

# **National Bank of Poland**

General Inspectorate of Banking Supervision

## **SUMMARY EVALUATION OF THE FINANCIAL SITUATION OF POLISH BANKS**

1999

Warsaw, April 2000

## **1. Scope of analysis and methodological remarks**

The present study constitutes a summary analysis of the economic and financial situation of Polish banks in 1999. This analysis sets out the ownership structure of the banks, including the relative weight of foreign capital within the banking system<sup>1</sup>, and provides brief information on the macroeconomic environment in 1999. The balance sheet and off balance sheet operations of the banks are presented, together with the qualitative structure of those operations and the level of specific and general provisioning performed, and an outline is given of the banks' capital base and risk-based capital ratios. In addition, an overview is provided of the financial condition of the banks, including income earned, expense incurred and earnings generated, and also of their operating efficiency.

The present analysis is based on data from the prudential reports filed by the banks, as available on February 7, 2000<sup>2</sup>, and encompasses a total of **77** commercial banks<sup>3</sup> and **781** cooperative ones.

## **2. The Polish banking system**

The banking industry is the largest and most developed segment of Poland's financial markets. At year end 1999, the total assets of the banking system accounted for almost 90% of the overall assets of the regulated financial services sector (banks, brokerage houses, pension funds, insurance companies, mutual funds and investment funds)<sup>4</sup>. The total footing of the banks was some 13 times greater than that of the second largest segment of the financial markets, the insurance industry.

While the relative share of the banks in the market capitalisation of the Warsaw Stock Exchange has gradually been declining, it still remains very high. At the end of 1999, it stood

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<sup>1</sup> The term "banking system" as used herein does not include the National Bank of Poland (NBP), nor banks under liquidation or declared bankrupt.

<sup>2</sup> This means that account has not been taken of any adjustments to those reports submitted by banks and entered in the NBP data base subsequent to that date. The data employed are not final; they could be subject to change in accordance with auditors' recommendations.

<sup>3</sup> A full list of commercial banks at year end 1999, divided into the groups analysed in this study, is presented in Appendix 1.

<sup>4</sup> Throughout the present study, the term "total assets" refers to a net amount, i.e., total assets less accumulated depreciation, specific provisions and valuation allowances.

at 28.1% (as against 32.1% at year end 1998). In addition, the 20 companies with the largest individual market capitalisation included 10 banks<sup>5</sup>.

The year 1999 saw an **acceleration of bank privatisations and a major intensification of bank consolidations**. Let us recall that the Ministry of the Treasury finalised the privatisation of 4 banks:

- in January, Bayerische Hypo- und Vereinsbank AG acquired a 36.7% interest in Bank Przemyslowo-Handlowy SA from the Treasury (under an agreement concluded in October 1998), and subsequently purchased equity from the other shareholders to obtain control of that bank<sup>6</sup>;
- in August, a consortium of UniCredito Italiano SA and Allianz AG took up a majority holding (52.09%) in Bank Polska Kasa Opieki SA (pursuant to an agreement with the Treasury signed in June);
- in September, AIB European Investments Limited took up 80% of the share capital in Bank Zachodni SA (under an agreement with the Treasury concluded in June);
- in August, foreign investors associated with Denmark's Unibank acquired a controlling interest in Bank Wlasnosci Pracowniczej SA (previously this bank had been indirectly controlled by the Treasury)<sup>7</sup>.

As in other countries, banks in Poland have been displaying an increasing interest in consolidation<sup>8</sup>. The year 1999 brought the following mergers and acquisitions:

- the largest ever merger within the Polish banking industry, creating the second biggest bank in Poland, occurred on January 1, involving the 4 banks constituting the Pekao SA Group (Bank Polska Kasa Opieki SA merged with Powszechny Bank Gospodarczy SA, Pomorski Bank Kredytowy SA and Bank Depozytowo-Kredytowy SA);
- Powszechny Bank Kredytowy SA acquired the banking business of Pierwszy Komercyjny Bank SA, incorporating the offices of the latter into its own network as of July 1<sup>9</sup>;

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<sup>5</sup> A schedule of banks listed on the Warsaw Stock Exchange is given in Appendix 2.

<sup>6</sup> Although Bank Przemyslowo-Handlowy SA was privatised in 1995, the Treasury retained a significant shareholding, as a result of which the bank continued to have majority Polish equity until the end of 1998.

<sup>7</sup> As of October 22, 1999, this bank changed its name to "Bank Wlasnosci Pracowniczej – Unibank SA".

<sup>8</sup> The largest banks worldwide owe their position to mergers performed in recent years. Leaving aside the takeover of distressed banks, there had been few significant mergers in Poland prior to 1999; those that did take

- Bank Energetyki SA merged with Bank Inicjatyw Społeczno-Ekonomicznych SA on November 22<sup>10</sup>;
- the consolidation was carried out of 3 banks belonging to Bayerische Hypo- und Vereinsbank AG, which took up a new issue of shares in Bank Przemysłowo-Handlowy SA by means of a non-cash consideration for equity, this comprising title to 100% of the share capital of Hypo-Bank Polska SA and HypoVereinsbank Polska SA. The latter bank was subsequently merged with Bank Przemysłowo-Handlowy SA (on November 11)<sup>11</sup>, while Hypo-Bank Polska SA was converted into a mortgage bank (as of December 1)<sup>12</sup>.

