

National Bank of Poland
General Inspectorate of Banking Supervision

SUMMARY EVALUATION OF THE FINANCIAL
SITUATION OF POLISH BANKS

1998

Warsaw, April 1999

1. Scope of analysis and methodological remarks

The present summary evaluation of the financial situation of Polish banks in 1998 was performed on the basis of prudential reports filed by the banks, as available at February 8, 1999.¹ It covered **83** commercial banks, i.e. **52** banks with majority Polish equity (2 state-owned banks and 50 joint-stock banks) and **31** banks with majority foreign equity (3 foreign bank branch offices and 28 joint-stock banks), and also **1189** co-operative banks. As in earlier studies, the term "**banking system**" as used herein does not include the National Bank of Poland (NBP), nor banks declared bankrupt or under liquidation. A full listing of commercial banks at year-end 1998 broken down into several categories is presented in Appendix 1.

The first part of the evaluation recapitulates the most important organisational and legal changes in the banking sector and presents the ownership structure of the banks, highlighting the involvement of foreign capital. The second part discusses the economic situation of the banks, their realised earnings, income and cost. Both balance sheet and off-balance items are discussed, together with their structure in terms of quality, specific provisions for irregular assets and off-balance items, as well as trends relating to the capital base and risk-based capital ratios of the banks.

2. Structure of the banking system

At year end 1998, there were 83 commercial banks², and 1,189 co-operative banks operating in Poland. The number of co-operative banks decreased by 106, while that of commercial banks remained the same as at year-end 1997. Admittedly, 2 banks with 100% foreign equity were established (namely VOLKSWAGEN BANK POLSKA SA³ and Fiat Bank Polska SA⁴). However, Bank Rozwoju Eksportu bought the shares of Polski Bank Rozwoju SA from its previous holders (including the State Treasury) and merged with it⁵, while Bank Rozwoju Energetyki i Ochrony Środowska "MEGABANK" SA was put under liquidation⁶. The number of commercial banks might not have changed since year-end 1997, but important changes took place within the group. Apart from those mentioned above the following are worth pointing to:

- Operating activity was commenced by 5 banks - in addition to 2 newly created ones (VOLKSWAGEN BANK POLSKA SA and Fiat Bank Polska SA), also 3 banks set up in

¹ Which means that the analysis does not take into account any adjustments to those reports submitted by banks and entered in the NBP database following that date.

² As a result of the merger, on January 1, 1999, of three banks making up the PKO SA Group (Powszechny Bank Gospodarczy SA, Pomorski Bank Kredytowy SA and Bank Depozytowo-Kredytowy SA) with Bank Polska Kasa Opieki SA and after SAVIM Bank Depozytowo-Kredytowy SA was declared bankrupt by a court (January 13, 1999), the number of banks at the end of January decreased to 79 banks.

³ Authorisation was granted on December 29, 1997, the bank was entered in the register on March 5 and commenced operating activity on July 30, 1998.

⁴ Authorisation was granted on December 29, 1997, the bank was entered in the register on February 24 and commenced its operating activity on June 15, 1998.

⁵ The merger was performed under resolutions of the shareholders general meetings of July 31, 1998, following which PBR SA was struck off the court register.

⁶ With high accumulated losses and a negative risk-based capital ratio. Let us recall that in 1995 100% of shares in that nearly bankrupt bank (its operating activity had been suspended since August 25, 1994) was purchased by Bayerische Vereinsbank AG, which was then applying for banking authorisation. The bank's activities were then limited to debt collection.

- 1997: Bank of America (Polska) SA,⁷ Dolnoslaski Bank Regionalny⁸ and Rzeszowski Bank Regionalny⁹;
- Rabobank International Holding Nederland having bought out the shares from the remaining shareholders increased its interest in Rabo-Bank Rolno-Przemyslowy Polska SA from 60% to 100%. The Bank has been renamed Rabobank Polska SA;
 - The American insurance corporation AIG Consumer Finance Group, Inc. purchased from the former shareholders a majority stake in Bank Podlaski SA and subsequently recapitalised it. The bank has been renamed AIG Bank Polska SA;
 - The privatisation of Bank Polska Kasa Opieki SA, Grupa PKO SA commenced;
 - The State Treasury sold 15% of shares in Powszechny Bank Kredytowy SA, as a result of which its interest in the bank went down from 33.3% to 18.3%;
 - The State Treasury has not embraced (newly issued) shares of Bank CZESTOCHOWA SA and, by the same token, lost its controlling interest in it;
 - Bank Handlowy w Warszawie SA took up a controlling interest in Bank Rozwoju Cukrownictwa SA in Poznan;
 - "Lukas" SA company embraced a majority stake in Bank Swietokrzyski SA, which it subsequently recapitalised. The bank has been renamed LUKAS Bank Swietokrzyski SA;
 - The National Bank of Poland sold to Powszechny Bank Kredytowy SA its stake (99.93%) in Pierwszy Bank Komercyjny SA, which was implementing a rehabilitation programme¹⁰;
 - On October 22, 1998 the Minister for Treasury concluded an agreement to sell a block of 4 316 670 shares in Bank Przemyslowo-Handlowy SA (entitling it to 36.7% of votes at shareholders' general meeting) to Bayerische Hypo- and Vereinsbank AG¹¹;
 - The Securities and Exchange Commission admitted for public trading shares in Bank Polska Kasa Opieki SA, Grupa Pekao SA and Bank CZESTOCHOWA SA¹².

The banking sector in Poland is characterised by an increasing level of concentration and marked right skewness. In 1998 the number of large banks (with net assets in excess of 10 billion zloty) went up from 6 to 11, while the number of small banks (with net assets lower than 1 billion zloty) went down from 52 to 42. At the end of December the 11 largest banks jointly held nearly 68.7% of net assets at the commercial banks, while 42 small banks held merely 4.7% of net assets at the commercial banks.

The net assets of 1 189 co-operative banks constituted 4.3% of the net assets of the whole banking sector, their non-financial sector deposits - 5.2% of deposits in the sector and net

⁷ Authorisation was granted on August 21, the bank was entered in the commercial register on September 4 1997, and it commenced operating activity on January 5, 1998.

⁸ Authorisation was granted on February 3, 1997, the bank was entered in the commercial register on April 25, and it commenced operating activity on January 1, 1998.

⁹ Authorisation was granted on April 26, 1997, the bank was entered in the commercial register on September 1, 1997, and it commenced operating activity on April 24, 1998.

¹⁰ The agreement between the NBP and PBK SA was concluded on October 27 and the transaction completed (shares paid for and delivered) on December 18, 1998.

¹¹ The agreement was finalised on January 5, 1999. Since January 1999 the bank has been included in the banks with majority foreign equity - the foreign shareholders (Bayerische Hypo- und Vereinsbank AG, European Bank for Reconstruction and Development and ING Group N.V.) now hold in total 66% of shares in the bank. 4.4% of shares have remained with the State Treasury.

¹² But Polski Bank Rozwoju was delisted in connection with its take-over by BRE SA. So the number of listed banks increased by one (from 15 to 16).

loans - 5.0% of net loans in the whole banking sector. However, staffing at co-operative banks (about 25 thousand people) constituted 14.5% of all banking sector employees.

In 1998 the number of co-operative banks decreased from 1 295 to 1 189. The courts declared the bankruptcy of 4 banks, 96 banks merged with other co-operative banks, 6 banks were put under liquidation, following which 5 of them were sold to commercial banks.

At year end 1188 co-operative banks were affiliated to 11 higher-tier structures, of which 950 banks to 9 regional banks. 238 banks affiliated to BUG SA or GBP-Z SA and unaffiliated Spoldzielczy Bank Rozwoju "Samopomoc Chlopska" remained outside the National Co-operative Banking Group.

The number of **banks with a majority public-sector interest** fell from 15 to 13 and the number of private banks went up from 68 to 70, of which the number of banks with majority foreign equity from 29 to 31. In consequence, the share of banks with a majority public-sector interest in the total assets of the banking system fell over 3 points (from 49.3% to 46.0%), of which banks directly owned by the Treasury over 1 point (to 36.9%)¹³.

Foreign investors, in addition to 3 foreign bank branch offices, controlled 28 joint-stock company banks, of which 18 with 100% and 9 with majority foreign equity. 1 bank was indirectly controlled.

The share capital of 31 banks with majority foreign equity represented 43.7% of share capital, while the adjusted capital base ("own funds") and net assets of these banks - which reflect the real scale of banking operations - represented, respectively, 27.8% of the adjusted capital base and 16.5% of total net assets within the banking system (29.0% of the adjusted capital base and 17.3% of net assets at the commercial banks).

At year-end 1998, banks with majority foreign equity employed 17.8 thousand employees (10.2% of those employed in the banking sector), i.e. 1.5 thousand more than at year-end 1997. In 1998 the number of branch offices of banks with majority foreign equity increased by 123 (from 169 to 292) and of the remaining offices - by 15 (from 215 to 230). To compare, banks with majority Polish equity had 1 572 branch offices and 7 385 other offices, in which they employed in total 131 thousand people.

In 1998, foreign parties invested in the Polish banking sector the equivalent of 1 099.0 million zloty, of which 191.3 million in banks with majority Polish equity. This translated into an increase of foreign capital in the share capital of the commercial banks from 41.5% to 49.7% (in the case of private banks with majority Polish equity from 17.1% to 23.4%). The proportion of foreign capital in listed banks also increased (from 30.9% to 37.8%), of which in four it moved around 50%.

¹³ Let us recall that, at year-end 1993, there were 29 banks with majority public-sector ownership, of which 16 banks were directly owned by the Treasury, with their net assets totalling 80.4% and 76.1%, respectively, of all net assets within the banking system.

At year-end 1998, foreign investments in the Polish banking sector totalled the equivalent of 3 561.4 million zloty (2 993.5 million zloty in 31 banks with majority foreign equity and 567.9 million zloty in 14 banks with majority Polish equity¹⁴). It should be noted that only reputable foreign banks and financial institutions have so far been admitted to the Polish banking system.

The bulk of foreign capital invested in the Polish banking system was from Germany (1 138.1 million zloty) and the USA (1 028.7 million zloty). The proportion of foreign capital from these two countries in the share capital of the commercial banks was at year-end 1998 15.9% and 14.3%, respectively. Third was Dutch capital (499 million zloty) which represented almost 7%, followed by French and Austrian capital (342 million zloty and 257 million zloty), representing about 4.5% and 3.6% of the share capital of the banks, respectively.

At year-end 1998 16 banks were listed on the **Warsaw Stock Exchange**¹⁵. The share capital of the listed banks (1 982.3 million zloty in total) constituted 27.6% of the equity (share capital and registered fund) of the commercial banks. The share of banks in Stock Exchange capitalisation dropped slightly (from 34.5% to 32.1%), still being very high.

The ownership structure of the listed banks was as follows: 8.7% of the capital was held directly by the Treasury, 6.8% was owned by state parties ("state juristic persons"), 5.5% - by other domestic parties and 37.8% - by foreign parties. The remaining capital (41.2%) was in dispersed holdings - listed banks by their very nature involve their high share.

4. Bank earnings

In 1998 Poland retained its leading position among the fastest growing economies, however the rate of economic growth considerably weakened. GDP growth (4.8%) was lower than the year before and also lower than in the Budget. Bank earnings were affected by slower economic growth due to internal factors (drop in investments, lower growth in consumer demand) and external factors (crisis in Russia and consequent fall in foreign demand for Polish products), the deterioration of enterprises and households (growth in unemployment) and faster than expected fall in inflation¹⁶.

In 1998 **the banking sector** realised only 82.2% of 1997 **pre-tax earnings** (68.9% of net earnings). In real terms, pre-tax earnings (5.5 billion zloty¹⁷) were 26.5% lower, while **net earnings** (3.1 billion zloty) as much as 38.3% lower than in 1997¹⁸. Bank earnings were

¹⁴ See appendix 3.

¹⁵ See appendix 2.

¹⁶ Average annual CPI growth as measured by the Jan. - Dec 1998 / Jan. - Dec 1997 index was 111.8% (compared to 114.9% in 1997), while measured by the Dec. 1998 to Dec 1998 index it was 108.6% (113.2% in the previous year). As published in *Biuletyn Statystyczny GUS [Statistical Bulletin of the Central Office of Statistics]* no 12 (494), Table 34, p. 106.

¹⁷ Of which the earnings of the commercial banks (5.2 billion zloty) and the co-operative banks (285.7 billion zloty) were, in real terms, 26.5% and 27.1% lower.

¹⁸ The net earnings of the commercial banks (2.9 billion zloty) and co-operative banks (176.5 million zloty) were nominally lower by 31.6% and 21.7% respectively (by 38.8% and 30.0% in real terms).

deteriorating from quarter to quarter. 4th quarter pre-tax earnings in the banking sector constituted merely 9.7% of 1st quarter earnings (7.6% at the commercial banks).

Of 83 commercial banks subject to the analysis 74 banks ended 1998 with a pre-tax profit (of 5 480.0 million zloty, in total) and 9 banks with a loss (296.4 million zloty, in total). In the co-operative sector 1 162 banks (97.7%) recorded a pre-tax profit (292.8 million zloty, in total), and 27 banks posted a loss (7.1 million zloty, in total).

Bank earnings deteriorated because bank income grew considerably more slowly (148.3%) than total expense (159.7%). In 1998 total **income of the bank system** stood at 67.1 billion zloty (the commercial banks accounting for 64.4 billion zloty and the co-operative banks for 2.6 billion zloty) and **total expense** at 61.6 billion zloty (59.3 billion zloty and 2.3 billion zloty, respectively).

Banks with majority foreign equity had a higher rate of growth in income, expense and earnings than banks with majority Polish equity, which can be traced to their higher efficiency and successful expansion in the market for bank services.

Net income from core banking operations at the commercial banks, at 17.4 billion zloty, proved only 16.0% higher than in 1997 (3.7% higher in real terms) and at the co-operative banks, at 1.2 billion zloty, merely 4.0% higher than in 1997 (7.0% lower in real terms).

Most of net income from core banking operations was earned on the difference between interest paid and received by banks, however the share of net interest income clearly decreased. 1998 saw a faster growth in **interest expense** (by 30.9%) than in **interest income** (by 23.7%). This was because expense-generating liabilities rose faster than earning assets, which was accompanied by diminishing return on earning assets with a still high cost of funds. In consequence, **net interest income** increased only 11.2% and its share in net income from core banking operations was down by 2.5 points (from 72.9% to 70.4%).¹⁹ In the 2nd half-year, along with the lowering of market interest rates, net interest income was falling - in the 3rd quarter it was 5.2%, and in the 4th quarter 18.1% lower than net interest income earned in the previous quarter.

