

E. Auditors' Report

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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 1995 and 1994 and the related profit and loss accounts for the years then ended. These financial statements, set out on pages 2 through 12, are the responsibility of the Bank's Board. Our responsibility is to express an opinion on these financial statements based on our 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. The accompanying financial statements have been reformatted to make them more comparable in appearance to financial statements issued for international purposes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the National Bank of Slovakia as of 31 December 1995 and 1994 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 1996

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NATIONAL BANK OF SLOVAKIA
BALANCE SHEETS
AS OF
31 DECEMBER 1995 AND 1994
in millions of Slovak crowns

ASSETS	Notes	1995	1994
Gold	3.1.	1904.4	2 306.5
Deposits with the International Monetary Fund	3.2.	28 381.6	35 055.0
*Reserve position with the International Monetary Fund and Special Drawing Rights		11 628.8	
*Guarantee deposits on loans from the International Monetary Fund		16 752.8	
Deposits with foreign banks and international institutions	3.3.	40 062.0	48 143.4
Receivables from domestic banks	3.4.	36 484.6	36 143.4
Receivables from the State budget	3.5.	25 742.1	46 437.2
Securities	3.6.	63 676.4	8 266.7
Investments and participations	3.7.	1 509.6	1 585.8
Other assets	3.8.	4 304.8	2 605.8
Total assets		202 065.5	180 543.8
LIABILITIES AND EQUITY			
Currency in circulation	4.1.	39 795.8	31 265.4
Liabilities to the International Monetary Fund	4.2.	41 899.6	54 986.8
*International Monetary Fund holdings		25 734.5	
*Loans from International Monetary Fund		16 165.1	
Liabilities to foreign banks and international institutions	4.3.	3 167.3	2 039.0
*Deposits from foreign banks and international institutions		1 091.9	
*Loans from foreign banks and international institutions		2 075.4	
Securities issued	4.4.	25 830.7	16 111.8
Deposits of domestic banks	4.5.	24 060.8	17 667.5
Liabilities to the State budget	4.6.	12 213.3	10 127.2
*State financial assets		9 349.4	
*State funds		2 863.9	
Other liabilities	4.7.	46 991.1	42 022.7
Total liabilities		193 958.6	174 220.4
Net equity	4.8.	8 106.9	6 323.4
Total liabilities and equity		202 065.5	180 543.8
The notes on pages 4 to 12 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 ENDED
31 DECEMBER 1995 AND 1994
in millions of Slovak crowns**

EXPENDITURES	Notes	1995	1994
Interest and fee expenditures	5.1.	8 592.0	4 779.2
Staff costs	5.2.	298.1	256.3
Other expenditures	5.3.	6 003.8	2 710.1
Profit		3 590.0	8 956.8
Total		18 483.9	16 702.4
REVENUES			
Interest and fee revenues	6.1.	15 798.8	16 190.6
Net result of foreign currency valuation	6.2.	2 654.6	256.2
Other revenues		30.5	255.6
Total	1	8 483.9	16 702.4
PROFIT ALLOCATIONS			
	7.		
Transfer to the State budget		1530.8	6 746.3
Allocation to funds		2 059.2	2 210.5
Profit		3 590.0	8 956.8
The notes on pages 4 to 12 form an integral part of the financial statements.			
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**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

1. General information

The National Bank of Slovakia (the "Bank") was established in accordance with Act No. 566/1992 on the National Bank of Slovakia ("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 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

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 (the "Accounting Act"). The accompanying financial statements have been reformatted to make them more comparable in appearance to financial statements issued for international purposes. The 1994 comparative information disclosed in the financial statements has been reclassified into a format comparable with the current year information.

2.2. Valuation of individual assets and liabilities

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

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

The following mandatory methods of valuation were applied:

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

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

2.3. Valuation of foreign currency transactions and holdings

The Bank converts assets and liabilities expressed in foreign currency to Slovak currency using the foreign exchange rate for accounting purposes on the day of the accounting event and in the financial statements using the foreign exchange rate as of 31 December 1995:

- the "foreign exchange - buying rate" for receivables,
- the "foreign exchange - selling rate" for payables and tangible and intangible fixed assets except for receivables,
- the "foreign exchange - mid rate" for bank accounts, and receivables from and payables to banks, including branches of foreign banks.