The directing bodies of Bank Handlowy w Warszawie SA and BRE Bank SA also took steps towards a merger of their respective banks. The idea of this merger had the approval of the Commission for Banking Supervision, as it would have led to the creation of one of the largest banks in this part of Europe and ensured Bank Handlowy, as the oldest bank in Poland (in operation since 1870), not only dynamic growth, but also maintenance of its corporate identity and continued Polish management. However, owing to the emphatic objections of two shareholders in Bank Handlowy (the PZU insurance company and the Treasury), the merger was not consummated<sup>13</sup>.

The process of consolidation within the Polish banking industry is not yet over. The merger of Bank Austria Creditanstalt Poland SA and Powszechny Bank Kredytowy SA can be expected in the not too distant future<sup>14</sup>, as can that of Gliwicki Bank Handlowy SA and Wielkopolski Bank Kredytowy SA. Looking further ahead, it is highly likely that Allied Irish Bank European Investments Ltd will carry out the merger of the banks it controls (i.e., Bank Zachodni SA and Wielkopolski Bank Kredytowy SA). The rising tide of bank mergers in

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place included the merger of BRE Bank SA with Polski Bank Rozwoju SA, that of Bank Inicjatyw Gospodarczych SA with Bank Gdanski SA, and that of Kredyt Bank SA with Polski Bank Inwestycyjny SA.

<sup>9</sup> On March 1, 2000, the Commission for Banking Supervision adopted a resolution (Resolution no. 24/2000) revoking Ruling no. 4 of the President of the NBP, November 24, 1990, authorising the establishment of Pierwszy Komercyjny Bank SA.

<sup>10</sup> Bank Energetyki SA thereby relinquished its separate personality at law.

<sup>11</sup> HypoVereinsbank Polska SA was duly deleted from the commercial register.

<sup>12</sup> On January 24, 2000, this bank changed its name to HypoVereinsbank Bank Hipoteczny SA.

<sup>13</sup> Citigroup has expressed interest in purchasing a controlling stake in Bank Handlowy w Warszawie SA.

<sup>14</sup> Powszechny Bank Kredytowy SA is virtually controlled by Bank Austria Creditanstalt International AG, which at the end of December held 43.0% of the bank's equity (36.19% belonged to small investors) and is interested in acquiring further shares being offered for sale by the Treasury.

Europe will also speed up corresponding developments in Poland, e.g., Bank Wlasnosci Pracowniczej – Unibank SA might be merged with Bank Komunalny SA, which would be a natural consequence of the purchase of Denmark's Unidanmark by the Finnish-Swedish group MeritaNordbanken<sup>15</sup>. Further, Deutsche Bank AG, which has steadily been increasing its equity involvement in Big Bank Gdanski SA, has announced that over time it will join together the banks which it controls<sup>16</sup>. Mergers can also be anticipated among the regional banks and other institutions affiliating local cooperative banks.

As a result of consolidations, the **total number of commercial banks** declined from 83 at year end 1998 to **77** at year end 1999. While one new bank was also established (Rheinhyp-BRE Bank Hipoteczny SA<sup>17</sup>), this did not affect the overall number, as one bank was declared bankrupt – Savim Bank Depozytowo-Kredytowy SA<sup>18</sup>.

The year 1999 witnessed major changes in the ownership structure of the commercial banks; in addition to privatisations and consolidations, these changes also stemmed from the following developments:

- the Treasury increased the registered equity of Bank Gospodarstwa Krajowego by contributing to it shares held in Bank Rozwoju Budownictwa Mieszkaniowego SA, which thus became indirectly controlled by the Treasury (whereas previously it had been controlled directly);
- Bank Wspolpracy Regionalnej SA took over 5 offices of BWR Bank Secesyjny SA (thereby increasing its own assets and office network), while selling its majority holding in the latter bank, on May 31, to the German company of DaimlerChrysler Services (debis) AG<sup>19</sup>;

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<sup>15</sup> Unibank (which is part of Unidanmark) and Nordbanken hold controlling interests in Bank Wlasnosci Pracowniczej – Unibank SA and Bank Komunalny SA, respectively.

<sup>16</sup> This would involve a merger of its subsidiary, Deutsche Bank Polska SA, with BIG Bank Gdanski SA, and in time also with Bank Wspolpracy Regionalnej SA and BWR Real Bank SA, which are in the process of rehabilitation by Deutsche Bank.

<sup>17</sup> Authorisation was granted by the Commission for Banking Supervision on March 12, 1999, the bank was entered in the commercial register on April 16, and it commenced operating activity on December 1.

<sup>18</sup> The operations of this bank were suspended on March 25, 1997, and it was declared bankrupt by the Court of Appeals on January 13, 1999. A petition to reverse this ruling filed by the bank's management board was rejected by the Supreme Court on December 7.

