

**C. Auditors' Report
and Financial Statements**

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

We have audited the accompanying balance sheets of the National Bank of Slovakia (the "Bank") as of 31 December 1994 and 1993 and the related profit and loss accounts for the years then ended. These financial statements, set out on pages 2 through 10, are the responsibility of the Bank's Board. 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 and guidelines recommended by the Slovak Chamber of Auditors. Those standards and guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Bank is required to prepare the accompanying financial statements in accordance with Act No. 563/1991 on Accounting and with relevant laws and regulations of the Slovak Republic.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Slovakia as of 31 December 1994 and 1993 and the results of its operations for the years then ended in accordance with Act. No. 563/1991 on Accounting and relevant legislation issued by the Ministry of Finance of the Slovak Republic.

15 March 1995

Deloitte & Touche

**Deloitte Touche
Tohmatsu
International**

**NATIONAL BANK OF SLOVAKIA
BALANCE SHEETS
AS OF
31 DECEMBER 1994 AND 1993
in millions of Slovak crowns**

ASSETS	Note	1994	1993
Gold	3.1.	2 306.5	2 510.2
Deposits with the International Monetary Fund	3.2.	35 055.0	29 790.6
*Reserve position with the International Monetary Fund and Special Drawing Rights		11 871.2	
*Guarantee deposits on loans from the International Monetary Fund		23 183.8	
Deposits with foreign banks	3.3.	48 143.4	13 468.1
Receivables from domestic banks	3.4.	36 143.4	40 653.2
Receivables from the State budget	3.5.	69 329.2	54 461.2
*Current budget		22 854.0	
*State financial liabilities		46 475.2	
Securities	3.6.	8 266.7	
Investments and participations	3.7.	1 585.8	1 585.8
Other assets	3.8.	2 605.8	3 202.9
Total		203 435.8	145 672.0
LIABILITIES AND EQUITY			
Currency in circulation	4.1.	31 265.4	27 486.2
Liabilities to the International Monetary Fund	4.2.	55 772.3	48 748.2
*International Monetary Fund holdings		33 107.7	
*Loans from International Monetary Fund		22 664.6	
Liabilities to foreign banks	4.3.	1 253.5	525.2
*Loans from foreign banks		928.4	
*Deposits from foreign banks		325.1	
Securities issued	4.4.	16 111.8	9 932.7
Deposits of domestic banks	4.5.	17 667.5	12 505.5
Liabilities to the State budget	4.6.	33 000.7	13 217.3
*State financial assets		31 900.1	
*State funds		1 100.6	
Other liabilities	3.1., 4.7.	42 041.2	29 121.2
Net equity	4.8.	6 323.4	4 135.7
Total		203 435.8	145 672.0
The notes on pages 4 to 10 form an integral part of the financial statements.			
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**NATIONAL BANK OF SLOVAKIA
PROFIT AND LOSS ACCOUNTS AND PROFIT ALLOCATIONS
FOR THE YEARS FNDEI)
31 DECEMBER 1994 AND 1993
in millions of Slovak crowns**

EXPENDITURES	Note	1994	1993
Interest and fees expenditures	5.1.	4 779.2	2 541.4
Staff costs	5.2.	256.3	133.8
General operating expenditures		407.0	415.7
Expenditures on banknotes and coins	5.3.	198.2	369.4
Depreciation of fixed assets		124.1	107.9
Net result of foreign currency valuation	6.2.	-	3 149.1
Other expenditures	5.4.	1 980.8	24.4
Profit	7.	8 956.8	6 463.1
Total		16 702.4	13 204.8
REVENUES			
Interest and fees revenues	6.1.	16 190.6	11398.6
Net result of foreign currency valuation	6.2.	256.2	
Other revenues		255.6	1 806.2
Total		16 702.4	13 204.8
PROFIT ALLOCATIONS			
Transfer to the State budget	7.	6 746.3	4 000.0
Allocation to funds	7.	2 210.5	2 463.1
Profit		8 956.8	6 463.1
The notes on pages 4 to 10 form an integral part of the financial statements.			
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NATIONAL BANK OF SLOVAKIA NOTES TO THE FINANCIAL STATEMENTS

1. General information

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

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

- define the monetary policy,
- issue banknotes and coins,
- direct the circulation of money, coordinate payments and the settlement of accounts between domestic and foreign banks and ensure the efficient and economical performance of these operations,
- supervise the banking sector,
- administer the accounts of the State budget, and
- represent the Slovak Republic in world capital markets and with international financial institutions.

2. Statement of Accounting Policies

Significant accounting policies applied in the accompanying financial statements are summarised below.