Falling interest rates in the environment of the reserve ratio kept at unchanged level and growing competition in the financial services market resulted in a considerable narrowing of the **interest rate margin**, which largely contributed to the deterioration of bank earnings, because the share of interest income in average net assets went down and the share of interest expense in average net assets went up. In consequence, the interest margin fell 0.7% (when measured by the ratio of net interest income to average net assets it fell from 5.4% in 1997 to 4.7% and when measured by the ratio of net interest income to average earning assets - from 6.3% to 5.6%).

General expense at the commercial banks in 1998 totalled 9.5 billion zloty, up 29.9% on 1997, while such expense at the co-operative banks totalled 0.9 billion zloty, up 9.3% on

¹⁹ In commercial banks it constituted 69.8% (72.3% in 1997) and in co-operative banks 78.6% (80.5%) of the net income from core banking operations.

1997. General expense consumed 54.2% (48.4% in 1997) of net income from core banking operations at the commercial banks and, correspondingly, 71.3% (67.9%) of such net income at the co-operative banks. The main reason for rising general expense at commercial banks was considerable growth (40.7%) in occupancy and other physical costs²⁰, while personnel expense (including tax and contributions) went up slower (27.4%) than other expense, also compared to previous periods. Net fee & commission income covered merely 31.5% of general expense at the commercial banks.

Also, there was a fast (34.9%) increase in **depreciation of fixed assets and intangible assets**. This was connected with the expansion of the branch network and points of customer service, as well as growing IT expenses.

The above-discussed slowing down in economic growth also affected the situation of many bank clients, as a result of which net specific provisioning expense in 1998 went up considerably (from 4.8% to 10.5%). **Total movements in provisions²¹ and valuation allowances²²** of the commercial banks generated net expense (-1.9 billion zloty), its absolute value being higher by 151.1% than in 1997. The reasons for the high provisioning were: growing amounts of irregular claims on the non-financial sector, required provisions for bank exposure to the Russian market and that of other CIS countries and provisions established for part of the old housing loan portfolio.

Despite the fact that 1998 brought a 2 point cut in corporate income tax rates, obligatory reduction to earnings of the banks were 9.7% (of which, income tax 9.9%) higher than in 1997. Income tax represented 43.5% and 37.9% of pre-tax earnings at the commercial and co-operative banks, respectively (in 1997 32.2% and 35.2%, respectively).

In the case of banks not all balance-sheet expense, in particular not all specific provisioning by banks, is revenue earning cost for tax purposes, which means that it is not tax-deductible and is subject to taxation. At the same time due the accrual treatment of part of income from financial operations, bank earnings do not coincide with tax settlements.²³

1998 saw a further **decline in performance**, as measured both by the cost/income ratio and performance indicators. This was reflected in the deterioration - compared to 1997 - of the following ratios:

- the cost/income ratio²⁴ rose 6.5 points (from 85.3% to 91.8%);
- pre-tax profitability²⁵ fell 8.4 points (17.3% to 8.9%);
- net profitability²⁶ declined 6.7 points (11.7% to 5.0%);

²⁰ Expense on rent and maintenance of the building and the remaining physical expense.

²¹ Of which: net movements in provisions for irregular claims (1 225.4 million zloty), for irregular off-balance classifications (91,4 million zloty) and other write down to provisions ("general risk") (627.0 million zloty).

²² Arising from depreciation of securities, shares in subsidiaries and affiliates, and minority stakes.

²³ Let us recall that the Treasury had prematurely redeemed the A series restructuring bonds. 7 banks received 1 219 million zloty on that account. Part of the funds which had earlier been recognised, on the accrual basis, as retained earnings, had no impact on current earnings of the banks, but affected the level of tax obligations.

²⁴ Total expense/ total income.

²⁵ Pre-tax earnings/ total expense.

²⁶ Net earnings/ total expense.

- ROA²⁷ fell one point (from 2.1% to 1.2%);
- ROE (on core capital)²⁸ fell 21.6 point (from 37.7% to 16.1%).

The halving of ROA can be particularly disquieting. A low ROA ratio is indicative not merely of the low earning potential of assets, but also of a poor potential of banks to face growing competition, which can put their earnings under threat in future periods. Admittedly, the ROE level allows to protect the real value of capital. Still, it should be noted that the difference between ROE and the rate of inflation has narrowed.

Despite the poorer earnings and effectiveness, 1998 saw a definitely **faster** than previously **expansion** of the Polish **banking sector**. The net assets of the banking sector grew 19.2% in real terms (29.5% nominally) up from 11% in 1997. At the end of December 1998 **net assets** at the banks stood at 320.7 billion zloty, of which the commercial banks accounted for 307.0 billion zloty (95.7%) and the co-operative banks accounted for 13.7% billion zloty (4.3%).

1998 changes in the structure of assets at the commercial banks involved: drop in claims on the financial sector (by 0.4 point), non-financial sector (by 0.7 point) and the remaining assets (by 0.6 point) with a corresponding growth in claims on government (by 0.8 point) and claims on the central bank (by 0.6 point) as well as the securities portfolio (by 0.3%).

The changes in percentage shares may seem minor, but as these represented considerable amounts, they significantly affected both income and expense and, consequently, earnings at banks. Growth in cash with the central bank, mainly in fulfilment of the regulatory reserve requirement, translated into growth in the share of non-working assets on bank balance sheets. The share of the required regulatory reserve in net assets within the banking sector was on average 6.7%, whereas in 1994 – 1996 it moved within the 3.5% - 4.0% brackets.

Growth in 1998 loan outstandings was much slower than in the years 1996-1997. In total, loans grew 26.1 billion zloty and their rate of growth (28.1% nominally and 17.9% in real terms) was lower than the rate of growth in total assets and deposits.

1998 saw the narrowing of the difference between the rates of growth in lending to two basic groups of non-financial sector clients. Loans to persons were growing only 1.2 point faster than loans to corporates. A distinctive phenomenon, indicative of the development of a new trend, was a fast growth (by as much as 51.6% in real terms) of home loans to persons.

Most loans to the non-financial sector were zloty denominated. However, as a result of a relatively stable zloty rate of exchange and relatively low interest on FX loans the rate of growth in **FX denominated loans** (73.6%) was considerably higher than the rate of growth in zloty denominated loans (18.7%). In consequence, foreign currency denominated loans constituted at year-end 1998 23.4% (17.2% in 1997) of the non-financial sector's debt and the equivalent of 81.5% of foreign exchange deposits (49.5%).

²⁷ Net earnings/ average net assets less accrued interest on irregular assets.

²⁸ Net earnings less declared dividends/ average core capital.

However, it should be noted that in addition to foreign currency loans extended by banks operating in Poland, the persisting interest rate disparity encouraged businesses to borrow directly from abroad.

The basic source of funding bank operations continued to be **liabilities to the non-financial sector**. At the end of December 1998 these constituted 60.4% of liabilities & capital at the commercial banks (60.7% at year-end 1997). Up went the share of liabilities to the financial sector (from 12.0% to 16.3%) as well as the share of capital (from 8.2% to 8.4%).

Deposits from persons and corporates grew at the same rate (nominally by over 30%, in real terms almost 20%), however the high increment of corporate deposits in the 4th quarter (nominally by 23.3%) was a one-off event.

In 1998 propensity to save was maintained. At the end of December persons held 128.7 billion zloty in their bank accounts, of which 79.9% were zloty savings. The share of **deposits from persons** in non-financial sector deposits increased to 72.4% (from 72.2%).

1998 confirmed the trend to a faster growth of zloty than FX deposits. As a result the share of FX deposits in the non-financial sector deposits slipped to 19.2% (from 23.7%).

The gap between foreign exchange denominated assets and liabilities narrowed by 1 billion and at year-end 1998 stood at 3.1 billion zloty, which corresponded to 1% of total assets.

1998 also witnessed the “squaring” of foreign assets and liabilities, which, respectively, constituted 6% of total assets (10.4% in 1997) and 6.1% of total liabilities & capital (6.4% in 1997).

In 1998 **off-balance items** at the commercial banks totalled 182.5 billion zloty representing year-on-year increase of 70.6% (57.1% in real terms). Off-balance items continued to expand faster than the net assets and adjusted capital base of the banks, as a result of which up went their ratio to assets (from 45% to 59%) and to the adjusted capital base (from 529% to 706%).

Foreign exchange operations²⁹, whose value went up nominally by 128% (in real terms - 110%), accounted for most growth in off-balance sheet items. As other items grew more slowly (commitments on financial instruments were no exception), the share of foreign exchange operations rose and at year-end 1998 constituted almost half (48.5%) of all off-balance items. This is important from the point of view of bank exposure to FX operation related risks (mainly exchange and interest rate risk).

Changes in exchange rate policy, on the one hand, made it possible for banks to derive more foreign exchange gains, but on the other, in reducing the stability of Polish currency led to growth in foreign exchange risk and shifted part of it from the central bank to commercial banks and bank clients.

²⁹ Which include: spot and deposit transactions, forward and derivative instruments (FX forward transactions, unrealised gains/losses on swap transactions).

In 1998 commercial banks incurred foreign exchange expense totalling 15.5 billion zloty (26.2% of total expense) while earning FX income totalling 17.2 billion zloty (26.7% of total income). Compared to 1997, income from exchange positions increased more than threefold, while expense on exchange positions almost 3.5 times. **Net income from exchange positions** (1.7 billion zloty) was 45% higher (33.5% in real terms) than in 1997 and constituted 9.6% of net income from core banking operations (15.7% for banks with majority foreign equity).

On off balance commitments commercial banks made a profit totalling 115.4 million zloty (0.7% of net income from core banking operations). This is made up of profits from fees & commissions (101.3 million zloty) and **profit from derivatives** (14.1 million zloty). Of 18 banks which disclosed income or expense from derivatives 13 banks realised gains (133 million zloty) and 5 banks losses (119 million zloty) and in two such banks these constituted a major P & L item.

At year-end 1998 **gross claims** of the banking system on the non-financial sector stood at 135.2 billion zloty, of which the commercial banks accounted for 128.7 billion zloty and the co-operative banks for 6.5 billion zloty.

The gross claims of the banks grew much slower than in 1997 (those of the commercial banks by 27.7%³⁰, of the co-operative ones by 15.1%).

At year-end 1998 irregular classifications (claims) constituted 10.2% of gross claims on the non-financial sector in the banking system (10.5% at the commercial banks and 3.5% at the co-operative banks). The ratio of adversely classified claims to the claims of the commercial banks stayed at 1997 level despite the fact that in the 4th quarter it went up 0.8 point (compared to September). It has to be emphasised that 1998 witnessed a high growth rate of adversely classified claims (127.5%), equal to the growth rate of gross claims, while in 1997 (108.9%) it was in fact 27.1 point lower than the growth rate of gross claims. Thus, the amount of adversely classified claims went up 1.3 billion zloty, which resulted in higher specific provisioning requirements and largely contributed to lower bank earnings.

A significant part of irregular classifications (23.4%) and loss classifications (46.2%) on the non-financial sector are claims resulting from loan agreements concluded by the year 1993. However, the quality of claims from recent years is also gradually deteriorating. At year-end 1998 the share of irregular classifications in claims originated in 1996 and 1997 went up to 13.7% and 10.9% respectively (the share of loss classifications up to 7.0% and 3.4%), while at year-end 1997 the share stood at 9.7% and 5.8% (loss classifications 3.5% and 1.2%). Claims originated in 1998 (60.0% of gross claims) still had relatively good quality, because their repayment had only started and experience shows that credit portfolio quality deteriorates over time.

What deteriorated however in 1998 was the quality of claims on the financial sector, mainly in connection with the Russian crisis. Loss classifications doubled, which contributed to their higher share (from 0.8% to 1.2%) in gross claims on the sector.

³⁰ Gross claims at the commercial banks grew in individual quarters by 5.9%, 5.8%, 7.9% and 5.6%, respectively.

At year-end 1998 commercial banks established **specific provisions** for classified claims from the financial, non-financial and local government sectors and for off balance commitments extended (financial and guarantee ones) totalling 6.6 billion zloty (6.5 billion zloty was the requirement). Substandard, doubtful and loss claims and commitments (net of the collateral) were specifically provisioned for at: 22.1%, 52.8% and 99.8%, respectively (20.0%, 50.0%, 100.0% was respectively required). The aggregate shortfall in specific provisions in several commercial banks was 0.9% of the required provisions. Moreover, banks established provisions for other assets (215.4 million zloty), provisions for the depreciation of securities, shares, stocks and assets for resale (444.5 million zloty) and a general risk provision (627.0 million zloty). Provisions totalled 7 852.1 million zloty and were 18.4% higher than at year-end 1997.

A problem for many Polish banks continues to be their relatively low capital, which hampers their development and expansion, as a result of which they are not always able to successfully compete for clients with other large banks. 1998 saw the continuation of the high growth rate relating to **the adjusted capital base (“own funds”)** - it increased 30.2% (19.9% in real terms) to achieve 23.3 billion zloty at the end of December, of which the commercial banks accounted for 22.3 billion zloty and the co-operative banks merely for 1 billion.

The safety and soundness of the sector improved as measured by the risk-based capital ratio. The number of commercial banks which reported a **risk-based capital ratio** lower than the required minimum of 8% went down from 8 at year-end 1997 to 5 at year-end 1998, of which the number of banks with a negative ratio fell from 6 to 4. All these banks are implementing multiyear rehabilitation programmes. The number of co-operative banks with a ratio lower than 8% decreased from 176 to 102 banks, of which those with a negative ratio from 39 to 16.

The total capital base (core and supplementary capital) of the banking system increased to 27 billion zloty (by 6 billion zloty), of which up to 25.8 billion at the commercial banks. Core capital grew faster than supplementary capital. In consequence, the share of the former in the total capital base increased to over 93% (up from 81% at year-end 1997). It should be noted, however, that one quarter of the growth in core capital resulted from the reclassification of its components.

At year-end 7 operating commercial banks did not have a minimum total capital base (core and supplementary capital) required when establishing a bank, i.e. **the equivalent of 5 million ECU**. One of the banks satisfied the minimum capital requirement in January 1999 and the remaining banks were given extension by the Banking Supervision Commission of the deadline for increasing their capital.

