

F. Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Bank Board of the National Bank of Slovakia

We have audited the accompanying balance sheet of the National Bank of Slovakia (the "Bank") as of 31 December 1997 and the related profit and loss account for the year then ended. These financial statements, set out on pages 2 to 13, are the responsibility of the Bank's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Bank is required to prepare financial statements in accordance with Act 563 / 1991 on Accounting, as amended, and with relevant laws and regulations of the Slovak Republic. The accompanying financial statements have been formatted 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 Bank as of 31 December 1997 and the results of its operations for the year then ended in accordance with Act 563 / 1991 on Accounting, as amended, and with relevant laws and regulations of the Slovak Republic.

12 March 1998



ERNST & YOUNG AUDIT, s.r.o.

NATIONAL BANK OF SLOVAKIA
BALANCE SHEETS
AS OF 31 DECEMBER 1997 AND 1996
in millions of Slovak crowns

ASSETS	Note	1997	1996
Gold	3	1,543.9	2,285.4
Deposits with the International Monetary Fund	4	23,096.5	24,062.6
Deposits with foreign banks and international institutions	5	9,630.1	17,351.7
Receivables from domestic banks	6	41,588.4	36,585.1
Receivables from the State budget	7	5,495.4	28,625.6
Securities	8	109,069.7	94,214.2
Investments and participations	9	1,381.4	1,583.4
Other assets	10	5,781.0	4,123.8
Total assets		<u>197,586.4</u>	<u>208,331.8</u>
LIABILITIES			
Currency in circulation	11	58,303.1	52,223.6
Liabilities to the International Monetary Fund	12	31,763.3	34,227.1
Liabilities to foreign banks and international institutions	13	9,895.3	4,785.3
Securities issued	14	13,424.0	14,135.0
Due to domestic banks	15	40,779.5	31,114.8
Liabilities to the State budget	16	9,710.6	13,044.1
Other liabilities	17	24,597.4	50,190.0
Total liabilities		<u>188,473.2</u>	<u>199,719.9</u>
EQUITY			
Share capital	18	466.7	466.7
Statutory reserve fund	18	8,573.1	8,573.1
Capital fund	18	73.4	72.1
Total equity		<u>9,113.2</u>	<u>9,111.9</u>
Total liabilities and equity		<u>197,586.4</u>	<u>208,831.8</u>

The notes on pages 4 to 13 are an integral part of the financial statements.

**NATIONAL BANK OF SLOVA KIA
PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED
31 DECEMBER 1997 AND 1996
in millions of Slovak crowns**

	Note	1997	1996
Interest income		13,134.9	16,526.3
Interest expense		(6,252.0)	(10,271.9)
Net interest margin	19	6382.9	6,254.4
Investment income	9	17.3	146.1
Fee and commission income		27.8	16.5
Fee and commission expense		(24.4)	(17.1)
Net fee and commission income		3.4	(0.6)
Gains (losses) arising from dealing in foreign currencies	20	(167.8)	398.5
Excess income from banking operations		6,735.8	6,798.4
Banknote and mintage expenses		(115.3)	(131.8)
Provisions	21	(4,335.7)	(1,919.2)
Administrative expenses	22	(508.0)	(485.3)
Depreciation		(235.5)	(228.8)
Other operating expenses		(436.0)	(535.7)
Total operating expenses		(1,179.5)	(1,249.8)
Extraordinary income		21.7	4.7
Extraordinary expense		(27.0)	(34.6)
PROFIT FOR THE PERIOD		1,100.0	3,467.7
Income transferred to the State budget	23	1,100.0	2,381.1

The notes on pages 4 to 13 are an integral part of the financial statements.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997**

1. General

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

Under the provisions set out in the Bank Act, the Bank's main responsibilities are as follows:

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

2. Accounting policies

In the 1997 accounting period the Bank applied to the accompanying financial statements in conformity with generally accepted accounting standards the following accounting policies:

2.1. Basic principles

The Bank keeps its accounts in accordance with Act No. 563/1991 Coll. on Accounting, as amended ("Act on Accounting"). The accompanying financial statements have been presented to be comparable in appearance to financial statements issued for international purposes. Certain amounts in the 1996 financial statements have been reclassified to be comparable with classifications used in 1997.

2.2. Valuation of individual assets and liabilities

The financial statements have been prepared under the historical cost convention in accordance with the Act on Accounting.