<sup>19</sup> On January 28, 2000, the bank changed its name to DaimlerChrysler Services (debis) Bank Polska SA.

- in May, foreign investors assumed a controlling equity interest in Kredyt Bank SA<sup>20</sup>, and indirectly also in Prosper-Bank SA;
- a shift took place in the ownership structure of BIG Bank Gdanski SA, with foreign equity involvement rising to 47.8%<sup>21</sup>. The large amount of shares in dispersed holdings (45.1%) meant that the bank's ownership structure had not been stable, making it a relatively easy takeover target<sup>22</sup>;
- Kredyt Bank SA acquired a 18.6% interest in Bank Ochrony Srodowiska SA;
- Belgium's Fortis Bank NV obtained 98.4% of the share capital of Pierwszy Polsko-Amerykanski Bank SA, thus acquiring full control over that bank;
- Germany's DG Bank AG raised its share in the equity capital of Bank Amerykanski w Polsce SA "AmerBank" (taking this to 71.1%);
- Telewizja Polsat SA became the strategic investor in Invest-Bank SA, and together with a subsidiary held 51.7% of the bank's equity at year end;
- Bank Pocztowy SA became the strategic investor in Wielkopolski Bank Rolniczy SA, recapitalising the latter to the level required by regulations;
- a controlling stake in Bank Komunalny SA was assumed in December by Nordbanken, part of the Finnish-Swedish group MeritaNordbanken.

As a result of privatisations<sup>23</sup>, the number of **banks with majority public-sector equity** fell from 13 at the end of 1998 to 7 at the end of 1999 (with the number of banks directly controlled by the Treasury dropping from 6 to 3). The total assets of those banks with a majority public-sector interest represented less than one quarter of the total assets within the

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<sup>20</sup> The bank received a capital infusion. The new investor, Portugal's Banco Espirito Santo e Comercial de Lisboa holds 9.7% of share capital, while the equity interest of Belgium's Kredietbank NV has risen to 29.9%.

<sup>21</sup> At the end of 1999, 14.8% of equity was held by Banco Comercial Portugues, 10.0% by the Eureko insurance group, 13.0% by Deutsche Bank AG, and 10.0% by RZB Central European Development.

<sup>22</sup> Let us recall that banks listed on the Stock Exchange are generally unaware of the identity of investors with less than 5% of shares, since the latter are under no obligation to disclose their shareholdings outside shareholders general meetings. At the shareholders general meeting of BIG Bank Gdanski SA convened in January 2000, it transpired that Deutsche Bank AG, acting with the support of certain minority shareholders (including PZU, PZU Zycie and the Treasury), was in a position to take control of the bank. The ensuing conflict between the principal shareholders proved so fierce that it was referred to the courts and the Securities and Exchange Commission, which will have to determine whether any violations of the relevant Polish regulations were committed.

<sup>23</sup> And also of the consolidation of the banks making up the Pekao SA Group, a process which preceded the privatisation of Bank Polska Kasa Opieki SA.

banking sector at year end 1999 (23.9%, to be precise)<sup>24</sup>, while those banks under majority private ownership accounted for 71.8%. The remaining assets (4.2%) were held by the cooperative banks (cf. Table 1).

Although the number of banks with a majority private-sector interest remained unchanged, the number of **banks with majority foreign equity** rose from 31 to 39<sup>25</sup>. At the end of December, this group of banks comprised 3 branches of foreign banks, 16 joint-stock banks under 100% foreign ownership, 17 with a majority foreign interest, and 3 banks indirectly controlled by foreign investors.

The total capital base<sup>26</sup> of banks with majority foreign equity, which attests to their potential share of the market for banking services, and the total assets of those banks, which reflect their current share of that market, represented 50.2% and 47.2%, respectively, of total capital and total assets within the Polish banking system. These banks had also taken 45.7% of non-financial sector deposits and originated 50.9% of loans outstanding<sup>27</sup>.

Given that, in view of the high proportion of their share capital in dispersed holdings, Powszechny Bank Kredytowy SA (together with its subsidiary, Gornoslaski Bank Gospodarczy SA), Bank Handlowy w Warszawie SA (together with Cuprum-Bank SA), BRE Bank SA and BIG Bank Gdanski SA (together with BIG Bank SA) are all already in reality controlled by foreign investors, and that Deutsche Bank Polska SA will be assuming a controlling interest in Bank Wspolpracy Regionalnej SA (together with BWR Real Bank SA), it should be recognised that the banks controlled by foreign capital in fact have a market share in excess of 70% (cf. Table 5).

At year end 1999, the **equity held by foreign investors** amounted to the equivalent of 4,089.1m zloty, representing 56.0% of the total share capital of the commercial banks. The

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<sup>24</sup> By comparison, at year end 1993 the total assets of the 29 banks with a majority public-sector interest accounted for 80.4% of total assets within the banking system, while those of the 16 banks directly controlled by the Treasury made up 76.1%.

