing. Marián Jusko, CSc.
Governor


Ing. Milena Koreňová
Chief Executive Director
Financial Management and
Payment System Division


Ing. Katarína Taragelová
Director
Budget and Accounting
Department

These Notes are an integral part of the Financial Statements

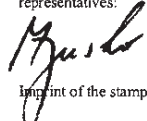
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STATEMENT OF CHANGES IN EQUITY
of Národná banka Slovenska at 31 December 2003
in thousands of SKK

	Notes	Current accounting period 31.12.2003 1	Previous accounting period 31.12.2002 2
1. Capital (Statutory fund)			
opening balance		466 667	466 667
increase			
decrease			
closing balance		466 667	466 667
2. Statutory reserve fund			
opening balance		10 164 859	9 924 963
increase			282 896
decrease			-43 000
closing balance		10 164 859	10 164 859
3. Other capital funds			
opening balance		82 435	82 165
increase			270
decrease		-5 765	
closing balance		76 670	82 435
4. Fund for gold revaluation			
opening balance			
increase		14 700 320	
decrease		-1 410 557	
closing balance	6	13 289 763	
5. Retained earnings - change in accounting methods			
opening balance			
increase		15 925 567	
decrease		-25 017	
closing balance		15 900 550	
6. Retained earnings			
opening balance		-24 836 019	
increase			
decrease			
closing balance	18	-24 836 019	
7. Profit or loss for the period	18	-31 434 297	-24 836 019
8. Equity total		-16 371 807	-14 122 058

Date:
04.03.2004

Signature of statutory
representatives:


 Imprint of the stamp:

Národná banka Slovenska
Bratislava

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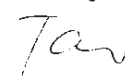
Employee responsible for
accounting
(Name and Surname, Signature):

Ing. Milena Koreňová



Employee responsible for
financial statements
(Name and Surname, Signature):

Ing. Katarína Taragelová



Prepared by:
Ing. Juraj Šarkan