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 valuation methods 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,
- marketable securities traded on capital markets were valued at acquisition cost,
- marketable securities traded on financial markets were valued at nominal value,
- receivables and payables were valued at nominal value.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997**

2.3 Valuation In foreign currency

The Bank converts assets and liabilities denominated in foreign currency to Slovak crowns using the exchange rate as in the Bank's exchange rate chart for accounting purposes on the date of the transaction and in the financial statements using the exchange rate as of 31 December 1997

Exchange rates for principal foreign currencies used by the Bank for valuation of assets and liabilities as of 31 December 1997 are as follows:

Currency	Unit	Foreign currency Mid-rate
USD	1	34.782
DEM	1	19.398
JPY	100	26.848
SDR	1	46.995

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 fixed assets.

The estimated useful lives of fixed assets are as follows:

Depreciation group	Type of fixed assets	Useful life
1	Office equipment, data processing systems, vehicles and software	4 years
2	Instruments and special technical equipment	8 years
3	Security equipment and systems	15 years
4	Energy production equipment (the Bank has no assets in this depreciation group)	30 years
5	Buildings and constructions	40 years

2.5. Income tax

The Bank is exempt from income tax in accordance with section 17 of the Income Tax Act No 286/1992 Coll., as amended.

2.6. Profit allocation

The profit generated by the Bank is used to replenish reserve funds and other funds created from profit and for other purposes according to the Bank's budget. Remaining profit is transferred to the State budget of the Slovak Republic.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997**

NOTES TO FINANCIAL STATEMENTS

3. Gold

The value of gold reserves administered by the Bank is Sk 1,543.9 million. The Bank administers in total 24.7 million grams of fine gold, valued at a historical cost of Sk 62,544.51 per gram.

This item does not include 15.4 million grams of gold used in foreign currency swap operations (see Note 20 "Gain (loss) from foreign exchange dealings" and Note 25 "Off-balance sheet items").

4. Deposits with the International Monetary Fund (IMF)

The structure of deposits with the IMF is as follows (in millions of Sk):

	1997	1996
Reserve position in IMF and special drawing rights	11,874.6	11,520.8
Guarantee deposits on IMF loans	11,221.9	12,541.8
Total	23,096.5	24,062.6

Receivables from the IMF result from the membership of the Slovak Republic in the IMF. Special drawing rights ("SDR's") within the reserve tranche are equal to the Slovak Republic's membership quota paid to the IMF in SDR's and Slovak crowns. Based on the IMF rules and regulations, "Guarantee deposits on IMF loans" are deposits in Slovak crowns and represent the counterpart of loans which were granted to the Slovak Republic (see note 12, "Liabilities to the IMF").

5. Deposits with foreign banks and international institutions

The structure of deposits with foreign banks and international institutions is as follows (in millions of Sk):

	1997	1996
Current accounts	1,466.1	1,001.3
Term deposits with banks	8,164.0	16,350.4
Total	9,630.1	17,351.7

Deposits with foreign banks are denominated mainly in German marks and United States dollars.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997**

6. Receivables from domestic banks

The structure of receivables from domestic banks is as follows (in millions of Sk):
(See also related note 21, "Provisions")

	1997	1996
Refinancing loans	11,593.3	1,602.4
Loans to support the development of small and medium size businesses	8,828.2	3,203.9
Long-term redistribution loans	-	31,088.9
Classified redistribution loans	30,273.2	-
Provisions for classified redistribution loans	-9,750.4	-
Other receivables	644.1	689.9
Total	41,588.4	36,585.1

Refinancing loans of Sk 11,593.3 million comprise; short-term loans to ensure liquidity (Sk 8,600.0 million), rediscounted bills of exchange in support of agriculture (Sk 2,681.5 million) and discounted bills of exchange in support of export (Sk 3118 million).

7. Receivables from the State budget

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

Receivables from the State budget represent the 1991 deficit of the State budget before the split of the Czech and Slovak Federal Republic

8. Securities

The portfolio of the Bank's securities is as follows (in millions of Slovak crowns):

	1997	1996
Money market	46,247.2	54,136.8
Including: Treasury bills	12,522.7	28,997.4
Government treasury notes	33,796.4	25,397.3
Provisions	-71.9	-257.9
Capital market	62,822.5	40,077.4
Including: Short-term bonds	104.2	-
Medium-term bonds	54,930.2	39,698.9
Long-term bonds	8,035.3	472.2
Provisions	-247.2	-93.7
Total	109,069.7	94,214.2

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997**

The money market portfolio consists of; 1) securities issued by the Bank for International Settlements, 2) US. government treasury notes and 3) treasury bills issued by the Federal Republic of Germany, the United States of America and Japan.