<sup>25</sup> 1 new bank was established, foreign investors took control of 8 banks previously under majority Polish ownership, and 1 bank forfeited its separate personality at law (due to a merger).

<sup>26</sup> Total core and supplementary capital, prior to any regulatory deductions.

<sup>27</sup> Over the years 1993-99, banks with majority foreign equity increased their share of the total assets of the banking system by 44.6 points, of the total capital base by 48.0 points, of non-financial sector deposits by 43.6 points, and of outstanding loans by 48.2 points.

largest investments in the Polish banking system had been made by German and American institutions, with these investments standing at 1,075.8m zloty and 945.9m zloty, respectively. Sums above 200m zloty had also been invested by institutions from Holland, France, Ireland and Austria – 538.7m, 343.1m, 290.4m and 273.5m zloty, respectively (cf. Table 6).

In 1999, the commercial banks brought 743 new offices into operation (including 371 branch offices). Despite this, total staffing at the commercial banks grew by just 571, or 0.4% (cf. Tables 2 and 3). The offices newly brought on stream are usually small, offer a standard range of services and generally have at least one ATM installed, allowing them to employ a modest staff<sup>28</sup>. Thanks to the application of new IT technologies, the increase in the number of offices (up 7.8%) does not entail a proportional growth in employment. Indeed, some banks have even seen a trend in the opposite direction, recording an expansion of their office network, yet a contraction in staffing. This tendency was particularly in evidence at the group of 8 banks previously under majority Polish ownership where control was assumed in 1999 by foreign investors. Within this group, staffing decreased by 511<sup>29</sup>, although the number of branches increased (up 80), as did the number of other offices (up 86).

The streamlining of employment at the banks is undoubtedly being assisted by the growing number of ATMs and of retail and service outlets accepting payment by bank card, and also by the accompanying increase in the number of customers using these cards (both ATM and payment cards)<sup>30</sup>. An increasing number of banks are also making available telephone banking services, and a few are offering Internet banking.

The Polish banking industry is witnessing a constant increase in its concentration ratio. At year end 1999, the 5 largest banks held 47.7% of total banking system assets (compared to 42.9% at year end 1998), while the 15 largest institutions commanded 79.0% of assets (compared to 75.1% a year earlier). These banks had taken 55.4% and 83.5% of non-financial sector deposits, respectively, and originated 46.0% and 77.4% of loans to that sector.

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<sup>28</sup> Examples of modern, highly-computerised banking operations are the retail customer networks developed on a green-field basis, such as Millennium and Handlobank.

<sup>29</sup> This is largely traceable to the consolidation of the banks in the Pekao SA Group (prior to privatisation).

<sup>30</sup> The banks and the Euronet company together operate some 4,700 ATMs, of which almost 1,500 were purchased in 1999. The two largest settlement institutions in Poland, PolCard and the Pekao SA Card and Check Centre processed twice as many transactions in 1999 (almost 26m) as they had in 1998, to a total value of over 5bn zloty. The settlement institutions now service over 73,000 retail and service outlets. By the end of December,

The **number of cooperative banks** fell from 1,189 to 781 in 1999, a decline of 408, which is attributable to the record number of mergers within the cooperative sector. During the year, 406 cooperative banks merged with other cooperative banks (256 in Q1, 29 in Q2, 83 in Q3 and 38 in Q4), 1 bank was put into liquidation in performance of a resolution of an extraordinary members meeting, and 1 other, having first had its operations suspended, was taken over by a commercial bank pursuant to a ruling of the Commission for Banking Supervision.

The cooperative banks accounted for 5.0% of non-financial sector deposits within the whole banking system and 5.1% of loans (less provisions) to that sector, and generated 5.7% of pre-tax earnings. Almost four fifths of the operating activity of the cooperative banking sector was concentrated at 379 institutions. It should be added that the cooperative banks employed over 25,000 people, i.e., 14.4% of the total staff employed within the banking industry. The volume of assets per employee at the cooperative banks was little more than 25% of that at the commercial banks (614,000 zloty vs. 2,332,400 zloty).

At the end of 1999, 780 local cooperative banks were affiliated to 11 higher-tier institutions, with 629 of them (affiliated to 9 institutions) belonging to the National Cooperative Banking Group<sup>31</sup>. A total of 152 banks remained outside the National Group, with one of these operating independently<sup>32</sup>.

### **3. Macroeconomic environment in 1999**

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the banks had issued around 7.7m cards, 4.5m of these in 1999 alone. This means that the number of cards grew 140% during the year (up from 3.2m at year end 1998).

<sup>31</sup> Of these 629 banks, 57 were affiliated to Warminsko-Mazurski Bank Regionalny SA; 117 were affiliated to Lubelski Bank Regionalny SA; 57 were affiliated to Pomorsko-Kujawski Bank Regionalny SA, 114 were affiliated to Malopolski Bank Regionalny SA; 82 were affiliated to Mazowiecki Bank Regionalny SA; 88 were affiliated to Gospodarczy Bank Wielkopolski SA; 39 were affiliated to Baltycki Bank Regionalny SA; 31 were affiliated to Dolnoslaski Bank Regionalny SA; and 44 were affiliated to Rzeszowski Bank Regionalny SA.