Neither was the minimum capital requirement (equivalent to 300 thousand ECU) satisfied at year-end 1998 by 967 co-operative banks (81.3% of all). In order to benefit from the possibility of the deadline for achieving the capital minimum being extended until the end of 1999 the banks submitted to the Banking Supervision Commission 830 relevant applications.

4. Concluding Remarks

The year 1998 was a difficult one for the banking sector. Banks operated in an environment of narrowing interest margins and growing competition in the market for financial services. They also suffered the pain of the Russian and contagion of the Asian and Brazilian crises. The crisis in Russia played a direct and indirect role in slowing down the rate of GDP growth. Deterioration in the financial situation of bank clients and counterparties was not without an impact on credit portfolio quality, which was reflected in the earnings of the banking sector.

A slowdown in the economic growth of Poland and other countries worldwide and the steady narrowing down of the interest margin rule out any forecasts of a significant rise in bank earnings for 1999. Under a dwindling inflation and growing competition the considerable dependence of bank earnings on the interest margin will negatively impact on the level of profitability of banking operations, which should encourage banks to seek other sources of income and also to exercise more control over their own costs.

Although banks will be compelled to pay a high cost of branch network expansion, including ATM networks, and of upgrading their information and cable network infrastructure, the growing competition from other financial institutions, domestic and foreign alike, will make them look for possibilities of reducing their overheads, including personnel expense.

The emergence of pension funds and mortgage banks will no doubt increase competition in the financial services market, especially for long-term personal savings. However, changes in the system of NHS funding and pension system reform do create opportunities for banks to expand the scope of their services and thus gain new sources of income.

A particular challenge for banks is the Year 2000 exposure, not just due to the extent of preparedness of the banks themselves, but also of their counterparties and clients, who indirectly can cause the emergence of risks to banks.

The economic situation of the banks will depend on trends in economic policy, not just monetary and fiscal policies, but also the policies on sectors in need of restructuring (e.g. agriculture and coal mining), export policy and SME policy. In the perspective of Poland's EU accession and further liberalisation in capital movements and growth in competition, a priority for a business policy ought to be a systemic strengthening of the banking sector. Poland's place in Europe and in the world will depend among other things on whether our country has a safe and stable banking system, a pillar of the financial system.

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Legislation relating to the banking system (as at December 31, 1998)

Table 1. Number of banks and relative share of particular groups in the total system

		1993	1994	1995	1996	1997	1998
1	2	3	4	5	6	7	8
Number of banks (excluding those declared bankrupt or under liquidation)							
1	Commercial banks, of which:	87	82	81	81	83	83
2	Banks with majority public sector interest, ³¹ of which:	29	29	27	24	15	13
	- directly owned by Treasury ³²	16	15	13	8	6	6
	- indirectly owned by Treasury	11	11	11	13	8	7
	- directly owned by NBP	2	3	3	3	1	0
3	Private-sector banks, of which:	58	53	54	57	68	70
	- with majority Polish equity	48	42	36	32	39 ³³	39
	- with majority foreign equity ³⁴	10	11	18	25	29 ³⁵	31
4	Co-operative banks	1 653	1 612	1 510	1 394	1 295	1 189
5	Total banks	1 740	1 694	1 591	1 475	1 378	1 272
Total net assets ³⁶ (%)							
1	Commercial banks, of which:	93.4	94.7	95.2	95.4	95.5	95.7
2	Banks with majority public sector interest, of which:	80.4	76.1	68.3	66.5	49.3	46.0
	- directly owned by Treasury	76.1	70.8	63.0	51.1	38.2	36.9
3	Private-sector banks, of which:	13.0	18.6	26.9	28.9	46.2	49.7
	- with majority Polish equity	10.4	15.4	22.7	15.1	30.9	33.2
	- with majority foreign equity	2.6	3.2	4.2	13.7	15.3	16.5
4	Co-operative banks	6.6	5.3	4.8	4.6	4.5	4.3
5	Total	100.0	100.0	100.0	100.0	100.0	100.0
Net loans ³⁷ (%)							
1	Commercial banks, of which:	92.9	93.3	94.5	93.9	94.5	95.0
2	Banks with majority public-sector interest, of which	79.3	73.0	63.7	61.3	43.2	38.8
	- directly owned by Treasury	76.6	69.1	58.5	42.0	27.9	19.7
3	Private-sector banks, of which:	13.6	20.3	30.8	32.6	51.3	56.2
	- with majority Polish equity	10.9	15.9	25.0	16.6	33.1	34.3
	- with majority foreign equity	2.7	4.4	5.8	16.0	18.2	21.9
4	Co-operative banks	7.1	6.7	5.5	6.1	5.5	5.0

³¹ Banks where the Treasury, other state institutions or the NBP hold equity entitling them to exercise at least 50% + 1 votes at a shareholders general meeting.

³² Banks where the Treasury directly holds equity entitling it to exercise at least 50% + 1 votes at a shareholders general meeting.

³³ Including Rzeszowski Bank Regionalny, which was a banking organisation and did not file reports.

³⁴ Banks where foreign parties (natural or juridical persons) jointly hold equity entitling them to exercise 50% + 1 votes at a shareholders general meeting.

³⁵ Including Bank of America Polska SA, which was a banking organisation and did not file reports.

³⁶ Total assets less accumulated depreciation, specific provisions and valuation allowances.

³⁷ Loans and advances (excluding purchased debt and funds disbursed under guarantees and endorsements, reported separately since 1996), less specific provisions.

		1993	1994	1995	1996	1997	1998
1	2	3	4	5	6	7	8
5	Total	100.0	100.0	100.0	100.0	100.0	100.0
Deposits taken from non-financial sector (%)							
1	Commercial banks, of which:	92.4	94.1	94.5	94.5	94.8	94.8
2	Banks with majority public-sector interest, of which:	81.1	77.3	71.3	70.1	58.0	53.6
	- directly owned by Treasury	75.6	71.6	65.6	57.2	49.5	46.4
3	Private-sector banks, of which:	11.3	16.8	23.2	24.4	36.8	41.2
	- with majority Polish equity	9.2	14.1	20.2	12.2	24.1	27.5
	- with majority foreign equity	2.1	2.7	3.0	12.2	12.7	13.7
4	Co-operative banks	7.6	5.9	5.5	5.5	5.2	5.2
5	Total	100.0	100.0	100.0	100.0	100.0	100.0
Total capital base (core and supplementary capital) (%) ³⁸							
1	Commercial banks, of which:	92.0	94.3	94.6	95.1	95.2	95.6
2	Banks with majority public-sector interest, of which:	76.8	72.6	61.4	55.9	34.0	33.2
	- directly owned by Treasury	72.8	66.7	55.4	43.7	25.6	25.7
3	Private-sector banks, of which:	15.2	21.7	33.2	39.2	61.2	62.4
	- with majority Polish equity	13.0	18.0	25.6	18.3	37.2	37.7
	- with majority foreign equity	2.2	3.7	7.6	20.9	24.0	24.7
4	Co-operative banks	8.0	5.7	5.4	4.9	4.8	4.4
5	Total	100.0	100.0	100.0	100.0	100.0	100.0
Core capital (%) ³⁹							
1	Commercial banks, of which:	91.8	94.2	94.9	95.2	95.0	95.7
2	Banks with majority public-sector interest, of which:	65.4	66.5	62.7	55.8	32.0	32.7
	- directly owned by Treasury	60.9	60.5	56.3	43.2	24.1	25.3
3	Private-sector banks, of which:	26.4	27.7	32.2	39.4	63.0	63.0
	- with majority Polish equity	24.1	24.2	24.4	19.3	39.1	38.4
	- with majority foreign equity	2.3	3.5	7.8	20.1	23.9	24.6
4	Co-operative banks	8.2	5.8	5.1	4.8	5.0	4.3
5	Total	100.0	100.0	100.0	100.0	100.0	100.0

³⁸ Until year-end 1997 corresponding to "gross own funds".

³⁹ The total of: paid-up equity (share capital and registered fund), reserve, surplus, general risk fund, retained earnings or accumulated losses.

Table 2. Staffing⁴⁰ in the banking system (excluding foreign offices)

Year	at commercial banks			at co-operative banks	in banking system
	total	banks with majority equity			
		Polish	foreign		
1	2	3	4	5	6
1993	119 733	119 045	688	.	.
1994	128 705	127 708	997	.	.
1995	136 048	134 048	2 000	.	.
1996	144 201	129 102	15 099	25 520	169 721
1997	147 095	130 823	16 272	25 132	172 227
1998	149 067	131 266	17 801	24 989	174 056

Table 3. Office network of commercial banks in Poland (excluding head offices and representative offices)

Year		Number of offices of commercial banks		
		total	of which: banks with majority	
			Polish equity	foreign equity
1	2	3	4	5
1993	Branch offices	1 436	1 426	10
1994	Branch offices	1 454	1 441	13
1995	Branch offices	1 501	1 472	29
1996	Branch offices ⁴¹	1 580	1 437	143
	Other offices ⁴²	7 981	7 888	93
1997	Branch offices ⁴³	1 629	1 460	169
	Other offices	8 023	7 808	215
1998	Branch offices ⁴⁴	1 864	1 572	292
	Other offices	7 615	7 385	230

⁴⁰ Staffing figures given in equivalent of full-time posts.

⁴¹ In 1996, there were 12 banks (4 with majority Polish equity and 8 with majority foreign equity) which did not operate any branch offices and serviced customers from head office.

⁴² Sub-branch offices, customer service offices, etc.

⁴³ In 1997, there were 13 banks (2 with majority Polish equity and 11 with majority foreign equity) which did not operate any branch offices and serviced customers from head office.

⁴⁴ In 1996, there were 17 banks (2 with majority Polish equity and 15 with majority foreign equity) which did not operate any branch offices and serviced customers from head office.

Table 4. Ownership structure of commercial banks

1	2	Value of equity. mil zł			Proportion of total %		
		31.12.96	31.12.97	31.12.98	31.12.96	31.12.97	31.12.98
1	2	3	4	5	6	7	8
1	Total equity ("share capital" or "registered fund"), of which held by:	4 465.0	5 930.1	7 172.8	100.00	100.00	100.00
2	- directly Treasury	1 366.0	1 303.8	1 351.0	30.59	21.99	18.84
3	- National Bank of Poland	351.5	174.6	8.0	7.87	2.94	0.11
4	- other state institutions ⁴⁵	488.3	331.6	319.1	10.94	5.59	4.45
5	- other domestic investors ⁴⁶	392.5	589.0	690.2	8.79	9.94	9.62
6	- foreign investors	1 330.0	2 462.4	3 561.4	29.79	41.52	49.65
7	- dispersed holdings ⁴⁷	536.8	1 068.7	1 243.1	12.02	18.02	17.33

Table 5. Net assets and equity capital at particular groups of banks at December 31, 1998

1	2	No. of banks in group	equity capital ("registered fund") of group ⁴⁸				Net assets of group	
			total		proportion of equity capital held within group by foreign parties		total	
			million zloty	%	million zloty	%	million zloty	%
1	2	3	4	5	6	7=6/4	8	9
1	Banks with majority Polish equity, of which:	52	4 035.3	56.3	567.9	14.1	253 972.2	82.7
	- with majority public-sector interest,	13	1 646.2	23.0	8.2	0.5	147 650.6	48.1
	- with majority private-sector interest	39	2 389.1	33.3	559.7	23.4	106 321.6	34.6
2	Banks with majority foreign equity	31	3 137.5	43.7	2 993.5	95.4	53 004.9	17.3
3	Total commercial banks	83	7 172.8	100.0	3 561.4	49.65	306 977.1	100.0

⁴⁵State-owned enterprises and state-owned banks, sole-shareholder State Treasury companies, commercial law companies with a majority State Treasury interest, state agencies, etc.

⁴⁶Including equity held by local government, totalling 10.4m zloty at December 31, 1998.

⁴⁷ On the D0304 reporting form banks disclose only these shareholders who exercise 5% or more of votes at shareholders general meetings, the remaining shareholders who are entitled to less votes being grouped under the heading of "other shareholders". Equity held by the latter is often referred to as "dispersed holdings". Let us note that in the case of listed companies a bank usually does not have information on all the shareholders.

⁴⁸Equity capital of group as a whole, regardless of investor.

Table 6. Equity capital by country of origin⁴⁹

	Country of origin	Year-end	Foreign equity		
			Amount Million zloty	share in total equity capital - held by foreign parties (%)	share in total equity capital of commercial banks (%)
1	2	3	4	5	6
1	Germany	1997	818.3	33.23	13.80
		1998	1 138.1	31.96	15.87
2	USA	1997	470.2	19.10	7.93
		1998	1 028.7	28.88	14.34
3	Holland	1997	434.3	17.64	7.32
		1998	499.0	14.01	6.96
4	France	1997	220.6	8.96	3.72
		1998	324.4	9.11	4.52
5	Austria	1997	229.4	9.32	3.87
		1998	256.7	7.20	3.58
6	South Korea	1997	60.4	2.45	1.02
		1998	60.4	1.70	0.84
7	Ireland	1997	55.4	2.25	0.93
		1998	55.4	1.56	0.77
8	EBRD	1997	22.0	0.89	0.37
		1998	46.9	1.32	0.65
9	Czech Republic	1997	33.9	1.38	0.57
		1998	33.9	0.95	0.47
10	Belgium	1997	24.2	0.98	0.41
		1998	32.0	0.90	0.45
11	UK	1997	20.2	0.82	0.34
		1998	19.1	0.54	0.27
12	Other countries	1997	73.4	2.98	1.24
		1998	66.8	1.87	0.93
13	Total	1997	2 462.4	100.00	41.52
		1998	3 561.4	100.00	49.65

⁴⁹ In line with international recommendations, direct investors are classified by the country in which the investment originated, rather than by the country where the ultimate owner of the capital is domiciled, i.e., an investment made by Zurich Insurance Company Netherlands B.V. will be attributed to Holland, not to Switzerland.

Table 7. Net assets within the banking system

		Value million zloty	Growth rate 12.97 = 100		Proportion in system (%)	
			31.12.1998	nominal	real	31.12.97
1	2	3	4	5	6	7
1	Banks with majority Polish equity	253 972.2	127.9	117.7	80.2	79.2
	of which: with majority public-sector interest	147 650.8	121.0	111.4	49.3	46.0
2	Banks with majority foreign equity	53 004.9	140.2	129.1	15.3	16.5
3	Commercial banks (1 + 2)	306 977.1	129.8	119.6	95.5	95.7
	of which: listed banks	140 888.3	167.6	154.4	33.9	43.9
4	Co-operative banks	13 701.4	121.7	112.1	4.5	4.3
5	Total banking system (3 + 4)	320 678.5	129.5	119.2	100.0	100.0

Table 8. Commercial banks by net assets at December 31, 1998 r.