The capital market portfolio consists primarily of German, American and Japanese government bonds

9. Investments and participations

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

	Share in capital	1997	1996
Československá obchodná banka, a.s., Praha (Czechoslovak Commercial Bank)	24.13%	1,236.6	1,438.6
Bankové zúčtovacie centrum Slovenska, a.s., Bratislava (Slovak National Clearing Centre)	39.48%	120.0	120.0
Other investments with less than 1% interest		24.8	24.8
Total		1,381.4	1,583.4

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

Dividend income in 1997 from investments and participations amounted to Sk 17.3 million

10. Other assets

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

	1997	1996
Accruals and prepayments	2,246.9	1,574.1
Tangible and intangible fixed assets	3,087.6	2,201.2
Other	446.6	348.6
Provisions on other assets	-0.1	-0.1
Total	5,781.0	4,123.8

11. Currency in circulation

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

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997**

12. Liabilities to the IMF

The structure of liabilities to the IMF is as follows (in millions of Slovak crowns):

	1997	1996
Deposits of the IMF	20,266.1	21,304.8
Loans from the IMF	11,497.2	12,922.3
Total	31,763.3	34,227.1

The item "Deposits of the IMF" includes deposits of the IMF, in Slovak crowns, held by the Bank

The item "Loans from the IMF" includes loans provided in convertible currency to strengthen both the balance of payments and foreign exchange reserves of the Slovak Republic. These loans are secured by guarantee deposits with the IMF. See also note 4, "Deposits with the IMF"

13. Liabilities to foreign banks and international institutions

The structure of the liabilities to foreign banks and international institutions is as follows (in millions of Slovak crowns):

	1997	1996
Deposits	1,438.8	1,375.6
including: Accounts of the World Bank	846.7	820.8
Deposits of foreign banks	569.1	522.2
PHARE fund	23.0	32.6
Loans	8,456.5	3,409.7
including: EXIM Bank of Japan	7,863.8	2,554.8
European Investment Bank of Luxembourg	592.7	854.9
Total	9,895.3	4,785.3

These loans are long-term and are designed to provide financing to select domestic banks to support small and medium businesses and certain sectors of the Slovak economy

14. Securities issued

This item includes medium and long term bonds, denominated in Japanese yen (JPY), with maturity periods of 5 and 7 years. These bonds are traded on Japanese capital markets. In 1993 the Bank issued bonds in the total amount of JPY 25,000 million maturing in 1998 and 2000. These bonds carry fixed interest rates of 7.75% and 8.0% respectively. In 1994 the Bank issued bonds in the amount of JPY 25,000 million with a fixed interest rate of 6.3%, maturing in 1999.

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 preceding the due date of the respective bonds.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997

15. Due to domestic banks

As of 31 December 1997 this item represents primarily the minimum reserve requirements deposited at the Bank by domestic banks, in the total amount of Sk 37,564.3 million (Sk 28,797.9 in 1996). The remaining balance represents other deposits from domestic banks.

16. Liabilities to the State budget

The structure of the liabilities to the State budget is as follows (in millions of Sk):

	1997	1996
State financial assets	6,177.5	9,349.8
State funds	3,533.1	3,694.3
Total	9,710.6	13,044.1

17. Other liabilities

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

	1997	1996
Accruals and prepayments	1,714.1	2,071.3
Adjusting accounts of forward transactions	2,536.3	3,589.9
Reserves	8,258.4	8,731.1
Other	12,088.6	35,797.7
Total	24,597.4	50,190.0

Reserves as of 31 December 1997 include reserves for foreign exchange dealings in the total amount of Sk 8,243.8 million. Included in this amount are: 1) reserves for gold swaps in the amount of Sk 2,715.9 million to provide for the difference between the market value of gold used for swaps and its historical cost, 2) reserves for foreign currency swaps in the amount of Sk 1,477.3 million, 3) reserves for opened FX positions in the amount of Sk 4,050.6 million and 4) other reserves in the amount of Sk 14.6 million.

The main component in "Other" includes an amount of Sk 6,001.6 million deposited by the Slovak Republic authorities.

18. Equity

As of 31 December 1997 these items represent the paid-up capital taken over from the separation of assets and liabilities of the former ŠBČS (Czechoslovak State Bank) in the amount of Sk 466.7 million, the legal reserve fund in the amount of Sk 8,573.1 million and the capital fund in the amount of Sk 73.4 million.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997

19. Interest income

The structure of interest income and expense is as follows (in millions of Sk):

	1997	1996
Interest income	13,134.9	16,526.3
including: Interest received from State treasury	549.8	2,719.4
Interest received from domestic banks	4,907.7	6,877.9
Interest received from foreign banks and international institutions	2,606.2	2,973.8
Interest income from securities dealings	3,979.9	2,939.0
Interest income from foreign exchange dealings	985.9	987.7
Other interest income	105.4	28.5
Interest expense	-6,252.0	-10,271.9
Including: Interest paid to State treasury	-541.4	-705.5
Interest paid to foreign banks and international institutions	-876.2	-641.7
Interest expense on securities dealings	-2,360.0	-2,252.3
Interest expense on foreign exchange dealings	-1,645.1	-1,756.8
Other interest expense	-829.3	-4,915.6
Net interest margin	6,882.9	6,254.4

