

F. AUDITORS REPORT



INDEPENDENT AUDITOR'S 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 1998 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. These 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 1998 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.

11 March 1999



ERNST & YOUNG AUDIT, s.r.o.

NATIONAL BANK OF SLOVAKIA
BALANCE SHEETS
AS OF 31 DECEMBER 1998 AND 1997
in millions of Slovak crowns

ASSETS	Note	1998	1997
Gold	3	1 401.2	1 543.9
Deposits with the International Monetary Fund	4	21 433.4	23 096.5
Deposits with foreign banks and international institutions	5	19 057.9	9 630.1
Receivables from domestic banks	6	36 441.1	41 588.4
Securities	7	117 975.5	109 069.7
Investments and participations	8	1 666.0	1 381.4
Other assets	9	7 828.0	5 781.0
Total assets		<u>205 803.1</u>	<u>192 091.0</u>
LIABILITIES			
Currency in circulation	10	58 151.3	58 303.1
Liabilities to the International Monetary Fund	11	28 420.1	31 763.3
Liabilities to foreign banks and international institutions	12	28 729.3	9 895.3
Securities issued	13	11 207.7	13 424.0
Due to domestic banks	14	35 774.3	40 779.5
Liabilities to the State budget	15	5 439.4	4 215.2
Other liabilities	16	27 884.3	24 597.4
Total liabilities		195 606.4	182 977.8
EQUITY			
Share capital	17	466.7	466.7
Statutory reserve fund	17	9 655.0	8 573.1
Capital fund	17	75.0	73.4
Total equity		10 196.7	9 113.2
Total liabilities and equity		<u>205 803.1</u>	<u>192 091.0</u>

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

**NATIONAL BANK OF SLOVAKIA
PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED
31 DECEMBER 1998 AND 1997
in millions of Slovak crowns**

	Note	1998	1997
Interest income		14 105.3	13 134.9
Interest expense		(5 731.9)	(6 252.0)
Net interest margin	18	8 373.4	6 882.9
Investment income	8	23.1	17.3
Fee and commission income		38.0	27.8
Fee and commission expense		(37.4)	(24.4)
Net fee and commission income		0.6	3.4
Gains (losses) arising from dealing in foreign currencies	19	5 448.8	(167.8)
Excess income from banking operations		13 845.9	6 735.8
Banknote and mintage expenses		(56.4)	(115.3)
Provisions	20	(9 092.8)	(4 335.7)
Administrative expenses	21	(559.4)	(508.0)
Depreciation		(210.4)	(235.5)
Other operating expenses		(540.1)	(436.0)
Total operating expenses		(1 309.9)	(1 179.5)
Extraordinary income		17.8	21.7
Extraordinary expense		(14.1)	(27.0)
PROFIT FOR THE PERIOD		3 390.5	1 100.0
Income transferred to the State budget	22	2 266.5	1 100.0

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 1998**

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:

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

2. Accounting policies

In the 1998 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 1997 financial statements have been reclassified to be comparable with classifications used in 1998.

This reclassification was performed due to Act No. 375/1997 Coll. on State budget for year 1998.

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 1998**

2.3. Valuation in foreign currency

The Bank converted 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 1998.

Exchange rates for principal foreign currencies used by the Bank for valuation of assets and liabilities as of 31 December 1998 are as follows:

Currency	Unit	Foreign currency Mid-rate
USD	1	36.913
DEM	1	22.081
JPY	100	32.022
SDR	1	51.888

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 1998**

NOTES TO FINANCIAL STATEMENTS

3. Gold

The value of gold reserves administered by the Bank is Sk 1,401.2 million. The Bank administers in total 22.4 million grams of fine gold, valued at a historical cost of Sk 62.54451 per gram.

This item does not include 17.7 million grams of gold used in foreign currency swap operations. (see Note 19 "Gain (loss) from foreign exchange dealings" and Note 24 "Off-balance sheet items").

To secure golden swaps the Bank purchased sell options (see Note 24 "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):

	1998	1997
Reserve position in IMF and special drawing rights	12,332.9	11,874.6
Guarantee deposits on IMF loans	9,100.5	11,221.9
Total	21,433.4	23,096.5

Receivables from the IMF resulted from the membership of the Slovak Republic in the International Monetary Fund. Special drawing rights ("SDR's") within the reserve tranche are equal to the Slovak Republic's membership quota paid to the International Monetary Fund in SDR's and Slovak crowns. Based on the IMF rules and regulations, "Guarantee deposits on IMF loans" are the deposits in Slovak crowns and represent the counterpart of loans which were granted to the Slovak Republic (see Note 11, "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):

	1998	1997
Current accounts	580.5	1,466.1
Term deposits with banks	3,837.7	8,164.0
Receivables from repo operations	14,639.7	-
Total	19,057.9	9,630.1

Deposits with foreign banks are denominated mainly in German marks and US dollars. The Bank had in its evidence receivables from repo operations which are guaranteed via the state treasury bills and state bonds issued in USD.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1998

6. Receivables from domestic banks

The structure of receivables from domestic banks is as follows (in millions of Sk):

	1998	1997
Refinancing loans	14,955.5	11,593.3
Loans to support the development of small and medium size businesses	10,760.9	8,828.2
Classified redistribution loans	28,967.4	30,273.2
Provisions for classified redistribution loans	(18,801.4)	(9,750.4)
Other receivables	558,7	644.1
Total	36,441.1	41,588.4

Refinancing loans of Sk 14,955.5 million comprise; short-term loans to ensure liquidity of Sk 13,500.0 million and rediscounted bills of exchange in support of agriculture in amount of Sk 1,455.5 million.