	Net assets in million zloty	Banks with majority					
		Polish equity			foreign equity		
		no. of banks	net assets (total)	% share	no. of banks	net assets (total)	% share
1	2	3	4	5	6	7	8
1	over 10 000	10	198 188.3	78.0	1	12 634.9	23.8
	<i>of which: over 30 000</i>	2	91 956.3				
	15 000 - 30 000	2	32 004.2				
	10 000 - 15 000	6	74 227.8		1	12 634.9	
2	over 1 000 - 10 000	14	44 889.8	17.7	16	36 806.3	69.4
	<i>of which: 6 000 - 10 000</i>	2	15 200.4		2	14 956.1	
	2 000 - 6 000	5	19 985.8		2	5 638.5	
	1 000 - 2 000	7	9 703.6		12	16 211.7	
3	under 1 000	28	10 894.1	4.3	14	3 563.7	6.7
	<i>of which: 500 - 1 000</i>	9	6 056.9		3	1 935.1	
	300 - 500	8	3 138.9		1	388.4	
	100 - 300	8	1 501.6		7	1 061.5	
	<i>under 100</i>	3	196.7		3	178.7	
4	Total (1+2+3)	52	253 972.2	100.0	31	53 004.9	100.0

Table 9. Structure of assets at commercial banks

1	2	Value (million zł)	Growth rate 31.12.1977=100		Structure (%)	
		31.12.98	nominal	real	31.12.98	31.12.97
1	2	3	4	5	6	7
1	Cash & due from central bank	24 566.0	140.8	129.6	8.0	7.4
2	Due from financial sector	43 180.6	126.2	116.2	14.1	14.5
3	Due from non-financial sector	122 852.4	127.6	117.5	40.0	40.7
4	Due from government	7 075.9	202.6	186.5	2.3	1.5
5	Securities	84 688.5	131.0	120.7	27.6	27.3
6	Fixed assets	12 976.5	130.2	119.9	4.2	4.2
7	Other assets	11 637.2	112.1	103.2	3.8	4.4
8	Total net assets	306 977.1	129.8	119.6	100.0	100.0

Table 10. Structure of liabilities and capital at commercial banks

1	2	Value (million zł)	Growth rate 31.12.1977=100		Structure (%)	
		31.12.1998	nominal	real	31.12.1997	31.12.1998
1	2	3	4	5	6	7
1	Due to central bank	6 291.2	79.5	73.3	3.3	2.0
2	Due to financial sector ⁵⁰	50 089.0	176.7	162.7	12.0	16.3
3	Due to non-financial sector	185 527.9	129.3	119.1	60.7	60.4
4	Due to government	11 238.8	130.2	119.9	3.7	3.7
5	Other liabilities	22 803.2	102.2	94.1	9.3	7.4
6	Capital	25 688.7	133.1	122.6	8.2	8.4
7	Year-to-date earnings	5 183.6	82.2	75.7	2.7	1.7
8	Earnings pending confirmation	154.7	107.4	98.9	0.1	0.1
9	Total liabilities and capital	306 977.1	129.8	119.5	100.0	100.0

⁵⁰ Excluding liabilities to the NBP disclosed in item 1.

Table 11. Liabilities of the commercial banks to non-financial sector at December 31, 1998 r.

		Value (million zloty)			Nominal growth rate 31.12.1997=100			Real growth rate 31.12.1997=100			Total % structure	
		total	zloty	FX	total	zloty	FX	total	zloty	FX	12.97	12.98
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Current deposits	48 341.9	37 881.7	10 460.2	113.9	121.1	93.8	104.9	111.5	86.4	29.6	26.1
	- taken from corporates	19 189.8	16 676.8	2 513.0	106.9	106.5	109.6	98.5	98.1	101.0	12.5	10.3
	- taken from persons	27 369.4	19 650.2	7 719.2	119.7	137.5	90.0	110.2	126.6	82.9	15.9	14.8
	- taken from other parties	1 782.7	1 554.7	228.0	110.1	116.3	80.7	101.3	107.1	74.3	1.1	1.0
2	Term and frozen deposits	129 407.3	105 705.5	23 701.8	137.1	144.5	111.7	126.2	133.1	102.8	65.8	69.8
	- taken from corporates	24 451.2	18 898.2	5 553.0	157.4	149.3	192.7	144.9	137.5	177.5	10.8	13.2
	- taken from persons	101 305.4	83 215.4	18 090.0	133.4	143.7	100.3	122.8	132.3	92.3	52.9	54.6
	- taken from other parties	3 650.7	3 591.9	58.8	125.9	138.5	19.2	115.9	127.5	17.7	2.0	2.0
3	Foreign accounts free and frozen	823.1	358.6	464.5	157.2	295.9	115.5	144.8	272.4	106.3	0.4	0.4
4	Investment accounts with banks' brokerage houses	252.7	252.7	0.0	126.7	126.7		116.7	116.7		0.1	0.1
5	Interest	5 979.7	5 664.9	314.8	113.6	113.9	109.4	104.6	104.9	100.7	3.7	3.2
6	Other liabilities	723.1	544.5	178.6	112.0	106.4	133.3	103.1	97.9	122.7	0.5	0.4
7	Interest on investment accounts	0.1	0.1	0.0	100.0	100.0		92.1	92.1		0.0	0.0
8	Total liabilities	185 527.9	150 408.0	35 119.9	129.3	136.4	105.8	119.1	125.6	97.4	100.0	100.0

Table 12. Share of loans and securities in total assets and of deposits in total liabilities & capital

		1993	1994	1995	1996	1997	1998
1	2	3	4	5	6	7	8
Share of loans (net) to non-financial sector in total assets (%)							
1	Banks with majority Polish equity	29.9	26.9	28.8	32.6	35.9	34.5
2	Banks with majority foreign equity	31.5	38.4	41.1	40.0	44.9	49.5
3	Commercial banks	30.0	27.3	29.3	33.7	37.3	37.1
4	Co-operative banks	32.5	35.2	34.1	45.0	45.6	43.3
5	Total banking system	30.1	27.7	29.6	34.2	37.7	37.4
Share of securities in total net assets (%)							
1	Banks with majority Polish equity	25.5	30.2	32.8	34.6	29.6	29.5
2	Banks with majority foreign equity	9.9	14.3	19.8	20.5	15.5	18.3
3	Commercial banks	25.1	29.7	32.3	32.6	27.3	27.6
4	Co-operative banks	3.3	2.9	5.0	8.0	10.3	8.5
5	Total banking system	23.6	28.2	31.0	31.4	26.6	26.8
Share of deposits of non-financial sector in total liabilities & capital (%)							
1	Banks with majority Polish equity	55.4	59.9	57.3	57.1	59.7	59.9
2	Banks with majority foreign equity	46.5	51.8	42.1	50.4	48.4	48.4
3	Commercial banks	55.1	59.6	56.6	56.1	57.9	57.9
4	Co-operative banks	64.3	67.1	65.3	67.4	67.4	71.2
5	Total banking system	55.7	60.0	57.0	56.7	58.3	58.5

Table 13. Structure and growth rate of off balance items at commercial banks

		Value (million zloty)			Structure (%)			Growth rate	
		31.12.97	30.09.98	31.12.98	12.97	09.98	12.98	09.98 =100	12.97 =100
1	2	3	4	5	6	7	8	9	10
1	Commitments extended	32 204.1	41 168.7	44 574.6	30.1	20.9	24.4	108	138
2	Commitments received	20 196.4	21 633.3	25 055.1	18.9	11.0	13.7	116	124
3	FX operations	38 854.6	110 064.7	88 457.9	36.3	55.9	48.5	80	228
4	Commitments on financial instruments	5 525.9	8 520.1	9 229.5	5.2	4.3	5.1	108	167
5	Securities operations, assets taken over, other commitments	10 197.6	15 639.3	15 156.6	9.5	7.9	8.3	97	149
6	Total off-balance items	106 978.7	197 026.1	182 473.6	100	100	100	93	171

Table 14. Structure and growth rate of foreign exchange operations at commercial banks

	Value (million zloty)			Structure (%)			Growth rate	
	31.12.97	30.09.98	31.12.98	12.97	09.98	12.98	09.98 =100	12.97 =100
1	2	3	4	5	6	7	8	9
Total FX operations, of which:	38 854.6	110 064.7	88 457.9	100.0	100.0	100.0	80	228
- spot and deposit transactions	16 742.9	58 774.4	39 192.2	43.1	53.4	44.3	67	234
- forward transactions	21 961.7	51 129.4	49 143.4	56.5	46.5	55.6	96	224
- unrealised gains/losses on swap transactions	150.1	160.9	122.3	0.4	0.1	0.1	76	82

Table 15. Total capital base of the banks (core and supplementary capital) in 1993-1998
(million zloty)

		1993	1994	1995	1996	1997	1998
1	2	3	4	5	6	7	8
1	Banks with majority Polish equity	5 822.9	8 647.1	10 897.2	12 260.8	15 115.3	19 170.4
2	Banks with majority foreign equity	143.7	351.3	960.3	3 462.6	5 091.6	6 671.1
3	Commercial banks	5 966.6	8 998.4	11 857.5	15 723.4	20 206.9	25 841.5
4	Co-operative banks	515.9	539.5	670.5	801.7	1 011.7	1 199.2
5	Banking system	6 482.5	9 537.9	12 528.0	16 525.1	21 218.6	27 040.7

Table 16. Adjusted capital base ("own funds")⁵¹ of the banks in 1993 - 1998 (million zloty)

		1993	1994	1995	1996	1997	1998
1	2	3	4	5	6	7	8
1	Banks with majority Polish equity	3 129.4	4 851.8	6 463.3	8 754.1	12 235.2	15 815.5
2	Banks with majority foreign equity	141.1	341.2	886.3	3 270.1	4 873.7	6 472.6
3	Commercial banks	3 270.5	5 193.0	7 349.6	12 024.2	17 108.9	22 288.1
4	Co-operative banks	123.9	63.5	311.3	502.0	751.6	967.5
5	Banking system	3 394.4	5 256.5	7 660.9	12 526.2	17 860.5	23 255.6

⁵¹ The total of core and supplementary capital less: shortfall in specific provisions, value of shares in other financial institutions, accumulated (previous years') loss, loss pending confirmation and year-to-date loss. Until year-end 1997 it corresponds to "net own funds".

Table 17. Commercial banks by risk-based capital ratio

	Risk-based capital ratio %	Number of banks at year end					
		1993	1994	1995	1996	1997	1998
1	2	3	4	5	6	7	8
1	8 and over	69	64	68	73	73	78
	of which: 30 and over	24	30	26	24	20	18
	from 15 to 30	26	21	27	21	27	23
	from 12 to 15	4	5	7	15	15	17
	from 8 to 12	15	8	8	13	11	20
2	under 8	18	18	13	8	8	5
	of which: from 2 to 8	5	2	2	1	2	1
	from 0 to 2	0	1	0	0	0	0
	under 0	13	15	11	7	6	4
3	Total (1+2)	87	82	81	81	81	83
4	Median (Me)	16.5	20.8	18.5	17.5	16.9	15.0

Table 18. Gross claims of commercial banks on non-financial sector at December 31, 1998

		Value million zloty	Growth in 1998		
			million zloty	nominal %	real %
1	2	3	4	5	6
1	Total gross claims (2+3+4+5)	128 749.4	27 124.0	26.7	16.7
2	Gross claims,	123 131.5	26 719.1	27.7	17.6
	of which: classified irregular,	12 957.7	2 797.5	27.5	17.4
	of which: classified loss	5 745.7	556.2	10.7	1.9
3	Interest,	4 747.3	-58.4	-1.2	-9.0
	of which: classified irregular	3 788.5	-36.1	-0.9	-8.7
4	Due on interest subsidies to preferential loans	455.0	186.1	69.2	55.8
5	Other claims	415.6	277.2	200.2	176.4

Table 19. Structure of gross claims of commercial banks on non-financial sector at December 31, 1998

1	2	a) Total b) zloty c) FX	Gross claims		of which: irregular classifications		Share of irregular classifications in claims (%)	
			million zloty	Growth rate 97 = 100	million zloty	Growth rate 97 = 100	31.12.97	31.12.98
1	2	3	4	5	6	7	8	9
1	Banks with majority Polish equity	a	95 914.6	122.7	9 898.8	121.7	10.4	10.3
		b	75 947.7	114.6	8 508.9	120.6	10.6	11.2
		c	19 966.9	162.4	1 389.9	128.4	8.8	7.0
2	Banks with majority foreign equity	a	27 216.9	152.5	3 058.9	151.2	11.3	11.2
		b	18 869.0	136.5	2 430.2	150.0	11.7	12.9
		c	8 347.9	206.7	628.7	155.8	10.0	7.5
3	Total commercial banks (1+2)	a	123 131.5	127.7	12 957.7	127.5	10.5	10.5
		b	94 816.7	118.4	10 939.1	126.1	10.8	11.5
		c	28 314.8	173.0	2 018.6	135.8	9.1	7.1

Table 20. Gross claims of commercial banks on corporates and persons at December 31, 1998

1	2	Value million zloty	Structure %	Growth rate 97 = 100
1	2	3	4	5
1	Due from corporates	100 449.3	81.6	126.9
2	Due from persons.	22 207.3	18.0	129.9
	of which: instalment loans	8 366.6	6.8	129.3
3	Due from other non-financial parties	474.9	0.4	339.5
4	Gross claims on non-financial sector (1+2+3)	123 131.5	100.0	127.7

Table 21. Gross irregular claims of the commercial banks on non-financial sector at December 31, 1998

1	2	Irregular classifications million zloty	% Structure	Growth rate 97 = 100	% share of irregulars	
					31.12.97	31.12.98
1	2	3	4	5	6	7
1	Due from corporates	11 515.1	88.9	124.9	11.6	11.5
2	Due from persons,	1 429.6	11.0	155.5	5.4	6.4
	of which: instalment loans	753.3	5.8	119.5	9.7	9.0
3	Due from other non-financial parties	13.0	0.1	58.9	15.7	2.7
4	Gross claims on non-financial sector (1+2+3)	12 957.7	100.0	127.5	10.5	10.5