2.1. Basic principles

The accounting of the Bank is maintained in accordance with the Accounting Act No. 563/1991 Coll. (the "Accounting Act"). The accompanying financial statements have been reformatted to make them more comparable in appearance to financial statements issued for international purposes.

2.2. Valuation of individual assets and liabilities

The financial statements are prepared under the historical cost basis of accounting in accordance with the Accounting Act. Investments are stated at acquisition cost. The valuation of assets and liabilities consider financial risks known to the Bank at the date of preparation of the financial statements

2.3. Valuation of foreign currency transactions and holdings

Transactions denominated in foreign currency are converted by the Bank into Slovak crowns using the foreign exchange rate at the date of the accounting event and in the balance sheet using the foreign exchange rate as at year end.

Balance sheet amounts denominated in Special Drawing Rights ("SDR") are valued at the exchange rate provided by the International Monetary Fund.

Realised exchange rate gains and losses are recorded in the profit and loss account. Unrealised exchange rate losses are recorded in the profit and loss account and unrealised exchange rate gains are only recorded in the balance sheet of the Bank.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS

2.4. Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at their acquisition cost. Depreciation is calculated on the estimated useful lives of the assets.

2.5. Income tax

The Bank is exempt from income tax under the Article 17 of Income Tax Act No. 286/1992 Coll. and subsequent amendments.

2.6. Profit allocation

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

3. Assets

3.1. Gold

This item represents the gold reserves administered by the Bank. The Bank administers in total 40.1 million grams of fine gold, valued at a historical purchase price of Sk 62.54 per gram.

As at 31 December 1994, this item does not include gold used for swap operations for foreign currency in the amount of 9.3 million grams. The difference between the market price for which gold was swapped and its historical purchase price in the amount of Sk 203.6 million is recorded under "Other liabilities" for the amount of Sk 3 449.4 million.

Part of the gold in the amount Sk 570.4 million, resulting from the split of gold reserves of the former State Bank of Czechoslovakia ("SBCS"), has not been released to the Bank. This gold will be part of the final settlement regarding the separation of the former ČBČS balance sheet.

3.2. Deposits with the International Monetary Fund

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

3.3. Deposits with foreign banks

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

3.4. Receivables from domestic banks

At 31 December 1994, this item represents long-term re-financing and redistribution loans in the amount of Sk 32 787.0 million and loans granted to commercial banks for the **restructuring** and development of the Slovak economy in the amount of Sk 2 568.6 million. It also includes other current and short-term deposit accounts with commercial banks in the amount of Sk 787.8 million.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS**

5.5. Receivables from the State budget

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

The "Current budget" represents the actual deficit of the State budget of Slovak Republic for the year 1994 and the clearing settlement account with the Czech Republic. The clearing settlement account was established at the end of the Czech - Slovak currency union as part of a mechanism to manage bilateral payments without the use of convertible currency between the Slovak and the Czech Republics. The balance of the clearing settlement account was, at year end, in favour of the Slovak Republic.

"State financial liabilities" consist of the budget deficits of the Slovak Republic for the years 1991 and 1992 before the separation of the Czech and Slovak Federal Republic ("CSFR"), a part of the federal budget deficit inherited from the former CSFR, the budget deficit of the Slovak Republic for the year 1993 and the direct liabilities of the State inherited from the former CSFR.

3.6. Securities

As of 31 December 1994, the Bank had short-term securities consisting primarily of treasury bills of the United States and Germany.

3.7. Investments and participations

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

	Share in Capital	1994	1993
Československá obchodní banka, a.s., Prague (Czechoslovak Commercial Bank)	24.13%	1 441.0	1 441.0
Bankové zúčtovacie centrum Slovenska, a.s., Bratislava (Bank Clearing Centre of Slovakia)	40.27%	120.0	120.0
Other investments with less than 1 % ownership		<u>24.8</u>	<u>24.8</u>
Total		<u>1 585.8</u>	<u>1 585.8</u>

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

3.8. Other assets

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

	1994	1993
Accruals and prepaid expenses	621.3	1836.0
Tangible and intangible fixed assets - net	1 623.2	969.3
Other	<u>361.3</u>	<u>397.6</u>
Total	2 605.8	<u>3 202.9</u>

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS

4. Liabilities

4.1. Currency in circulation

This item comprises valid domestic banknotes and coins issued by the Bank. The replacement of the former federal CSFR and former temporary Slovak currency was completed during 1994.

4.2. Liabilities to the International Monetary Fund

This item includes the deposits of the International Monetary Fund in Slovak crowns held by the Bank and loans from the International Monetary Fund. The loans were provided in fully convertible currency to strengthen the balance of payments of the Slovak Republic and its foreign exchange reserves.