As at 31 December 1998 the Bank created provisions for classified loans (see Note 20. "Provisions and reserves").

7. Securities

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

	1998	1997
Money market	53,003.7	46,247.2
Including: Treasury bills	33,691.2	12,522.7
Government treasury notes	19,455.1	33,796.4
Provisions	(142.6)	(71.9)
Capital market	64,971.8	62,822.5
Including: Short-term bonds	5,788.1	104.2
Medium-term bonds	38,431.9	54,930.2
Long-term bonds	20,972.0	8,035.3
Provisions	(220.2)	(247.2)
Total	117,975.5	109,069.7

The money market portfolio consists of securities issued by the Bank for International Settlements, U.S. government treasury bills, Japanese government treasury bills and treasury bills issued by the agencies sponsored by U.S. government.

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

During the year 1998 the Bank created provisions for securities in the amount of Sk 362.8 million and used provisions for securities in the amount of Sk 322.9 million (see Note 20. "Provisions and reserves").

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1998**

8. Investments and participations

As at 31 December 1998 the Bank holds participations in the following companies and institutions (in millions of Sk):

	Share in capital	1998	1997
Československá obchodná banka, a.s., Praha (Czechoslovak Commercial Bank)	24.13%	1,521.1	1,236.6
Bankové zúčtovacie centrum Slovenska, a.s., Bratislava (Slovak National Clearing Centre)	39.48%	120.0	120.0
Other investments with less than 1% interest		24.9	24.8
Total		1,666.0	1,381.4

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 from investments and participations amounted to Sk 18.5 million.

9. Other assets

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

	1998	1997
Accruals and prepayments	3,451.1	2,246.9
Tangible and intangible fixed assets	3,773.8	3,087.6
Other	603.4	446.6
Provisions on other assets	(0.3)	(0.1)
Total	7,828.0	5,781.0

10. 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 1998

11. Liabilities to the IMF

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

	1998	1997
Deposits of the International Monetary Fund	18,308.4	20,266.1
Loans from the International Monetary Fund	10,111.7	11,497.2
Total	28,420.1	31,763.3

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

The item "Loans from the International Monetary Fund" 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 International Monetary Fund. (See Note 4, "Deposits with the International Monetary Fund").

12. 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):

	1998	1997
Deposits	1,794.4	1,438.8
including: Accounts of the World Bank	935.7	846.7
Deposits of foreign banks	845.6	569.1
PHARE fund	13.1	23.0
Loans	26,934.9	8,456.5
including: Liabilities from repo operation	14,639.7	-
EXIM Bank of Japan	10,860.9	7,863.8
European Investment Bank of Luxembourg	1,434.3	592.7
Total	28,729.3	9,895.3

These loans are long-term and are designed to provide financing of selected domestic banks to support small and medium businesses and certain sectors of the Slovak economy. The Bank has in its evidence liabilities from repo operations secured by state bonds in USD.

13. Securities issued

This item includes per 31 December 1998 medium and long term bonds, denominated in Japanese yen (JPY), with maturity period 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 10,000 million, maturing in the year 2000. These bonds carry fixed interest rates of 8.0%. In 1994 the Bank issued bonds in the amount of JPY 25,000 million with a fixed interest rate 6.3%, maturing in 1999.

**NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1998**

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.

14. Due to domestic banks

As of 31 December 1998 this item represents primarily the minimum reserve requirements deposited at the Bank by domestic banks, in the total amount of Sk 32,405.7 million. The remaining balance represents other deposits from domestic banks.

15. Liabilities to the State budget

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

	1998	1997
State financial assets	3,023.3	682.1
State funds	2,416.1	3,533.1
Total	5,439.4	4,215.2

16. Other liabilities

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

	1998	1997
Accruals and prepayments	2,204.8	1,714.1
Adjusting accounts of forward transactions	598.0	2,536.3
Reserves	12,241.1	8,258.4
Other	12,840.4	12,088.6
Total	27,884.3	24,597.4

The item "Reserves" as of 31 December 1998 includes reserves for foreign exchange dealings in the total amount of Sk 12,224.8 million. This amount includes reserves for gold swaps in the amount of Sk 4,651.5 million to provide for the difference between the market value of gold used for swaps and its historical cost, reserves for foreign currency swaps in the amount of Sk 522.0 million and reserves for opened FX positions in the amount of Sk 7,051.3 million. Other reserves are in the amount of Sk 16.3 million.