Table 22. Gross claims of the commercial banks on financial sector at December 31, 1998

1	2	Value million zloty	Structure in %	Growth in 1998 r.		
				million zloty	nominal %	real %
1	2	3	4	5	6	7
1	Total gross claims (2+3+4+5)	43 704.0	100.0	9 164.0	26.5	16.5
2	Gross claims	40 835.3	93.4	8 693.0	27.0	16.9
	of which: irregular classifications	645.8	1.5	79.0	13.9	4.9
	of which: loss classifications	503.7	1.2	257.1	104.3	88.1
3	Interest,	495.0	1.1	115.0	30.3	20.0
	of which: irregular	56.5	0.1	3.9	7.4	-1.1
4	Current nostro accounts, claims relating to brokerage houses, etc	2 210.5	5.1	374.6	20.4	10.9
5	Other claims	163.2	0.4	-18.6	-10.2	-17.3

Table 23. % share of irregular classifications in gross claims on non-financial sector

	Date	Banks with majority equity			Total commercial banks	of which: listed banks	Coop banks	Banking system
		Polish	with public-sector majority interest	foreign				
1	2	3	4	5	6	7	8	9
1. Share of irregular classifications in total gross claims	12.97	14.0	16.6	12.6	13.8	9.9	6.6	13.4
	12.98	13.2	15.6	12.1	13.0	10.2	5.8	12.7
of which: claims exclusive of interest	12.97	9.8	11.3	11.1	10.0	7.6	3.5	9.7
	12.98	9.8	11.3	11.0	10.1	8.1	3.3	9.8
-interest	12.97	4.3	5.2	1.5	3.8	2.3	3.1	3.7
	12.98	3.4	4.3	1.1	2.9	2.1	2.5	2.9
2. Share of irregular classifications in gross claims	12.96	13.1	14.5	13.3	13.2	8.6	5.3	12.7
	12.97	10.4	12.2	11.3	10.5	7.8	3.7	10.2
	12.98	10.3	12.0	11.2	10.5	8.4	3.5	10.2
of which: substandard	12.96	3.2	3.4	8.7	4.1	3.4	1.2	3.9
	12.97	3.2	3.0	7.3	3.9	3.8	1.1	3.8
	12.98	3.3	3.7	6.5	4.0	3.5	1.2	3.9
doubtful	12.96	1.8	2.1	1.1	1.7	1.0	0.4	1.6
	12.97	1.2	1.6	1.4	1.2	0.6	0.4	1.2
	12.98	1.5	1.2	2.8	1.8	1.6	0.5	1.8
loss	12.96	8.1	9.0	3.5	7.4	4.2	3.7	7.2
	12.97	6.0	7.6	2.6	5.4	3.5	2.2	5.2
	12.98	5.5	7.1	1.9	4.7	3.3	1.8	4.5

Table 24. Coverage of irregular claims and off-balance commitments with specific provisions

1	Classification	Specific provisions (in % portfolio)		
		3	established	
			4	5
2	required	31.12.1997	31.12.1998	
1	Substandard	20.0	25.9	22.1
2	Doubtful	50.0	51.1	52.8
3	Loss	100.0	99.8	99.8
4	Total		103.2	101.4

Table 25. Total income, expense and earnings at banks

Year	Banking system	Commercial banks	of which: with majority equity			of which listed banks	Co-operative banks
			Polish	of which: public-sector	foreign		
1	2	3	4	5	6	7	8
Total income - million zloty							
1993	19 099.9	17 557.5	17 135.6	15 394.5	421.9	754.1	1 542.4
1994	23 997.3	22 402.0	21 635.7	17 898.1	766.3	2 742.8	1 595.3
1995	28 661.8	26 971.7	25 689.9	18 971.5	1 281.8	6 172.3	1 690.1
1996	33 550.6	31 651.9	26 880.0	22 029.8	4 771.9	7 460.5	1 898.7
1997	45 225.6	42 853.1	35 036.2	22 949.2	7 817.0	14 378.4	2 372.5
1998	67 056.2	64 429.7	45 423.9	27 221.8	19 005.8	31 202.6	2 626.5
Total expense - million zloty							
1993	18 172.9	16 505.2	16 219.4	14 486.7	285.8	656.3	1 667.7
1994	22 794.5	21 047.0	20 494.6	16 973.7	552.4	2 149.3	1 747.5
1995	23 970.2	22 420.7	21 406.1	16 097.3	1 014.6	4 704.3	1 549.5
1996	27 147.6	25 513.8	21 681.7	17 866.3	3 832.1	5 749.2	1 633.8
1997	38 568.9	36 547.1	29 788.4	20 084.0	6 758.8	11 526.9	2 021.8
1998	61 586.9	59 246.1	41 709.3	25 705.2	17 536.8	28 148.7	2 340.8
Pre-tax earnings - million zloty							
1993	927.0	1 052.2	916.1	907.8	136.1	97.8	-125.3
1994	1 202.8	1 355.0	1 141.1	924.4	213.9	593.5	-152.2
1995	4 691.6	4 551.0	4 283.7	2 874.3	267.3	1 468.0	140.6
1996	6 403.0	6 138.2	5 198.3	4 163.5	939.9	1 711.3	264.8
1997	6 656.7	6 306.0	5 247.8	2 866.2	1 058.2	2 851.6	350.6
1998	5 469.3	5 183.6	3 714.6	1 516.6	1 469.0	3 054.0	285.7
Net earnings - million zloty							
1993	-401.0	-214.4	-327.2	-257.5	112.8	51.5	-186.6
1994	121.7	316.7	180.4	224.6	136.3	362.8	-195.0
1995	2 848.3	2 761.5	2 609.5	1 787.7	152.0	898.0	86.8
1996	4 420.5	4 229.1	3 643.2	2 995.9	585.9	1 115.4	191.4
1997	4 495.6	4 270.1	3 625.2	2 063.6	644.9	1 854.8	225.4
1998	3 099.1	2 922.6	1 992.6	660.6	930.1	1 870.6	176.5

Table 26. Profitability (net & pre-tax) and cost/income ratio at banks 1993 - 1998

Year	Bank system	Commercial banks	of which, with majority equity			of which listed	Coop banks
			Polish	of which, public-sector	foreign		
1	2	3	4	5	6	7	8
Pre-tax profitability (pre-tax earnings/total expense) %							
1993	5.1	6.4	5.7	6.3	47.6	14.9	-7.5
1994	5.3	6.4	5.6	5.4	38.7	27.6	-8.7
1995	19.6	20.3	20.0	17.9	26.3	31.2	9.1
1996	23.6	24.1	24.0	23.3	24.5	29.8	16.2
1997	17.3	17.3	17.6	14.3	15.7	24.7	17.3
1998	8.9	8.8	8.9	5.9	8.4	10.9	12.2
Net profitability (net earnings/total expense) %							
1993	-2.2	-1.3	-2.0	-1.8	39.5	7.9	-11.2
1994	0.5	1.5	0.9	1.3	24.7	16.9	-11.2
1995	11.9	12.3	12.2	11.1	15.0	19.1	5.6
1996	16.3	16.6	16.8	16.8	15.3	19.4	11.7
1997	11.7	11.7	12.2	10.3	9.5	16.1	11.2
1998	5.0	4.9	4.8	2.6	5.3	6.7	7.5
Cost income ratio (total expense/total income) %							
1993	95.1	94.0	94.7	94.1	67.7	87.0	108.1
1994	95.0	94.0	94.7	94.8	72.1	78.4	109.5
1995	83.6	83.1	83.3	84.8	79.2	76.2	91.7
1996	80.9	80.6	80.7	81.1	80.3	77.1	86.1
1997	85.3	85.3	85.0	87.5	86.5	80.2	85.2
1998	91.8	92.0	91.8	94.4	92.3	90.2	89.2

Table 27. Key bank performance indicators in 1998 r.⁵²

		12.97	03.98	06.98	09.98	12.98
1	2	3	4	5	6	7
1	Number of banks analysed ⁵³	102	108	108	109	109
2	Earning assets to net assets (%)	83.95	81.90	81.67	82.03	82.98
3	Working assets to net assets (%)	83.27	81.20	80.92	81.21	82.08
4	Interest received to average net assets ⁵⁴ (%)	14.99	15.64	15.57	15.25	14.76
5	Interest paid to average net assets (%)	9.61	10.38	10.41	10.31	10.33
6	Net interest income to average net assets (%)	5.38	5.25	5.16	4.94	4.73
7	Income from core banking operations ⁵⁵ to average net assets (%)	7.32	7.17	6.99	6.79	6.51
8	General expense to average net assets (%)	3.61	3.39	3.52	3.46	3.66
9	Pre-tax earnings to average net assets (%)	3.13	3.38	2.88	2.56	2.02
10	ROA (net earnings to average net assets (%))	2.12	2.44	1.80	1.61	1.15
11	net earnings ⁵⁶ to average core capital (%)	37.70	35.86	27.59	23.18	16.10

Table 28. General expense at banks 1997 - 1998

1	2	Banks with majority equity			
		Polish		foreign	
		1997	1998	1997	1998
3	4	5	6		
1	occupancy expense / 1 branch (thousand zloty)	426.8	556.5	1 083.8	948.5
2	other physical expense / 1 branch (thousand zloty)	910.0	1 167.5	2 632.2	2 196.5
3	personnel expense / 1 employee (thousand zloty)	26.6	33.5	43.3	52.7
4	Pre-tax earnings / 1 employee, (thousand zloty)	40.1	28.3	65.0	82.5
5	Personnel expense / pre-tax earnings (%)	66.4	118.4	66.7	63.9
6	Average monthly employee salary (thousand zloty)	1 801	1 899	2 524	3 046
7	Net assets / 1 employee (thousand zloty)	1 518	1 935	2 323	2 978

⁵² On the basis of the Uniform Bank Performance Report.

⁵³ Of the commercial banks and 30 co-operative banks with total assets not lower than 50 million. The assets of such banks constituted in excess of 97% of the total assets of the banking system.

⁵⁴ Less accrued and outstanding unpaid interest on irregular assets.

⁵⁵ The total of: net interest income, net fees & commission income, net income from exchange positions, net income from securities operations.

⁵⁶ Net earnings less dividends declared.

Table 29. 1998 income statement. (million zloty)

1	2	Commercial banks	of which:				Listed banks	Co-operative banks	Banking system
			with majority Polish equity	of which:		with majority foreign equity			
				public sector	private				
3	4	5	6	7	8	9	10		
I	Interest income, of which:	37 833.07	30 621.91	19 037.66	11 584.25	7 211.16	15 165.05	2 239.48	40 072.55
	- from financial institutions	4 070.03	2 822.11	1 209.04	1 613.07	1 247.92	1 444.23	439.41	4 509.44
	- from clients and government	20 417.26	16 011.52	8 981.28	7 030.24	4 405.74	8 721.70	1 595.46	22 012.71
	- from securities	11 399.62	9 885.03	7 336.77	2 548.26	1 514.58	4 497.67	204.28	11 603.90
	- other interest income	1 946.17	1 903.25	1 510.57	392.68	42.92	501.46	0.34	1 946.51
II	Interest expense, of which:	25 650.17	21 061.15	13 228.67	7 832.49	4 589.02	10 064.11	1 284.67	26 934.85
	- from financial institutions	5 068.37	3 352.68	1 248.45	2 104.23	1 715.69	2 155.14	34.65	5 103.02
	- from clients and government	20 335.06	17 548.22	11 968.11	5 580.11	2 786.83	7 761.34	1 249.13	21 584.19
	- other interest expense	246.75	160.25	12.10	148.15	86.50	147.63	0.89	247.64
III	Net interest income (I-II)	12 182.90	9 560.76	5 808.99	3 751.77	2 622.14	5 100.94	954.81	13 137.71
IV	Fee & commission income	3 427.94	2 671.32	1 430.08	1 241.23	756.62	1 852.41	268.46	3 696.40
V	Fee & commission expense	446.63	328.81	189.76	139.05	117.82	184.30	10.31	456.93
VI	Net fee & commission income (IV-V)	2 981.31	2 342.51	1 240.33	1 102.18	638.80	1 668.11	258.16	3 239.47
VII	Income from stocks, shares and other securities.	423.43	394.85	116.46	278.39	28.58	315.11	0.08	423.51
VIII	Profit (loss) from financial operations	176.16	123.17	-199.49	322.65	52.99	373.14	1.72	177.88
	Income from exchange positions	17 197.48	7 081.58	4 448.20	2 633.37	10 115.91	10 955.68	0.00	17 197.48
	Expense on exchange positions	15 515.78	6 024.07	4 039.07	1 985.01	9 491.71	9 960.06	0.00	15 515.78
IX	Net income from exchange positions	1 681.70	1 057.50	409.14	648.37	624.20	995.62	0.00	1 681.70
X	Net income from core banking operations	17 445.50	13 478.78	7 375.43	6 103.35	3 966.71	8 452.91	1 214.77	18 660.27
XI	Other operating income	661.27	579.74	323.80	255.94	81.53	307.96	24.52	685.79
XII	Other operating expense	437.06	373.74	196.14	177.60	63.32	190.10	16.67	453.74
XIII	General expense	9 459.76	7 492.04	4 589.97	2 902.07	1 967.72	4 059.87	866.40	10 326.16
	- of which personnel expense (including tax and contributions)	5 339.15	4 399.86	2 697.59	1 702.27	939.29	2 313.55	653.15	5 992.29
XIV	Depreciation of fixed and intangible assets	1 203.23	957.85	611.95	345.90	245.38	532.11	52.34	1 255.57
XV	Increase in provisions and valuation allowances, of which	4 870.53	4 185.33	2 197.83	1 987.50	685.20	2 392.85	107.99	4 978.52
	- irregular classifications (claims), contingent commitments and other write down to provisions, including general risk	4 580.59	3 920.95	2 059.76	1 861.19	659.64	2 242.68	107.79	4 688.38
	- revaluation of financial assets	289.94	264.38	138.07	126.31	25.56	150.17	0.20	290.14
XVI	Decreases in provisions and valuation allowances, of which	3 047.98	2 665.81	1 412.41	1 253.40	382.16	1 468.76	89.71	3 137.69
	- irregular classifications (claims), contingent commitments and other decreases in provisions (general risk)	2 856.16	2 478.17	1 289.52	1 188.65	377.99	1 394.48	89.51	2 945.67
	- decrease in provision for diminution in value of financial assets	191.82	187.64	122.89	64.75	4.17	74.27	0.20	192.01
XVII	Net movement in provisions and valuation allowances (XV-XVI)	1 822.55	1 519.52	785.42	734.10	303.04	924.09	18.28	1 840.83
XVIII	Profit (loss) from operations (X+XI-XII-XIII-XIV+/-XVII)	5 184.17	3 715.37	1 515.75	2 199.62	1 468.80	3 054.71	285.60	5 469.77
XIX	Profit (loss) on extraordinary items	-0.56	-0.76	0.80	-1.56	0.20	-0.76	0.10	-0.47
XX	Pre-tax earnings (XVIII+/-XIX)	5 183.61	3 714.61	1 516.55	2 198.06	1 468.99	3 053.95	285.69	5 469.30
XXI	Obligatory reductions to profit	2 260.97	1 722.05	855.98	866.07	538.92	1 183.32	109.22	2 370.19
XXII	Net earnings	2 922.64	1 992.56	660.57	1 331.99	930.08	1 870.63	176.47	3 099.11