<sup>32</sup> These 152 institutions comprised 65 banks affiliated to Bank Unii Gospodarczej SA and 86 affiliated to Gospodarczy Bank Poludniowo-Zachodni SA, and also Spoldzielczy Bank Rozwoju "Samopomoc Chlopska", which was unaffiliated.

In 1999, economic growth in Poland was lower than projected in the annual Budget, and also lower than a year previously. Poland's Gross Domestic Product (GDP) rose 4.1%, to stand at some 612bn zloty (cf. Table 36).

First quarter GDP growth (1.6% year-on-year) was weaker than that reported in the fourth quarter of 1998 (2.8%), and the economy did not pick up markedly until the second half of the year (Q2 growth came to 3.0%, Q3 growth to 5.0%, and preliminary estimates put Q4 growth at around 6.2%).

The slowdown in business activity is attributable to both external and internal factors, prime among them being the further growth of the current account deficit, an increase in inflation, the higher cost than expected of implementing structural reforms (local government, health care, education and social insurance), an increase in the public sector financial deficit, and also rising unemployment and a declining propensity to save.

The impact of the Russian crisis on the Polish economy proved much greater than initially forecast. In addition, slacker growth in the countries of the European Union, particularly Germany, meant that the erosion of external demand was sharper than that caused solely by the collapse of Polish exports to Russia and the other CIS countries.

Exports shrank not only to Central and Eastern Europe (down nearly 20%), but also to Germany, Poland's principal trading partner for the last eight years (down 3.3%). The end result was that the drop in export receipts (down 3.1% to US\$ 27.4bn) proved steeper than the decrease in import payments (down 2.5% to US\$ 45.9bn), thus increasing the current deficit by a further US\$ 4.8bn, taking it to over 7.6% of GDP.

Given the fall in exports, Polish economic growth was driven by domestic demand, primarily consumer demand, which grew faster than GDP. The relatively swift rise in consumer demand is traceable to a weaker propensity to save among households (personal zloty deposits at the banks edged up just 3.2% in real terms) and strong growth in personal lending (up 53.4%, or 39.7% in real terms). Households thus attempted to maintain their levels of consumption despite low growth in personal incomes.

The year 1999 saw a surge in liquid fuel prices (up 52.7%). There was also an increase in other fuel prices (12.9% for electricity, 14.4% for gas) and in rents (up 21.5%). Service

prices went up by an average of 12.4%, with transport services 22.8% more expensive. Food price growth proved more rapid than anticipated (up 6%), with the fastest growth being recorded for fruit (up 16.8%) and vegetables (up 18.7%). As a result, inflation proved much higher than projected in the annual Budget, and also higher than in 1998. Consumer price growth, December-on-December, came to 9.8%<sup>33</sup>. Producer price growth was also twice as fast as the year before (8.0%, compared to 4.8%).

Slower economic growth, coupled with higher industrial productivity, reduced the demand for labour. In December 1999, average employment in the corporate sector came to 5,679,000, down 90,000 on December 1998, with industrial employment down 152,000 (to 2,940,000), and employment in construction down 15,000 (to 568,000).

At year end 1999, there were 2,349,800 job seekers registered at employment offices, while unemployment had risen to 13.0% (up 2.6 points on December 1998), i.e., to a level last seen in 1996<sup>34</sup>. Unemployment was highest in the voivodships of Warmia and Mazury (22.8%), Lubusz (17.5%) and Western Pomerania (17.5%), and lowest in those of Mazovia (9.6%), Silesia (9.9%) and Malopolska (10.3%).

Higher inflation, together with slower growth in income from employment and business activity and in social benefits, resulted in weak growth in real household incomes. Average monthly employee earnings in the corporate sector (1,834.8 zloty) rose 3.1% over the year in real terms, while average old-age pensions (931.7 zloty for employees, 562.4 zloty for farmers) were up 3.3%.

Corporate finances deteriorated sharply in 1999. Pre-tax profits were 23.6% lower than in 1998, while net profits were down 90.4%. The cost/sales ratio moved up from 98.1% to 98.8%, and pre-tax margins slumped from 2% to 1.4%.

The banking sector constitutes an integral part of any economy, with the condition of the banks contingent on the state of the economy and the economic strategy and policies being pursued. In 1999, the weakening in corporate finances, rise in unemployment and attendant

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<sup>33</sup> Annualised average price growth, measured January-December 1998 to January-December 1999, was lower, at 7.3%. Cf. *Biuletyn Statystyczny GUS* [Statistical Bulletin of the Central Office of Statistics] no. 12 (1999), p. 106, Table 34.

worsening of household finances led to a lowering of loan portfolio quality (with an increased proportion of irregular loans). Another painful development for the banks was the acute slowdown in deposit growth. This led to heightening competition for funds, not only among the banks, but also on the part of other financial institutions.