20. Gains (losses) from foreign exchange dealings

This item is comprised of the following items (in millions of Sk)

	1997	1996
Foreign exchange gains from realized foreign exchange dealings	20,507.8	38,948.1
Foreign exchange losses from realized foreign exchange dealings	-15,755.5	-38,171.0
Use of reserves for foreign exchange dealings	3,630.1	2,971.7
Creation of reserves for foreign exchange dealings	-8,550.2	-3,350.3
Total	-167.8	398.5

The Bank's net foreign exchange gain on realized foreign exchange dealings amounted to Sk 4,752.3 million. In 1997 the Bank created additional reserves for open FX positions in the amount of Sk 3,940.1 million and provided for the difference between the market value of gold used for swaps and its historical cost in the amount of Sk 4,610.1 million. The Bank used existing reserves in the amount of Sk 3,026.6 million for gold swaps and Sk 603.5 million for foreign currency swaps.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997

21. Provisions

The effect of reserves and provisions on the Bank's results is as follows (in millions of Sk):

	1997	1996
Provisions	-9,728.5	-351.7
including: Additions to provisions	-10,069.6	-351.7
Release of provisions	341.1	-
Reserves	5,392.8	-1,567.5
Including : Additions to reserves	-14.6	-1,576.1
Release of reserves	5,407.4	8.6
Net provision for the year	-4,335.7	-1,919.2

The Bank created provisions for classified redistribution loans in the amount of Sk 9,750 4 million. See also note 6, "Receivables from domestic banks". The Bank also reversed existing reserves for redistribution loans in the amount of Sk 5,397 7 million, as these loans were included into classified debts.

Furthermore the Bank created provisions against securities in the amount of Sk 319 1 million (see also note 8, "Securities") and other provisions in the amount of Sk 0.1 million (see note 10, "Other assets")

The Bank released existing provisions against securities in the amount of Sk 341 0 million (see note 8, "Securities") and other provisions in the amount of Sk 0.1 million (see note 10, "Other assets")

Finally, other reserves in the amount of Sk 14 6 million were created in 1997 and Sk 9 7 million were released.

22. Administrative expenses

Administrative expenses consist of wages, salaries and social costs. Social costs comprise the costs for compulsory contributions to the Health Insurance Fund, the Sickness Benefit Insurance Fund, the Old-Age Pension Insurance Fund, the Employment Fund and compulsory additions to the social fund in accordance with the Social Fund Act No 152/1994 Coll. and in terms of the amendment to the Income Tax Act No 286/1992 Coll.

As of 31 December 1997 the Bank had 1,287 employees, including 6 members of the Bank Board.

23. Profit allocation

The activities of the Bank resulted in an overall surplus in 1997 of Sk 1,100 million. This surplus was fully transferred to the State budget of the Slovak Republic in accordance with a Bank Board decision. In 1997 no contributions to the Bank's funds were realized.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1997

24. Currency positions of assets and liabilities

(in millions of Sk)

	Line	Slovak crowns	Foreign currencies translated to Sk	Total
ASSETS:				
1997	1	70,618.4	126,968.0	197,586.4
1996	2	88,064.4	120,767.4	208,831.8
Change	3 = 1 - 2	-17,446.0	+6,200.6	-11,245.4
LIABILITIES:				
1997	4	161,640.3	35,946.1	197,586.4
1996	5	175,485.6	33,346.2	208,831.8
Change	6 = 4 - 5	-13,845.3	+2,599.9	-11,245.4
Change 1997 - 1996	7 = 3 - 6	-3,600.7	+3,600.7	0

25. Off-balance sheet items

As of 31 December 1997 the Bank had off-balance sheet irrevocable receivables in the amount of Sk 16,267 1 million and off-balance irrevocable liabilities in the amount of Sk 22,984 1 million from forward foreign exchange transactions. These amounts consist of the following items:

- deferred receivables in the amount of Sk 13,424.0 million and deferred liabilities in the amount of Sk 15,445 8 million from long-term foreign currency swaps 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 14, "Securities issued"),
- deferred receivables in the amount of Sk 1,877 7 million and liabilities in the amount of Sk 1,879 4 million from short-term forward contracts entered into to hedge the Bank's risk of foreign exchange rate changes and to manage foreign currency reserves,
- deferred receivables in the amount of Sk 965 4 million and deferred liabilities in the amount of Sk 5,658.9 million from gold swap operations