1	2	Commercial banks	of which:				Listed banks	Co-operative banks	Banking system
			with majority Polish equity	of which:		with majority foreign equity			
				public sector	private				
3	4	5	6	7	8	9	10		
Total income	64 429.69	45 423.91	27 221.77	18 202.14	19 005.78	31 202.65	2 626.52	67 056.21	
Total expense	59 246.08	41 709.30	25 705.22	16 004.08	17 536.78	28 148.70	2 340.83	61 586.91	

Table 30. 1997 income statement. (million zloty)

1	2	Commercial banks	of which:				Listed banks	Co-operative banks	Banking system
			with majority Polish equity	of which:		with majority foreign equity			
				public sector	private				
3	4	5	6	7	8	9	10		
I	Interest income, of which:	30 384.00	24 994.39	16 668.79	8 325.59	5 389.62	9 900.08	2 004.36	32 388.36
	- from financial institutions	3 259.22	2 156.10	1 034.68	1 121.42	1 103.12	1 218.66	344.59	3 603.82
	- from clients and government	16 918.09	13 689.20	8 408.12	5 281.09	3 228.89	6 323.87	1 508.23	18 426.33
	- from securities	8 497.76	7 458.85	5 839.58	1 619.26	1 038.92	2 138.94	151.31	8 649.07
	- other interest income	1 708.92	1 690.23	1 386.41	303.83	18.69	218.61	0.23	1 709.15
II	Interest expense, of which:	19 511.94	16 103.29	11 152.60	4 950.69	3 408.65	5 790.89	1 064.75	20 576.69
	- from financial institutions	3 985.07	2 819.99	1 401.80	1 418.19	1 165.08	1 445.92	52.20	4 037.27
	- from clients and government	15 297.43	13 096.10	9 731.71	3 364.38	2 201.33	4 179.59	1 011.41	16 308.84
	- other interest expense	229.44	187.21	19.09	168.11	42.24	165.38	1.14	230.58
III	Net interest income (I-II)	10 872.06	8 891.10	5 516.19	3 374.91	1 980.96	4 109.19	939.62	11 811.67
IV	Fee & commission income	2 927.54	2 345.01	1 455.00	890.01	582.53	1 220.90	231.53	3 159.07
V	Fee & commission expense	336.77	252.51	161.12	91.39	84.25	96.25	10.02	346.78
VI	Net fee & commission income (IV-V)	2 590.77	2 092.50	1 293.88	798.61	498.28	1 124.65	221.51	2 812.29
VII	Income from stocks, shares and other securities.	151.89	148.64	81.56	67.08	3.25	47.70	1.68	153.57
VIII	Profit (loss) from financial operations	266.46	244.73	111.34	133.39	21.73	114.28	4.76	271.22
	Income from exchange positions	5 650.07	4 349.42	2 844.91	1 504.51	1 300.65	1 868.33	0.00	5 650.07
	Expense on exchange positions	4 490.20	3 585.84	2 510.90	1 074.94	904.37	1 353.81	0.00	4 490.20
IX	Net income from exchange positions	1 159.86	763.59	334.01	429.58	396.28	514.52	0.00	1 159.86
X	Net income from core banking operations	15 041.04	12 140.55	7 336.98	4 803.57	2 900.49	5 910.35	1 167.57	16 208.61
XI	Other operating income	560.22	478.47	301.31	177.16	81.75	193.81	22.60	582.82
XII	Other operating expense	392.67	334.51	223.83	110.68	58.16	136.64	18.00	410.67
XIII	General expense	7 282.25	5 836.31	3 753.97	2 082.34	1 445.94	2 492.68	792.76	8 075.01
	- of which personnel expense (including tax and contributions)	4 189.73	3 484.39	2 315.31	1 169.08	705.35	1 393.78	588.40	4 778.13
XIV	Depreciation of fixed and intangible assets	892.06	710.86	457.02	253.85	181.19	345.96	45.39	937.44
XV	Increase in provisions and valuation allowances, of which	2 960.66	2 452.41	1 614.59	837.82	508.25	1 003.76	87.96	3 048.62
	- irregular classifications (claims), contingent commitments and other write down to provisions, including general risk	2 823.78	2 330.04	1 532.29	797.75	493.74	959.10	87.19	2 910.97
	- revaluation of financial assets	136.88	122.37	82.30	40.07	14.51	44.65	0.77	137.65
XVI	Decreases in provisions and valuation allowances	2 234.83	1 964.39	1 276.45	687.94	270.44	729.30	104.74	2 339.57
XVII	Net movement in provisions and valuation allowances (XV-XVI)	725.82	488.02	338.14	149.88	237.80	274.46	-16.78	709.05
XVIII	Profit (loss) from operations (X+XI-XII-XIII-XIV+/-XVII)	6 308.46	5 249.32	2 865.33	2 383.98	1 059.14	2 854.41	350.80	6 659.26
XIX	Profit (loss) on extraordinary items	-2.45	-1.52	-0.11	-1.41	-0.93	-2.86	-0.15	-2.61
XX	Pre-tax earnings (XVIII+/-XIX)	6 306.01	5 247.80	2 865.22	2 382.58	1 058.21	2 851.55	350.64	6 656.65
XXI	Obligatory reductions to profit	2 035.86	1 622.57	801.60	820.97	413.29	996.74	125.23	2 161.09
XXII	Net earnings	4 270.15	3 625.23	2 063.62	1 561.60	644.92	1 854.81	225.42	4 495.56

1	2	Commercial banks	of which:				Listed banks	Co-operative banks	Banking system
			with majority Polish equity	of which:		with majority foreign equity			
				public sector	private				
		3	4	5	6	7	8	9	10
	Total income	42 853.13	35 036.16	22 949.23	12 086.93	7 816.97	14 378.45	2 372.45	45 225.59
	Total expense	36 547.13	29 788.36	20 084.01	9 704.35	6 758.76	11 526.89	2 021.81	38 568.93

Table 31. Share of the co-operative sector in the whole banking sector

1	2	Total assets		Total capital base (core and supplementary)		Loans to non-financial sector (net)		Deposits from persons		Total losses		Total profit	
		1000 zł	%	1000 zł	%	1000 zł	%	1000 zł	%	1000 zł	%	1000 zł	%
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Total regional and associating banks	22 310 679,70	6,96	1 495 267,04	5,53	6 225 334,56	5,20	7 867 338,54	5,79	846 279,86	45,33	475 473,34	8,24
2	Total cooperative banks	13 701 460,23	4,27	1 199 163,96	4,43	5 935 932,11	4,96	7 146 400,70	5,26	70 346,33	3,77	292 763,07	5,07
	of which: affiliated to												
	Gospodarczy Bank Wielkopolski SA	1 863 518,19	0,58	147 346,57	0,54	878 974,87	0,73	964 034,89	0,71	20 286,14	1,09	40 992,73	0,71
	Gospodarczy Bank Południowo Zachodni SA	2 425 349,27	0,76	194 453,36	0,72	956 492,59	0,80	1 256 484,83	0,93	8 110,59	0,43	70 888,00	1,23
	Bank Unii Gospodarczej SA	1 597 628,49	0,50	131 582,22	0,49	722 320,77	0,60	893 238,06	0,66	5 729,66	0,31	30 664,09	0,53
	Warmińsko Mazurski Bank Regionalny SA	1 006 686,91	0,31	99 527,52	0,37	488 840,76	0,41	621 692,59	0,46	786,84	0,04	15 573,06	0,27
	Lubelski Bank Regionalny SA	1 072 227,21	0,33	95 521,44	0,35	496 423,68	0,41	601 877,25	0,44	4 497,79	0,24	16 618,13	0,29
	Bałtycki Bank Regionalny SA	503 800,97	0,16	51 251,55	0,19	222 585,90	0,19	241 702,75	0,18	5 285,68	0,28	10 464,64	0,18
	Pomorsko Kujawski Bank Regionalny SA	1 057 529,60	0,33	93 843,19	0,35	505 095,50	0,42	538 599,81	0,40	9 819,98	0,53	16 408,38	0,28
	Dolnośląski Bank Regionalny SA	565 872,60	0,18	52 961,06	0,20	226 854,28	0,19	259 933,18	0,19	4 158,34	0,22	8 513,91	0,15
	Małopolski Bank Regionalny SA	1 654 764,99	0,52	142 103,16	0,53	612 202,87	0,51	769 401,56	0,57	2 905,65	0,16	43 495,68	0,75
	Rzeszowski Bank Regionalny SA	312 461,25	0,10	29 754,85	0,11	106 392,16	0,09	128 029,59	0,09	16,23	0,00	6 305,00	0,11
	Mazowiecki Bank Regionalny SA	1 535 303,33	0,48	140 681,42	0,52	635 808,11	0,53	839 469,66	0,62	8 749,43	0,47	31 809,58	0,55
3	Cooperative sector (1+2)	36 012 139,93	11,23	2 694 431,00	9,96	12 161 266,67	10,16	15 013 739,24	11,05	916 626,19	49,10	768 236,41	13,31
4	National Cooperative Banking Group	30 134 836,77	9,40	2 264 868,14	8,38	10 015 519,45	8,36	12 773 071,80	9,40	902 785,94	48,36	647 719,95	11,22
5	Banking system	320 678 514,55	100,00	27 040 689,19	100,00	119 737 538,06	100,00	135 821 157,58	100,00	1 866 900,38	100,00	5 772 772,00	100,00

* Bank Gospodarki Żywnościowej SA, Gospodarczy Bank Wielkopolski SA, Bank Unii Gospodarczej SA, Gospodarczy Bank Południowo Zachodni SA, Warmińsko Mazurski Bank Regionalny SA, Lubelski Bank Regionalny SA, Pomorsko Kujawski Bank Regionalny SA, Małopolski Bank Regionalny SA, Mazowiecki Bank Regionalny SA, Bałtycki Bank Regionalny SA, Dolnośląski Bank

Table 32. Number of co-operative banks affiliated to regional/ associating banks

	Regional or associating bank	31.12.97	31.12.98	1999 forecast
1	2	3	4	5
1	Bank Gospodarki Zywnosciowej SA	170	-	-
2	Gospodarczy Bank Wielkopolski SA	138	125	73
3	Gospodarczy Bank Południowo-Zachodni SA	158	145	78
4	Bank Unii Gospodarczej SA	94	93	54
5	Warminsko-Mazurski Bank Regionalny SA	128	122	48
6	Lubelski Bank Regionalny SA	186	167	47
7	Baltycki Bank Regionalny SA	-	60	30
8	Pomorsko-Kujawski Bank Regionalny SA	99	78	46
9	Dolnoslaski Bank Regionalny SA	-	50	33
10	Małopolski Bank Regionalny SA	176	167	75
11	Rzeszowski Bank Regionalny SA	-	49	17
12	Mazowiecki Bank Regionalny SA	145	132	70
13	Total	1294	1188	571

Table 33. Basic financial data on the banks at December 31, 1998 (million USD)

		Commercial banks	of which: with majority equity		Co- operative banks	Banking System
			Polish	foreign		
million USD (USD 1 = 3,50 zloty)						
1	2	3	4	5	6	7
1	Total net assets	87 707.7	72 563.5	15 144.2	3 914.7	91 622.4
2	Loans, net	32 527.1	25 034.9	7 492.2	1 696.0	34 223.1
3	Securities, net	24 196.7	21 430.8	2 765.9	332.9	24 529.6
4	Deposits taken from non-financial sector	50 785.5	43 456.9	7 328.6	2 786.4	53 571.9
5	of which: deposits from persons	36 764.2	33 300.8	3 463.4	2 041.8	38 806.0
6	Total capital base (core and supplementary capital)	7 383.3	5 477.3	1 906.0	342.6	7 725.9
7	of which: core capital	6 898.6	5 124.9	1 773.7	308.1	7 206.7
8	Adjusted capital base ("own funds")	6 368.0	4 518.7	1 849.3	276.4	6 644.5
9	Pre-tax earnings	1 481.0	1 061.3	419.7	81.6	1 562.6
10	Net earnings	835.0	569.3	265.7	50.4	885.4

Listing of commercial banks in operation⁵⁷ at December 31, 1998

Bank code	
	I. Banks with majority Polish equity
	1.1. Banks with majority public-sector interest⁵⁸
	- state-owned banks
1	102 Powszechna Kasa Oszczednosci Bank Panstwowy*
2	113 Bank Gospodarstwa Krajowego*
	joint-stock companies directly State Treasury owned⁵⁹
3	112 Bank Zachodni SA*
4	124 Polska Kasa Opieki SA - Grupa Pekao S.A.*
5	140 Bank Rozwoju Budownictwa Mieszkaniowego SA**
6	203 Bank Gospodarki Zywnosciowej SA*
	joint-stock companies indirectly State Treasury owned⁶⁰
7	107 Bank Depozytowo-Kredytowy SA – Grupa Pekao SA*
8	108 Powszechny Bank Gospodarczy SA – Grupa Pekao SA*
9	110 Pomorski Bank Kredytowy SA - Grupa Pekao SA*
10	132 Bank Pocztowy SA**
11	141 Bank Wlasnosci Pracowniczej S.A.
12	146 Wschodni Bank Cukrownictwa SA**
13	154 Bank Ochrony Srodowiska SA*
	1.2. Banks with a majority private sector interest
14	103 Bank Handlowy w Warszawie SA*
15	106 Bank Przemyslowo-Handlowy SA* ⁶¹

⁵⁷ Excluding banks which are bankrupt or under liquidation

* - means banks holding full-scope foreign exchange licences under art. 6 para. 1 of the Foreign Exchange Act of December 2, 1994.