Mounting competition compelled the banks, on the one hand, constantly to extend the range of services being offered and improve their quality, and on the other – to conduct a systematic search for opportunities to cut costs.

#### 4. Financial situation of the banks in 1999

In 1999, the banking sector developed much more slowly than the year before. The **total assets** of the banking system grew 14.3%, or 4.1% in real terms<sup>35</sup> (as against 28.7% and 18.5% in 1998), to stand at 364.4bn zloty at year end, the equivalent of almost 60% of GDP, having risen 10 points since year end 1995 (cf. Table 36).

Although it has been increasing steadily, the ratio of total banking sector assets to GDP remains low in Poland, whether in comparison with the countries of the European Union or with the Czech Republic and Hungary<sup>36</sup>.

Total assets grew in real terms at 53 commercial banks, and at 47 of these growth was higher than the 4.2% average for the commercial banks as a whole. A decline in real terms occurred at 23 banks, while 1 bank had not commenced operations prior to 1999. The average real growth in total assets at the cooperative banks came to 2.5%.

Certain shifts occurred in the **balance sheet structure** of the commercial banks. On the asset side, the most important of these included an increase in claims on the financial sector (up 1.7 points, to 15.9%), on the non-financial sector (up 3.8 points, to 44.0%) and on government (up 1.2 points, to 3.5%), with a decrease in amounts due from the NBP (down 3.6 points, to 2.8%)<sup>37</sup> and in securities (down 3.2 points, to 24.5%). Movements in the structure

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<sup>34</sup> By the end of January 2000, unemployment had climbed to 13.6%.

<sup>35</sup> Adjusted for inflation by reference to the Consumer Price Index, December 1998 to December 1999; consumer price growth came to 9.8%. Cf. *Biuletyn Statystyczny GUS* [Statistical Bulletin of the Central Office of Statistics] no. 12 (1999), p. 28, Table 1.

<sup>36</sup> J.K. Solarz quotes the total banking assets of the EU countries as averaging 212% of GDP, cf. *Dominujace trendy rozwoju swiatowego systemu finansowego* [Dominant trends in the development of the global financial system], paper presented at conference entitled "Banking Forum 2000". In 1998, banking assets constituted 64% of GDP in Hungary and 134% in the Czech Republic. Let us also note that the total assets of Deutsche Bank AG, the largest bank in Europe, are close to the level of German GDP.

<sup>37</sup> This was connected with the lowering of reserve requirements.

of liabilities and capital were small, and primarily involved a growth in sums due to the non-financial sector (up 1.2 points, to 61.9%).

**Outstanding loans** (gross) from the commercial banks to the non-financial sector rose 31.1bn zloty (an increase of 26.1%, or 14.9% in real terms), thus substantially outpacing the growth in total assets and in deposits. Lending growth was 2 points higher than in 1998 (although 3.0 points lower in real terms).

Over three quarters of bank loan portfolios consisted in loans to corporates, although the growth in this lending (18.7%, or 8.1% in real terms) was slower than that in lending to persons (54.1%, or 40.4% in real terms). As a result, in comparison to year end 1998 the share of corporate borrowings in total non-financial sector debt to the commercial banks fell 4.8 points (to 76.6%), while that of personal borrowings rose 4.0 points (to 22.3%).

The relatively slow growth in personal real incomes and desire to maintain previous levels of consumption led to increased demand for **consumer loans**. These rose 47.9% in 1999 (in real terms – 34.7%), and were in the main earmarked for the purchase of imported consumer durables (cars and household appliances). Bank card lending also grew very rapidly, although this remained a small part of total loan outstandings.

At the end of 1999, consumer loans made up 82.9% of total personal borrowings (as against 86.4% in 1998). The remaining borrowings constituted **housing loans**, which for several quarters now have displayed the fastest growth of all types of lending. In 1999, these loans soared 93.6% (76.3% in real terms), taking their share of total personal borrowings to 17.1% (up from 13.6% at year end 1998).

In terms of the currency composition of lending to the non-financial sector, zloty loans were predominant (78.7% of total outstandings, as against 76.6% at the end of 1998). Growth in loans denominated in foreign currencies was principally a function of the depreciation of the zloty against other currencies.

The banks' **securities portfolios** grew a mere 0.9% (a fall of 8.1% in real terms). The NBP bonds purchased by the banks using the funds released due to the lowering of reserve requirements (totalling 13.4bn zloty) did not offset the decrease in the volume of NBP money market bills outstanding (down 17.1bn zloty, i.e., 60.9%, or 64.4% in real terms). The proportion of NBP paper held in securities portfolios consequently declined 4.6 points (to

28.5%), while the share of Treasury issues rose 1.9 points (to 63.5%). In all, paper issued by the NBP and the Polish Treasury accounted for 92% of all bank securities portfolios.

The basic source of funding for the activity of the commercial banks remained customer deposits and capital, together representing 68.5% of total liabilities and capital at year end 1999 (as against 66.7% in December 1998).