4.3. Liabilities to foreign banks

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

"Deposits from foreign banks" represent short-term fully convertible currency deposits held at the Bank.

4.4. Securities issued

"Securities issued" include medium-term and long-term bonds in Japanese yen with maturities of 5 to 7 years, placed on international capital markets. In 1994 the Bank issued bonds in the amount of JPY 25 000 million (Sk 7 836.5 million) with a coupon of 6.3%. This account also includes bonds issued in 1993 in the amount of JPY 25 000 million (Sk 7 836.5 million) with coupons of 7.75% and 8.0% and bonds issued by the former SBCS in the amount of JPY 1 400 million (Sk 438.8 million) with a coupon of 8.5%.

In November 1994, the Bank paid off the principal amount of bonds issued by the former SBCS in 1991 amounting to USD 63.0 million, valued as at payment date at Sk 1 976.4 million.

4.5. Deposits of domestic banks

This item represents primarily the obligatory minimum reserves of domestic banks deposited at the Bank in the total amount of Sk 16 265.4 million as at 31 December 1994. The remaining balance represents other deposits from domestic banks.

4.6. Liabilities to the State budget

"State financial assets" include funds from State treasury bills issued by the Slovak Republic and sold by the Bank as agent for the State and long-term restricted reserve funds of the State. "State Funds" represent other deposits of the State in the Bank.

In accordance with Article 25 of the Bank Act, the Bank may provide financing to the State by acquiring short-term State treasury bills. During the year 1994, the Bank allowed the State on some occasions to exceed the aggregate balance of revenue through an interest-bearing overdraft.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS

4.7. Other liabilities

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

	1994	1993
Valuation adjustment of swapped gold (see note 3.1.)	3 449.4	639.7
Unrealised exchange rate gains	1923.2	821.5
Other	<u>36 668.6</u>	<u>27 660.0</u>
Total	42 041.2	29121.2

The main component in "Other" represents the amount incurred from the activity of separating the balance sheet of the former SBCS. The final amount of these liabilities will be determined as a part of the final settlement regarding the separation of the former ČBČS balance sheet.

"Other" also includes, at 31 December 1994, deposits of clients and employees of the Bank for Sk 4 213.9 million, social and remuneration funds and other reserves of Sk 1 655.5 million, and accrued expenses.

4.8. Net equity

At 31 December 1994, this item represents the capital taken over from the separation of the balance sheet of the former ČBČS in the amount of Sk 466.7 million and legal reserve funds amounting Sk 5 856.7 million.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS**

5. Expenditures

5.7. Interest and fees expenditures

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

	1994	1993
Interest paid to State treasury	739.6	641.2
Interest and fees paid to international financial institutions and foreign banks	2 266.5	1 298.7
Interest on bonds issued	1091.5	133.6
Other interest, fees and commissions	681.6	467.9
Total	4 779.2	2 541.4

5.2. Staff costs

"Staff costs" consist of wage and social costs. Social costs represent mainly costs for compulsory contributions to the Health Insurance Fund, Social Security Fund, Pension Fund and Employment Fund.

As at 31 December 1994 the Bank had 1 136 employees, representing an increase of 261 employees compared to 31 December 1993. This increase was due to the recruitment of new employees in connection with the establishment of new departments and branches of the Bank throughout Slovakia.

5.3. Expenditures on banknotes and coins

This item includes expenses for the printing of Slovak banknotes and the minting of coins as well as expenses relating to their withdrawal from circulation and destruction.

5.4 Other expenditures

"Other expenditures" primarily include a provision of Sk 1 639.4 million created in 1994 to cover risks resulting from domestic operations.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS**

6. Revenues

6.1. Interest and fees revenues

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

	1994	1993
Interest received from State treasury	9 977.7	6 660.4
Interest and fees received from domestic banks	3 831.3	4 298.2
Interest and fees received from international financial institutions and foreign banks	2 126.7	375.4
Other interest and fees	254.9	64.6
Total	16 190.6	11 398.6

6.2. Net result of foreign currency valuation

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

7. Profit allocations

The activities of the Bank resulted in an overall profit for the year 1994 of Sk 8 956.8 million of which Sk 6 746.3 million was transferred to the State Budget in accordance with Bank Board decisions.

The remaining share of the 1994 profit, in the amount of Sk 2 210.5 million, was used to replenish the following funds (in millions of Sk):

	1994	1993
Legal reserve fund	2 124.6	2 416.4
Other funds	85.9	46.7
Total	2 210.5	2 463.1

8. Off- balance sheet items

The Bank has recorded, as at 31 December 1994, off-balance sheet payables of Sk 16 217.7 million and receivables of Sk 15 826.3 million from swap operations, valued at the exchange rate as of 31 December 1994.