** - banks holding limited-scope foreign exchange licences (under Art. 99 para. 1 of the Banking Law of August 29, 1997).

⁵⁸ State-owned or joint-stock company banks where the Treasury, directly or indirectly, holds equity entitling it to exercise at least 50% + 1 votes at a shareholders general meeting.

⁵⁹ Joint-stock company banks where the Treasury (represented by the Minister of Treasury) directly holds equity entitling it to exercise at least 50% + 1 votes at a shareholders general meeting.

⁶⁰ Joint-stock company banks where the Treasury (represented by the Minister of Treasury), public sector parties, state-owned enterprises or joint-stock companies directly hold equity jointly entitling them to exercise at least 50% + 1 votes at a shareholders general meeting.

As of January 1 1999, as a result of the merger of the banks making up Grupa Pekao SA (Powszechny Bank Gospodarczy SA, Pomorski Bank Kredytowy SA and Bank Depozytowo Kredytowy SA with Bank Polska Kasa Opieki SA), the number of joint-stock company banks indirectly Treasury owned went down by 3. In consequence, the number of banks with a majority public-sector interest also decreased by 3.

16	111	Powszechny Bank Kredytowy SA*
17	114	Bank Rozwoju Eksportu SA**
18	115	BIG BANK SA**
19	116	BIG Bank GDANSKI S.A.*
20	119	SAVIMBANK Bank Depozytowo-Kredytowy SA** ⁶²
21	128	PROSPER-BANK SA**
22	130	Bank Wspolpracy Europejskiej SA*
23	135	BWR REAL BANK SA**
24	136	Bank Energetyki SA*
25	137	Bank Inicjatyw Spoeczno-Ekonomicznych SA*
26	142	Bank Cukrownictwa Cukrobank S.A.
27	144	Bank Komunalny S.A.
28	147	Bank SPOLEM S.A.
29	148	Bank Cukrownictwa CUKROBANK S.A.
30	150	Kredyt Bank PBI SA*
31	153	Bank Staropolski SA**
32	156	Gornoslaski Bank Gospodarczy SA**
33	158	BWR Bank Secesyjny S.A.
34	161	Gospodarczy Bank Wielkopolski SA**
35	162	Bank Wschodni S.A.
36	163	Bank CZESTOCHOWA S.A.
37	168	INVEST-BANK SA**
38	169	CUPRUM-BANK SA*
39	170	Bank Unii Gospodarczej S.A.
40	177	Pierwszy Komercyjny Bank SA**
41	191	Bank Wspolpracy Regionalnej SA*
42	193	Gospodarczy Bank Poludniowo-Zachodni SA*
43	194	LUKAS Bank Swietokrzyski SA (Bank Swietokrzyski until November 2, 1998)
44	197	Wielkopolski Bank Rolniczy S.A.
45	201	Warminsko-Mazurski Bank Regionalny S.A.
46	202	Lubelski Bank Regionalny S.A.
47	204	Pomorsko-Kujawski Bank Regionalny SA

⁶¹ From January 1999 bank with majority foreign equity, as on January 5 1999 an agreement was finalised between the State Treasury and Bayerische Hypo- und Vereinsbank for the sale of 36.7 shares of BPH SA (foreign investors embraced in total about 66% of shares in the bank).

⁶² Operational activity suspended as of March 25, 1997 and declared bankrupt by a court on January 13. In consequence, the number of banks with majority Polish equity went down to 48 and the number of commercial banks to 79.

48	205	Malopolski Bank Regionalny SA
49	206	Mazowiecki Bank Regionalny SA
50	208	Baltycki Bank Regionalny S.A.
51	210	Dolnoslaski Bank Regionalny S.A.
52	211	Rzeszowski Bank Regionalny SA

II. Banks with majority foreign equity⁶³

2.1. Foreign bank branch offices

1	180	ING Bank N.V. (Warsaw branch)*
2	181	American Express (Poland) Ltd**
3	184	SOCIETE GENERALE (Warsaw branch)*

2.2. Joint-stock companies with 100% foreign equity

4	167	ABN AMRO BANK (Polska) SA*
5	171	GE Capital Bank SA*
6	175	Raiffeisen-Centrobank S.A.*
7	178	Bank Austria Creditanstalt Poland SA*
8	179	Credit Lyonnais Bank Polska SA*
9	182	CITIBANK (Poland) SA*
10	185	Polsko-Amerykanski Bank Hipoteczny S.A.
11	186	BNP - Dresdner Bank (Polska) SA*
12	187	Westdeutsche Landesbank (Polska) SA*
13	188	Deutsche Bank Polska S.A.*
14	189	HYPO-BANK Polska S.A.*
15	190	Vereinsbank Polska SA *
		(from January 12, 1999 HypoVereinsbank Polska SA)
16	200	Rabobank Polska SA
		(until July 1, 1998 Rabo-Bank Rolno-Przemyslowy Polska SA*)
17	207	Ford Bank Polska SA
18	209	Berliner Bank (Polska) S.A.*
19	212	Bank of America (Polska) SA*
20	214	Fiat Bank Polska S.A.
21	213	VOLKSWAGEN BANK POLSKA S.A.
		2.3. Joint-stock companies with majority foreign equity
22	105	Bank Slaski SA*
23	109	Wielkopolski Bank Kredytowy SA*
24	152	Bank Przemyslowy SA*

⁶³ Branch offices of foreign banks or joint-stock company banks where foreign parties (natural or juridical persons) hold equity jointly entitling them to exercise at least 50% + 1 votes at a shareholders general meeting.

25	155	LG Petro Bank SA*
26	160	Pierwszy Polsko-Amerykanski Bank S.A.*
27	174	Bank Amerykanski w Polsce SA "AmerBank"*
28	183	Polsko-Kanadyjski Bank Sw. Stanislaw SA*
29	195	OPEL BANK S.A.
30	196	AIG Bank Polska SA (until December 16, 1998 Bank Podlaski SA)
		2.4 Joint-stock companies indirectly controlled by foreign capital
31	139	Gliwicki Bank Handlowy SA ** ⁶⁴

⁶⁴ Bank controlled - through WBK SA - by Irish investors.

Appendix 2

Schedule of listed banks⁶⁵ at December 31, 1998

Bank code		
1	103	Bank Handlowy S.A.
2	105	Bank Slaski S.A.
3	106	Bank Przemyslowo-Handlowy S.A.
4	109	Wielkopolski Bank Kredytowy S.A.
5	111	Powszechny Bank Kredytowy S.A.
6	114	Bank Rozwoju Eksportu S.A.
7	116	BIG Bank GDANSKI S.A.
8	124	Bank Polska Kasa Opieki SA – Grupa PKO S.A.
9	144	Bank Komunalny S.A.
10	150	Kredyt Bank PBI S.A.
11	154	Bank Ochrony Srodowiska S.A.
12	155	LG Petro Bank S.A.
13	160	Pierwszy Polsko-Amerykanski Bank S.A.
14	163	Bank CZESTOCHOWA S.A.
15	174	Bank Amerykanski w Polsce SA "AmerBank"
16	191	Bank Wspolpracy Regionalnej S.A.

Appendix 3

Schedule of banks with minority foreign equity at December 31, 1998

Bank code		
1	103	Bank Handlowy w Warszawie S.A.
2	106	Bank Przemyslowo-Handlowy SA ⁶⁶
3	111	Powszechny Bank Kredytowy S.A.
4	114	Bank Rozwoju Eksportu S.A.
5	116	BIG Bank GDANSKI S.A.
6	124	Bank Polska Kasa Opieki SA – Grupa PKO S.A.
7	137	Bank Inicjatyw Spoeczno-Ekonomiecznych S.A.
8	141	Bank Wlasnosci Pracowniczej S.A.
9	144	Bank Komunalny S.A.
10	148	Bank Cukrownictwa CUKROBANK S.A.
11	150	Kredyt Bank PBI S.A.
12	163	BANK CZESTOCHOWA S.A.
13	191	Bank Wspolpracy Regionalnej S.A.
14	197	Wielkopolski Bank Rolniczy S.A.

⁶⁵ Banks that have been admitted for public trading by Poland's Securities and Exchange Commission.

⁶⁶ Since January 1991 a bank with majority foreign equity.

LEGISLATION RELATING TO THE BANKING SYSTEM (as at December 31, 1998)

I. ACTS OF PARLIAMENT

1. The Commercial Code of June 24, 1934, issued as an Ordinance of the President of the Republic of Poland (as published and amended in *Dziennik Ustaw* nos. 57/1936, item 502; 57/1946, item 321; 34/1950, item 312; 16/1964, item 94; 41/1988, item 326; 17/1990, item 98; 51/1990, item 298; 35/1991, item 155; 94/1991, item 418; 111/1991, item 480; 121/1994, item 591; 96/1995, item 478; 6/1996, item 43; 88/1997, item 554, 118/1997, item 754; and 121/1997, item 770).
2. The Co-operatives Act of September 16, 1982 (as published and amended in *Dziennik Ustaw* nos. 54/1995, item 288; 133/1995, item 654; 5/1996, item 32; 24/1996, item 110; 43/1996, item 189; 32/1997, item 183; 111/1997, item 723; and 121/1997, item 770).
3. The Corporate Income Tax Act of February 15, 1992 (as published and amended in *Dziennik Ustaw* nos. 106/1993, item 482; 134/1993, item 646; 1/1994, item 2; 43/1994, item 163; 80/1994, item 368; 87/1994, item 406; 90/1994, item 419; 113/1994, item 547; 123/1994, item 602; 127/1994, item 627; 5/1995, item 25; 86/1995, item 433; 96/1995, item 478; 133/1995, item 654; 142/1995, item 704; 25/1996, item 113; 34/1996, item 146; 90/1996, item 405; 137/1996, item 639; 147/1996, item 686; 9/1997, item 44; 28/1997, item 153; 79/1997, item 484; 96/1997, item 592; 107/1997, item 685; 118/1997, item 754; 121/1997, item 770; 123/1997, items 776 and 777; 137/1997, item 926; 139/1997, items 933 and 934; 140/1997, item 939; 141/1997, item 945; 60/1998, item 383, 108/1998, item 685, 117/1998, item 756, 137/1998, item 887 and 144/1998, item 931).
4. The Act on the Financial Restructuring of Enterprises and Banks and on Amendments to Certain Legislation of February 3, 1993 (as published and amended in *Dziennik Ustaw* nos. 18/1993, item 82; 52/1996, item 235; 106/1996, item 496; 98/1997, item 603; and 141/1997, item 943).
5. The Act on the Restructuring of Co-operative Banks and Bank Gospodarki Zywnosciowej and on Amendments to Certain Legislation of June 24, 1994 (as published and amended in *Dziennik Ustaw* nos. 80/1994, item 369; 142/1995, item 704; 106/1996, item 496; 121/1997, item 770; and 140/1997, item 939).
6. The Accounting Act of September 29, 1994 (as published and amended in *Dziennik Ustaw* nos. 121/1994, item 591; 32/1997, item 183; 43/1997, item 272; 88/1997, item 554; 140/1997, item 939; 141/1997, item 945; 60/1998, item 382; 106/1998, item 668 and 107/1998, item 669).

7. The Act on the Protection of Trading and on Amendments to Certain Provisions of Criminal Statute of October 12, 1994 (as published in *Dziennik Ustaw* no. 126/1994, item 615).
8. The Act on Certified Auditors and Their Self-Regulatory Body of October 13, 1994 (as published and amended in *Dziennik Ustaw* nos. 121/1994, item 592; and 102/1996, item 475).
9. The Act on the Bank Guarantee Fund of December 14, 1994 (as published and amended in *Dziennik Ustaw* nos. 4/1995, item 18; 133/1995, item 654; 24/1997, item 119; 79/1997, item 484; 85/1997, item 538; 88/1997, item 554; 140/1997, item 940; 108/1998, item 685 and 162/1998, item 1121).
10. The Act on Certain Forms of Support to Residential Construction and on Amendments to Certain Legislation of October 26, 1995 (as published and amended in *Dziennik Ustaw* nos. 133/1995, item 654; 106/1996, item 496; 156/1996, item 775; 80/1997, item 507; 103/1997, item 651; 115/1997, item 741; 140/1997, item 939; 141/1997, item 943 and 162/1998, item 1121).
11. The Act on State Assistance in the Repayment of Certain Home Loans and the Reimbursement of Banks for Guarantee Premiums Disbursed and on Amendments to Certain Legislation of November 30, 1995 (as published and amended in *Dziennik Ustaw* nos. 5/1996, item 32; 106/1996, item 496; 80/1997, item 103; and 103/1997, item 652).
12. The Act on Co-operative Savings and Loan Associations of December 14, 1995 (as published in *Dziennik Ustaw* no. 1/1996, item 2).
13. The Act on the Amalgamation and Consolidation of Certain Joint-Stock Banks of June 14, 1996 (as published and amended in *Dziennik Ustaw* nos. 90/1996, item 406; 156/1996, item 775; 121/1997, item 770; and 140/1997, item 939).
14. The Act on the Registered Lien and Lien Registry of December 6, 1996 (as published and amended in *Dziennik Ustaw* nos. 149/1996, item 703; 121/1996, item 769; and 106/1998, item 668).
15. The Act on Guarantees and Endorsements Extended by the Treasury and Certain Other Institutions of May 8, 1997 (as published and amended in *Dziennik Ustaw* nos. 79/1997, item 484; and 80/1997, item 511).
16. The Act on Building Societies and State Support to Savings for Housing Purposes of June 5, 1997 (as published in *Dziennik Ustaw* no. 85/1997, item 538).