17. Equity

As of 31 December 1998 these items represent the paid-up capital taken over from the separation of assets and liabilities of the former "SBČS" (Czechoslovak State Bank) in the amount of Sk 466.7 million, the legal reserve fund in the amount of Sk 9,655.0 million and the capital fund in the amount of Sk 75.0 million.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1998

18. Interest income

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

	1998	1997
Interest income	14,105.3	13,134.9
including: Interest received from State treasury	0	549.8
Interest received from domestic banks	5,267.0	4,907.7
Interest received from foreign banks and international institutions	2,982.0	2,606.2
Interest income from securities dealings	4,740.2	3,979.9
Interest income from foreign exchange dealings	992.8	985.9
Other interest income	123.3	105.4
Interest expense	(5,731.9)	(6,252.0)
Including: Interest paid to State treasury	(5.3)	(541.4)
Interest paid to foreign banks and international institutions	(1,104.8)	(876.2)
Interest expense on securities dealings	(1,334.1)	(2,360.0)
Interest expense on foreign exchange dealings	(1,979.7)	(1,645.1)
Other interest expense	(1,308.0)	(829.3)
Net interest margin	8,373.4	6,882.9

19. Gains (losses) from foreign exchange dealings

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

	1998	1997
Foreign exchange gains from realized foreign exchange dealings	24,546.5	20,507.8
Foreign exchange losses from realized foreign exchange dealings	(15,116.7)	(15,755.5)
Use of reserves for foreign exchange dealings	5,425.9	3,630.1
Creation of reserves for foreign exchange dealings	(9,406.9)	(8,550.2)
Total	5,448.8	(167.8)

The Bank's net foreign exchange gain on realized foreign exchange dealings amounted to Sk 9,429.8 million. In 1998 the Bank created additional reserves for open FX position in the amount of Sk 3,000.8 million and additional reserves for the difference between the market value of gold used for swaps and its historical cost in the amount of Sk 6,406.1 million. The Bank used existing reserves in the amount of Sk 4,470.5 million for gold swaps and Sk 955.4 million for foreign currency swaps.

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1998

20. Provisions and other reserves

The effect of created and used reserves and provisions on the Bank's result in 1998 is as follows (in millions of Sk):

	1998	1997
Provisions	(9,091.1)	(9,728.5)
including: Additions to provisions	(9,414.0)	(10,069.6)
Release of provisions	322.9	341.1
Reserves	(1.7)	5,392.8
Including : Additions to reserves	(16.3)	(14.6)
Release of reserves	14.6	5,407.4
Net provision for the year	(9,092.8)	(4,335.7)

The Bank created during the year 1998 provisions for classified redistribution loans in the amount of Sk 9,051.0 million. (See Note 6, "Receivables from domestic banks").

21. 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 1998 the Bank had 1,296 employees, including 6 members of the Bank Board.

22. Profit allocation

The activities of the Bank during the year 1998 resulted into a profit of Sk 3,390.5 million. The amount of Sk 2,266.5 million represents remittance from the profit to the State budget. This amount includes Sk 2,200 million transferred to the State budget as of 31 December 1998. To the reserves fund was allocated amount of Sk 1,081.9 million, the social fund was created in the amount of Sk 40 million and to the pension fund was allocated amount of Sk 2.1 million.

23. Currency positions of assets and liabilities

(in millions of Sk)

	Line	Slovak crowns	Foreign currencies translated to Sk	Total
ASSETS:				
1998	1	53,926.2	151,876.9	205,803.1
1997	2	65,123.0	126,968.0	192,091.0
Difference	3 = 1 - 2	(11,196.8)	+24,908.9	+13,712.1
LIABILITIES:				
1998	4	139,805.2	65,997.9	205,803.1
1997	5	156,144.9	35,946.1	192,091.0
Difference	6 = 4 - 5	(16,339.7)	+30,051.8	+13,712.1
Change 1998 - 1997	7 = 3 - 6	5,142.9	(5,142.9)	0

NATIONAL BANK OF SLOVAKIA
NOTES TO THE FINANCIAL STATEMENTS
AS OF 31 DECEMBER 1998

24. Off-balance sheet items

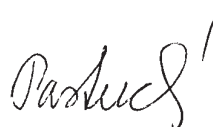
As of 31 December 1998 the Bank had off-balance sheet irrevocable receivables in the amount of Sk 18,719.6 million and off-balance irrevocable liabilities in the amount of Sk 24,480.6 million from forward foreign exchange transactions. These amounts consist of the following items:

- ✧ deferred receivables in the amount of Sk 11,207.7 million and deferred liabilities in the amount of Sk 12,282.8 million from long-term foreign currency swaps realised 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 13, "Securities issued"), and deferred receivables in amount of Sk 6,404.4 millions and deferred liabilities in the amount of Sk 5,990.4 millions from long-term swaps of loans received.
- ✧ deferred receivables in the amount of Sk 1,107.5 million and deffered liabilities in the amount of Sk 6,207.4 million from gold swap operations.

As of 31 december 1998 the Bank had in it's evidence receivables from gold options operations in the amount of Sk 5,449.7 million and liabilities from gold options operations in the amount of Sk 972.6 million.



Vladimír Masár
Governor



Anna Pastuchová
Executive Director of
Information Systems Division