The **non-financial sector deposits** taken by the commercial banks rose 32.2bn zloty in 1999, representing growth of 18.1% (7.6% in real terms). The largest increase in deposits occurred in the fourth quarter (5.6%), with the first, second and third quarters bringing increases of 4.2%, 2.1% and 5.2%, respectively. By comparison, nominal deposit growth in 1998 had come to 29.9% (19.6% in real terms).

Due to the divergence between loan and deposit growth rates, the ratio of loans to deposits deteriorated, standing at 71.5% at year end (an increase of 4.5 points on 1998).

The year 1999 saw the maintenance of a low propensity to save among households. Personal deposits rose 15.5% (7.9% in Q1, 2.0% in Q2, 3.8% in Q3 and just 1.1% in Q4), whereas in 1998 the corresponding increase amounted to 23.0% (with quarterly growth of 7.1%, 6.6%, 7.8% and 5.8%, respectively). For the first time, personal deposit growth was outstripped by that of corporate deposits (up 24.6% on the year, or 13.5% in real terms).

Movements in the deposit mix involved a decline in the relative share of personal balances (down 1.6 points to 70.8%), and an increase in that of corporate balances (up 1.3 points to 25.9%).

Due to the faster growth of demand deposits (up 20.6%, or 9.8% in real terms), which stemmed from the spread of personal transaction accounts and the relatively minor difference in rates on short- and medium-term deposits, changes also took place in the maturity structure of the deposit base. Demand deposits constituted 27.8% of total deposits taken from the non-financial sector, while time deposits and assigned deposits, which together rose 17.2% (6.8% in real terms), accounted for 72.2% of total deposits (as against 72.8% at year end 1998).

The currency composition of non-financial sector deposits was marked by a preponderance of zloty balances (80.3%), although the relative share of these decreased (down 0.5 points compared to 1998). For the first time in several years, growing interest was shown in foreign currency deposits, particularly by personal customers.

In an environment where zloty exchange rates were subject to violent swings and the prevailing trend was for the zloty to depreciate, the foreign currency assets of the commercial banks grew more rapidly than foreign currency liabilities. As a result, the mismatch between the foreign currency assets and liabilities of the commercial banks rose from 3.1bn zloty to 8.5bn zloty, representing 2.4% of their total footing (compared to 1.0% in 1998). It should be emphasised that, in the context of a weakening zloty, the holding of more foreign currency assets than liabilities by the banks allowed them to contain foreign exchange (FX) risk and realise FX gains.

In 1999, **total off balance sheet items** at the banks grew to 260,803.7m zloty, an increase of 62.1% (in real terms – 47.6%). Off balance sheet operations were in practice reported solely by the commercial banks, since the proportion of these booked at cooperative banks was just 0.3%.

The share of contingent commitments in total off balance sheet operations has been dwindling steadily since 1997 (dropping a further 6 points in 1999, to 22.5%), with a concomitant rise in the share of commitments to purchase or sell, which are associated with relatively higher risk. While the single largest item off the balance sheet remained FX operations (47.5%, as against 56.3% in 1998), the rocketing growth of commitments on financial instruments (up 470.3%) meant that the share of these in total off balance sheet operations leapt to 20.2% (from 5.7% at year end 1998).

In 1999, the commercial banks were very active on the domestic FX market. The gains made by these banks on FX transactions totalled 28,192.3m zloty, with the losses incurred amounting to 26,436.1m zloty, representing growth of 94.3% and 106.2%, respectively, compared to 1998 (in real terms, growth came to 77.0% and 87.8%). However, the net FX gains recorded by the banks were up only 4.1% on 1998 (signifying a decrease of 5.2% in real terms).

Due to the liberalisation of Poland's Foreign Exchange Act, changes in exchange rate policy and the new arrangement for the exchange rate fixing, the FX market exhibited greater volatility in 1999 than previously. With FX risk heightening, the banks made greater use of forward and derivative instruments, doing so on the one hand to hedge against risk, and on the other to conduct proprietary trading that offered the prospect of potentially higher FX gains.

An analysis of the FX positions opened by the banks indicates that, despite a 36.7% increase in trading (24.5% in real terms), the banks did not take on inordinate risk. The majority of them (80% on average) held their overall net FX positions within a range of 0%-10% of their adjusted capital base (eligible capital), which safeguarded them against excessive FX exposure.

At times when the zloty was fluctuating sharply and trending downwards, with the direction of the forex uncertain, the banks lengthened their open FX positions, shortening them when the currency stabilised and the market expected it to strengthen, e.g., owing to the privatisations taking place.

The value of the derivative transactions concluded by the commercial banks rose 22.5% in the second half of 1999, with most of these (over 80%) involving proprietary trading (hedging transactions accounted for less than 20%). While FX forwards, futures and swaps together accounted for 93.2% of hedging transactions, they accounted for only 44.1% of proprietary trades (47.3% were FRAs and interest rate swaps).

The net income generated by the banks from off balance sheet operations in 1999 was treble that registered in 1998. The composition of that income also changed significantly. Whereas in the years 1997-98 over 80% had been fee income, by 1999 over half (58%) was being earned on derivative financial instruments. Income and expense on off balance sheet commitments was recorded by 46 banks, with 40 of them showing positive net income. Of the 21 banks reporting income and expense on derivatives, 14 achieved net gains. Despite the sizeable increase in net income on derivative transactions, this still represented a minor part of net income from core banking operations (1.1%).