The exchange rates for the main foreign currencies used by the Bank for translation of assets and liabilities as of 31 December 1995 are as follows:

Currency	Unit	Foreign exchange rates		
		Buying rate	Selling rate	Mid rate
USD	1	29.421	29.717	29.569
DEM	1	20.543	20.749	20.646
JPY	100	28.690	28.978	28.834
SDR	1	43.734	44.174	43.954

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

2.4. Tangible and intangible fixed assets

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

The estimated useful lives of fixed assets are as follows:

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

2.5. Income tax

The Bank is exempt from income tax under Article 17 of the Income Tax Act No. 286/92 and subsequent amendments.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

2.6. Profit allocation

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

3. Assets

3.1. Gold

This item represents the gold reserves administered by the Bank. The Bank administers in total 30.4 million grams of fine gold, valued at a historical purchase price of Sk 62.54 per gram.

This item does not include 9.7 million grams of gold used for swap operations for foreign currency.

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

Market value of gold as of 31 December 1995 is 12.433 USD per gram (386.7 USD per OZS), i.e. 367.60 Sk per gram (11 434.30 Sk per OZS). The total market value of gold administered by the Bank as of 31 December 1995 is Sk 11 193.6 million.

3.2. Deposits with the International Monetary Fund

This item consists of receivables from the International Monetary Fund ("IMF") resulting from the membership of the Slovak Republic in the International Monetary Fund. Special drawing rights ("SDR") 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 and international institutions

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

3.4. Receivables from domestic banks

As of 31 December 1995, this item represents long-term redistribution loans in the amount of Sk 32 107.0 million, re-financing loans in the amount of Sk 1 333.9 million and loans granted to commercial banks for the restructuring and development of the Slovak economy in the amount of Sk 2 264.4 million. It also includes other current and short-term deposit accounts with commercial banks in the amount of Sk 779.3 million. Reserves have been created to cover risks relating to the above loans (see Note 4.7. "Other liabilities").

3.5. Receivables from the State budget

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

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

The balances of the Slovak Republic in the amount of Sk 25 742.1 million represent the direct liabilities of the State taken over from the former Czech and Slovak Federal Republic ("CSFR"), deficits of the State Budget of Slovak Republic for years 1991 and 1992 before the split of the CSFR, the delimited share of the former CSFR state budget deficit and the deficit of the State Budget of Slovak Republic for the 1995 year, after taking into account the coverage by the treasury bills.

3.6. Securities

As of 31 December 1995, the Bank has in its portfolio short-term securities traded on the financial market consisting primarily of treasury bills of the United States of America and securities of the Bank for International Settlements ("BIS") in the amount of Sk 34 061.8 million and long term securities traded on the capital market, which consist of government bonds of the United States of America and Federal Republic of Germany in the amount of Sk 29 614.6 million.

3.7. Investments and participations

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

	Share in Capital	1995	1994
Československá obchodná banka, a.s., Prague (Czechoslovak Commercial Bank)	24.13%	1 364.8	1441.0
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		24.8	24.8
Total		1 509.6	1 585.8

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

3.8. Other assets

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

	1995	1994
Accruals and prepaid expenses	2 050.2	620.5
Tangible and intangible fixed assets	2 029.6	1 623.2
Other	<u>225.0</u>	<u>362.1</u>
Total	<u>4 304.8</u>	<u>2 605.8</u>

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

4. Liabilities and equity

4.1. Currency in circulation

This item comprises valid domestic banknotes and coins issued by the Bank. During 1995 the Bank issued banknotes with new nominal values of Sk 200 and Sk 5 000.

4.2. Liabilities to the International Monetary Fund

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

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

4.3. Liabilities to foreign banks and international institutions

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

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

4.4. Securities issued

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

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

This item also includes the liability from the issue of short-term treasury bills of the Bank in the amount of Sk 11 010.0 million. During 1995, there were 21 issues of Bank treasury bills placed on the domestic financial market.

4.5. Deposits of domestic banks

As of 31 December 1995 this item represents primarily the obligatory minimum reserves of domestic banks deposited at the Bank in the total amount of Sk 21 470.4 million. The remaining balance represents other deposits from domestic banks.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

4.6. Liabilities to the State budget

"State financial assets" in the form of deposits in the accounts of the Bank as of 31 December 1995 amount to Sk 9 349.4 million.

"State funds" in the amount of Sk 2 863.9 million represents other deposits of the State in the Bank.