17. The Criminal Statute of June 6 1997 (as published in *Dziennik Ustaw* no. 88/1997, item 553 and 128/1997, item 840).
18. The Taxation Act (Tax Code) of August 29, 1997 (as published in *Dziennik Ustaw* no. 137/1997, item 926; 160/1997, item 1083; 106/1998, item 668 and *Monitor Polski* no 18/1998, item 394).
19. The Act on Public Trading in Securities and on Trust Funds of August 21, 1997 (as published and amended in *Dziennik Ustaw* nos. 118/1997, item 754, 88/1997, item 554, 141/1997, item 945 and 107/1998, item 669).
20. The Act on the National Bank of Poland of August 29, 1997 (as published and amended in *Dziennik Ustaw* nos. 140/1997, item 938 and 160/1998, item 1063).
21. The Banking Act of August 29, 1997 (as published and amended in *Dziennik Ustaw* nos. 140/1997, item 939; 160/1998, item 1063 and 162/1998 item 1118).
22. The Act on Mortgage Bonds and Mortgage Banks of August 29, 1997 (as published in *Dziennik Ustaw* no. 140/1997, item 940; and 107/1998, item 669).
23. The Foreign Exchange Act of December 2, 1994 (as published and amended in *Dziennik Ustaw* nos. 136/1994, item 703; 132/1995, item 641; 71/1996, item 449; and 106/1996, item 496).

*NB: Now rescinded. In 1999 the Foreign Exchange Act of December 18, 1998 (as published and amended in *Dziennik Ustaw* no. 160/1998, item 1063) took effect.*

II. IMPLEMENTING LEGISLATION

1. Regulation 4/95 of the President of the NBP on the establishment of a model bank chart of accounts, February 22, 1995 (as published and amended in *Dziennik Urzędowy NBP* nos. 6/1995, item 11; 17/1996, item 42; and 22/1997, item 42).
2. Ordinance of the Council of Ministers on detailed conditions and procedures for issuing guarantee premiums, the repayment thereof, and procedures for settlements with banks involving the reimbursement of premiums disbursed, May 7, 1996 (as published in *Dziennik Ustaw* nos. 57/1996, item 259; and 144/1997, item 963).
3. Ordinance of the Council of Ministers on general conditions of agreements for contract credit, June 11, 1996 (as published in *Dziennik Ustaw* no. 68/1996, item 330).

4. Ordinance of the Council of Ministers on detailed conditions and procedures for extending by the Treasury of guarantees and endorsements and fees on such guarantees or endorsements, August 5, 1997 (as published in *Dziennik Ustaw* no. 99/1997, item 606).
5. Ordinance of the Council of Ministers on conditions and procedures for the sale of State Treasury claims arising from guarantees and endorsements extended, conversion of such claims to equity, rescheduling their repayment and their cancellation in full or in part, September, 2 1997 (as published in *Dziennik Ustaw* no. 106/1997, item 683).
6. Regulation 12/97 of the President of the NBP on the scope of information submitted by the banks to the Bank Guarantee Fund, December 29, 1997 (as published in *Dziennik Urzędowy NBP* no. 21/1997, item 42).
7. Regulation 2/98 of the President of the NBP on uniform procedures for interbank settlements, March 5, 1998 (as published and amended in *Dziennik Urzędowy NBP* no. 3/1998, item 6).
8. Resolution no 9/98 of the NBP Management Board on procedures and detailed principles for information to be submitted by banks to the National Bank of Poland for the purpose of setting monetary policies, reviewing, from time to time, the monetary situation of the state and assessing the financial situation of the banks and banking sector risk, May 22, 1998 (as published in *Dziennik Urzędowy NBP* no. 11/98, item 22).
NB: the resolution has replaced Regulation 15/96 of the President of the NBP on the procedures, scope and time frames for information to be submitted by the banks to the National Bank of Poland, November 22, 1996 (as published and amended in Dziennik Urzędowy NBP nos. 21/1996, item 56; and 20/1997, item 40).
9. Regulation of the President of the NBP on the forms and procedures for monetary settlements through banks, May 29, 1998 (as published in *Monitor Polski* no 21/1998 item 320).
10. Resolution 10/98 of the NBP Board on the principles and procedures for accounting and keeping reserve requirements, June 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 123/1998, item 23).
11. Regulation 8/98 of the President of the NBP on the methods and procedures for counting, sorting and packing banknotes and coins, providing them with sorting codes and procedures for supplying banks with such values, June 15, 1998 (as published in *Dziennik Urzędowy NBP* no. 12/1998, item 24).
12. Resolution 1/98 of the Banking Supervision Commission on detailed bank accounting principles and the compilation of notes to financial statements, June 3, 1998 (as published in *Dziennik Urzędowy NBP* no 14/1998, item 27).

13. Resolution 2/98 of the Banking Supervision Commission on detailed procedures for the compilation by banks of consolidated financial statements, June 3, 1998 (as published in *Dziennik Urzędowy NBP* no. 14/1998, item 28).
14. Regulation 1/98 of the Banking Supervision Commission on detailed requirements concerning the separation of housing associations at banks and settlements between the bank which has stopped running a housing association and the bank which has taken over the operation, June 3, 1998 (as published in *Dziennik Urzędowy NBP* no. 14/1998, item 29).
15. Regulation 2/98 of the Banking Supervision Commission on reporting requirements concerning balances on savings-and-loan accounts, housing loans extended and repayment performance thereof, and bank income and expense associated with the operation of housing associations, June 3, 1998 (as published in *Dziennik Urzędowy NBP* no. 14/1998, item 30).
16. Resolution 3/98 of the Banking Supervision Commission on certain other items of a bank's balance sheet treated as supplementary (non-core) capital, conditions and procedures of their accounting as such capital, as well as items of a bank's balance sheet deducted when calculating its adjusted capital base, June 30, 1998 (as published in *Dziennik Urzędowy NBP* nos. 15/1998, item 32 and 19/1998, item 41).
NB: on December 31, 1998 Resolution 8/98 of the Banking Supervision Commission on procedures for determining the adjusted capital base of banks belonging to a banking capital group or a banking group for the purpose of the requirements and limits set in the Banking Act, certain other items of a bank's balance sheet treated as supplementary capital, conditions and procedures of their accounting as such capital, as well as items of a bank's balance sheet deducted when calculating its adjusted capital base, August 5, 1998 (as published in Dziennik Urzędowy NBP, no. 19/1998, item 43) took effect; Resolution 3/98 thus became void.
17. Resolution 4/98 of the Banking Supervision Commission on bank procedures in cases of money laundering and the establishment of monetary thresholds in excess of which cash deposits are to be registered, the procedures for keeping such register of cash deposits in excess of the threshold and of the particulars of persons who have made such deposits and persons in whose name such deposits have been made, June 30, 1999 (as published in *Dziennik Urzędowy NBP* no. 18/1998, item 40).
18. Resolution 5/98 of the Banking Supervision Commission on the establishment of normative provisions for permissible foreign exchange risk in banking activities, June 30, 1998 (as published in *Dziennik Urzędowy NBP* no. 15/1998, item 33).
NB: on December 31, 1998 Resolution 11/98 of the Banking Supervision Commission on the establishment of normative provisions for permissible foreign exchange risk in banking activities, October 14, 1998 (as published in Dziennik Urzędowy NBP no. 24/1998, item 54) took effect; Resolution 5/98 thus became void.
19. Regulation 3/98 of the Banking Supervision Commission on the methods for calculating the risk-based capital ratio of a bank and on percentage risk weights for individual categories of assets and off-balance items, June 30, 1998 (as published in *Dziennik Urzędowy NBP* no. 15/1998, item 34).

NB: on December 31, 1998 - Regulation no 5/98 of the Banking Supervision Commission on the methods for calculating the risk-based capital ratio of a bank and percentage risk weights for individual categories of assets and off-balance items, December 2, 1998 (as published in Dziennik Urzędowy NBP no 26/1998, item 61) took effect; Regulation 3/98 thus became void .

20. Regulation 4/98 of the Banking Supervision Commission on detailed procedures for extending bank guarantees and endorsements, June 30, 1998 (as published in *Dziennik Urzędowy NBP* no. 18/1998, item 39).
21. Resolution 7/98 of the Banking Supervision Commission on ways of using the reserve which a mortgage bank can establish in order to provision for mortgage bonds, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 42).
22. Resolution 8/98 of the Banking Supervision Commission on procedures for determining the adjusted capital base of banks belonging to a banking capital group or a banking group for the purpose of the requirements and limits set in the Banking Act, certain other items of a bank's balance sheet treated as supplementary (non-core) capital, conditions and procedures for their accounting as such capital, as well as items of a bank's balance sheet deducted when calculating its adjusted capital base, August 5, 1988 (as published in *Dziennik Urzędowy NBP*, no. 19/1998, item 43).
23. Resolution 9/98 of the Banking Supervision Commission on detailed principles for providing co-operative banks with initial share capital, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 44).
24. Resolution 10/98 of the Banking Supervision Commission on detailed principles for contributing initial share capital to a joint-stock bank or state-owned banks, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 45).
25. Regulation of the Minister of Justice on principles and procedures for cancelling evidence for the conclusion of a savings account agreement, September 7, 1998 (as published in *Dziennik Ustaw* no. 121/1998, item 795).
26. Resolution 24/98 of the NBP Board on the procedure and detailed principles for information to be submitted by the banks to the NBP as required for the purpose of setting monetary policy and reviewing, from time to time, the monetary situation of the country, September 25, 1998 (as published in *Dziennik Urzędowy NBP* no. 22/1998, item 49).
NB: The resolution has replaced regulation no 8/97 of the President of the NBP on the procedures, scope and time frames for financial information to be submitted by the banks to the NBP, December 5, 1997 (as published in Dziennik Urzędowy NBP no. 19/1997, item 37).
27. Resolution 11/98 of the Banking Supervision Commission on the establishment of normative provisions for permissible foreign exchange risk in banking activities, October 14, 1998 (as published in *Dziennik Urzędowy NBP* no. 24/1998, item 54).
28. Resolution 12/98 of the Banking Supervision Commission on the procedures and conditions for the treatment of specified part of the additional amount of members' liability as supplementary (non-core) capital at a co-operative bank, December 2, 1998 (as published in *Dziennik Urzędowy NBP* no. 26/1998, item 60).

29. Regulation 5/98 of the Banking Supervision Commission on the methods for calculating the risk-based capital ratio of a bank and percentage risk weights for individual categories of assets and off-balance items, December 2, 1998 (as published in *Dziennik Urzędowy NBP* no. 26/1998, item 61).
30. Resolution 13/98 of the Banking Supervision Commission on procedures for provisioning against the risk of banking operations, December 22, 1998 (as published in *Dziennik Urzędowy NBP* no. 29/1998, item 65).

III. OTHER LEGISLATION RELATING TO THE BANKING SYSTEM

1. The Bankruptcy Act of October 24, 1934, issued as an Ordinance of the President of the Republic of Poland (as published and amended in *Dziennik Ustaw* nos. 118/1991, item 512; 1/1994, item 1; 85/1995, item 426; 6/1996, item 43; 43/1996, item 189; 106/1996, item 496; 54/1997, item 349; 121/1997, item 770; 140/1997, item 940 and 117/1998, item 756).
2. The Act on Bills of Exchange of April 28, 1936 (as published in *Dziennik Ustaw* no. 37/1936, item 282).
3. The Act on Cheques of April 28, 1936 (as published and amended in *Dziennik Ustaw* nos. 37/1936, item 283; and 88/1997, item 554).
4. The Civil Code of April 23, 1964 (as published and amended in *Dziennik Ustaw* nos. 16/1964, item 93; 27/1971, item 252; 19/1976, item 122; 11/1982, item 81; 19/1982, item 147; 30/1982, item 210; 45/1984, item 242; 22/1985, item 99; 3/1989, item 11; 33/1989, item 175; 34/1990, item 198; 55/1990, item 321; 79/1990, item 464; 107/1991, item 464; 115/1991, item 496; 17/1993, item 78; 27/1994, item 96; 85/1994, item 388; 105/1994, item 509; 83/1995, item 417; and 141/1995, item 692; 114/1996, item 542; 139/1996, item 646; 43/1997, item 272; 149/1997, item 703; and 115/1997, item 741; 117/1997, item 751; 157/1997, item 1040; 106/1998, item 668; and 117/1998, item 758).
5. The Act on Economic Activity of December 23, 1988 (as published and amended in *Dziennik Ustaw* nos. 41/1988, item 324; 26/1990, item 149; 34/1990, item 198; 86/1990, item 504; 31/1991, item 128; 41/1991, item 179; 73/1991, item 321; 105/1991, item 452; 106/1991, item 457; 107/1991, item 460; 28/1993, item 127; 47/1993, item 212; 134/1993, item 646; 27/1994, item 96; 127/1994, item 627; 60/1995, item 310; 85/1995, item 426; 90/1995, item 446; 141/1995, item 700; 147/1995, item 713; 41/1996, item 177; 45/1996, item 199; 9/1997, item 44; 23/1997, item 117; 43/1997, item 272; 54/1997, item 348; 60/1997, item 369; 75/1997, item 471; 88/1997, item 554; 96/1997, item 591; 106/1997, item 677; 113/1997, item 733; 121/1997, item 770; 124/1997, item 783; 133/1997, item 884 and 157/1997, item 1026).

6. The Act on Combating Monopoly Practices of February 24, 1990 (text as amended published in *Dziennik Ustaw* no. 49/1997, item 318, and subsequently amended in nos. 118/1997, item 754; 121/1997, item 770 and 106/1998, item 668).
7. The Act on Insurance Activity of July 28, 1990 (as published and amended in *Dziennik Ustaw* nos. 11/1996, item 62; 43/1997, item 272; 88/1997, item 554; 107/1997, item 685; and 121/1997, item 770).
8. The Act on Companies Involving Foreign Equity of June 14, 1991 (text as amended published in *Dziennik Ustaw* no. 26/1997, item 143).
9. The Act on Combating Unfair Competition of April 16, 1993 (as published and amended in *Dziennik Ustaw* nos. 47/1993, item 211; 106/1996, item 496; and 88/1997, item 554).
10. The Act on Bonds of June 29, 1995 (as published and amended in *Dziennik Ustaw* nos. 83/1995, item 420, with corrigendum in no. 118/1995, item 574; 88/1997, item 554; 118/1997, item 754 and 106/1998, item 668).

III. RECOMMENDATIONS ISSUED BY BANKING SUPERVISION

1. Recommendations for banks concerning liquidity monitoring systems, June 1996.
2. Recommendation A on the management of derivatives risk, March 3, 1997.
3. Recommendation B on the control of capital investment risk, March 3, 1997.
4. Recommendation C on the management of risk related to large exposures, March 3, 1997.
5. Recommendation D on the management of IT and telecommunications risk, October 20, 1997.
6. Recommendation E on the preparation of IT systems for operation in the Year 2000, December 19, 1997.
7. Recommendation F on the basic criteria to be used by the Banking Supervision Commission when reviewing real estate appraisal policies published by mortgage banks, November 12, 1998.