4.7. Other liabilities

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

	1995	1994
Accruals	1 484.9	1461.3
Unrealised exchange gains	3 340.0	1 923.2
Reserves	6 785.0	1641.4
Other	<u>35 381.2</u>	<u>36 996.8</u>
Total	<u>46 991.1</u>	<u>42 022.7</u>

"Reserves" as of 31 December 1995 consists of reserves in the amount of Sk 3 831.4 million to cover risks resulting from long-term redistribution loans (see Note 3.4. "Receivables from domestic banks"), reserves in the amount of Sk 2 945.0 million to cover for the difference between the market value and the historical cost of gold used for swap operations, and other reserves in the amount of Sk 8.6 million.

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

"Other" also includes deposits of clients and employees of the Bank in the amount of Sk 2 062.2 million as of 31 December 1995.

4.8. Net equity

This item represents the capital taken over from the separation of the balance sheet of the former ŠBČS in the amount of Sk 466.7 million, the legal reserve fund in the amount of Sk 7 573.0 million and the capital fund in the amount of Sk 67.2 million.

The balance of net equity as of 31 December 1994 in the amount of Sk 6 323.4 million increased during 1995 by additions to the legal reserve fund in the amount of Sk 1 782.5 million (see Note 7. "Profit allocations") and by additions to the capital fund in the amount of Sk 1.0 million.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

5. Expenditures

5.7. Interest and fee expenditures

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

	1995	1994
Interest and fees paid to State treasury	673.5	739.6
Interest and fees paid to foreign banks and international institutions	2 712.9	2 400.7
Interest and fees on bonds issued	1 123.3	1091.5
Other interest, fees and commissions	4 082.3	547.4
Total	8 592.0	4 779.2

5.2. Staff costs

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

As of 31 December 1995 the Bank had 1 187 employees, representing an increase of 51 employees compared to 31 December 1994.

5.3. Other expenditures

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

	1995	1994
General operating expenditures	266.5	277.6
Expenditures on banknotes and coins	259.8	198.2
Depreciation of fixed assets	164.4	124.2
Reserves	5 145.7	1 639.4
Other	167.4	470.7
Total	6 003.8	2 710.1

The main component in "other expenditures" represents reserves of Sk 5 145.7 million comprising mainly reserves created in 1995 to cover risks resulting from long-term redistribution loans in the amount of Sk 2 192.0 million (see Note 3.4. "Receivables from domestic banks" and Note 4.7. "Other liabilities"), and reserves to cover for the difference between the market price and historical cost of gold used for swap operations in the amount of Sk 2 945.0 million (see Note 4.7. "Other liabilities").

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

6. Revenues

6.1. Interest and fee revenues

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

	1995	1994
Interest and fees received from State treasury	3 413.8	9 648.9
Interest and fees received from domestic banks	5 951.6	4 160.1
Interest and fees received from foreign banks and international institutions	4 400.7	2 300.2
Other interest and fees	2 032.7	81.4

Total	15 798.8	16190.6
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6.2. Net result offoreign currency valuation

This item 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 1995 year of Sk 3 590.0 million of which Sk 1 530.8 million was transferred to the State Budget in accordance with Bank Board decisions.

The remaining balance of the 1995 profit, in the amount of Sk 2 059.2 million, was used to replenish the following funds (in millions of Sk):

	1995	1994
Legal reserve fund	1782.5	2 124.6
Other funds	276.7	85.9
Total	2 059.2	2 210.5

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1995**

8. Off- balance sheet items

As of 31 December 1995 the Bank has off-balance sheet receivables in the amount of Sk 22 101.3 million and liabilities in the amount of Sk 25 384.2 million from foreign exchange term operations, which consist of the following items:

- deferred receivables in the amount of Sk 15 004.9 million and deferred liabilities in the amount of Sk 15 395.6 million from the long-term swap operations which were entered into to convert the risk of foreign exchange rate changes from JPY to DEM in respect of Bank bonds issued in 1993 and 1994 (see Note 4.4. "Securities issued"),
- deferred receivables in the amount of Sk 6 491.2 million and liabilities in the amount of Sk 6 465.5 million from short-term foreign exchange swap operations which were entered into in order to hedge the Bank's risk of foreign exchange rate changes, and to manage the foreign currency reserves,
- deferred receivables from gold swap operations in the amount of Sk 605.2 million and deferred liabilities in the amount of Sk 3 523.1 million.

The Bank provides guarantees on loans granted by foreign banks and international institutions to domestic commercial banks up to the current balance of these loans amounting to Sk 2 154.4 million as of 31 December 1995.