At year end 1999, the banks held **outstanding claims on the non-financial sector** totalling 163,119.3m zloty (gross), of which 155,188.3m zloty was at commercial banks, and 7,931.0m zloty at cooperative banks.

The gross claims of the commercial banks grew 26.1% in 1999 (7.0% in Q1, 4.6% in Q2, 7.9% in Q3 and 4.4% in Q4). This growth was faster at the cooperative banks, coming to 30.5% (quarterly growth stood at 11.3%, 9.3%, 4.5% and 2.7%, respectively). The increase in gross claims at the commercial banks was 1.6 points lower than in 1998.

**Irregular claims** constituted 12.9% of gross claims **on the non-financial sector** within the banking system as a whole (13.4% at the commercial banks and 3.6% at the cooperative banks). At the cooperative banks, the ratio of irregular classifications to total claims remained basically unchanged (inching up 0.1 points), while at the commercial banks it rose 2.5 points, since the growth of irregular classifications at these banks was a substantial 29.1 points higher than that of gross claims.

A systematic rise in the proportion of adverse classifications at the commercial banks has been observable since the fourth quarter of 1998. At the end of September 1998, the ratio of irregular classifications to total claims stood at 9.7%, quickly moving up to 10.9% by the end of December, and then rising to 11.4%, 12.0%, 12.3% and 13.4% at the end of the particular quarters of 1999.

A level of adverse classifications higher than the 13.4% average was recorded at 29 commercial banks, with 14 of these institutions having classified as irregular over one fourth of all claims. At the remaining banks, the proportion of adverse classifications was lower than average, with 18 of these institutions reporting less than 5% of their claims as irregular.

The deterioration in asset quality at the commercial banks was more associated with claims on corporates than with those on persons. The proportion of irregular classifications in claims on the former rose to 15.4% (up 3.5 points), while in claims on the latter it rose to 6.6% (up 0.1 points).

The portfolio of claims originated prior to the end of 1994 has gradually been diminishing. By year end 1999, these claims constituted just 5.6% of gross claims on the non-financial sector. However, the volume of loss classifications dating from that period remained high, accounting for 38.1% of all assets classified loss (as against 51.5% at the end of 1998).

A decline in quality was evident not only in claims outstanding from the period of strongest lending expansion, but also in those booked over the last year. The commercial banks adversely classified 9.2% of all claims originated in 1999 (classifying 1.3% as loss), whereas a year previously this had been true of 6.9% of corresponding claims (1.2% classified loss). In addition, part of the claims arising in 1999 (7.0%) were classified by the banks as special mention.

As of the end of June 1999, two new categories of claim require the establishment of specific provisions, i.e., consumer loans classified satisfactory and claims classified special mention; at year end, these represented 16.9% and 6.2%, respectively, of total outstanding claims (gross) on the non-financial sector. Special mention claims (amounting to 9,685.1m

zloty) were being held in the asset portfolios of 55 banks (8 more than at the end of June). Consumer loans classified satisfactory totalled 26,197.8m zloty.

**Specific provisions** against claims and off balance sheet commitments classified irregular or special mention, and against consumer loans classified satisfactory, amounted to 8,701.0m zloty (of which 8,517.1m zloty had been established at commercial banks and 183.9m zloty at cooperative banks).

Of the total specific provisions held at commercial banks, 8,197.1m zloty constituted provisions against irregular claims and off balance sheet commitments (including 46.9m zloty against claims on central government and 11.8m zloty against claims on local government), 190.1m zloty represented provisions against consumer loans classified satisfactory, and 129.9m zloty were provisions against special mention claims and off balance sheet commitments.

The specific provisions established against substandard, doubtful, loss and special mention claims and off balance sheet commitments, and against consumer loans classified satisfactory, represented 21.3%, 54.9%, 100.7%, 1.7% and 0.9%, respectively, of the applicable value of the relevant claims or commitments (compared to regulatory minimum provisions of 20.0%, 50.0%, 100.0%, 0.5% and 0.5%, respectively).

**General risk reserves**, established at 35 banks, grew 212.3m zloty in 1999 (an increase of 22.2%), to stand at 1,166.7m zloty.

The **total capital base** (total core and supplementary capital) of the banks came to 31bn zloty at year end (29.6bn zloty at the commercial banks), having risen 4.0bn zloty, or 14.7%, since year end 1998 (the corresponding increase a year previously had been 27.2%). Real growth in the capital base, at 4.5%, was the lowest since 1994, primarily as a result of the poor earnings recorded by the banks in 1998, leading to a relatively smaller volume of retained earnings being appropriated to capital in 1999. In the fourth quarter of the year, the banks' capital base remained virtually flat.

The **adjusted capital base** (eligible capital) of the banks stood at 25.8bn zloty, with 24.6bn zloty of this at the commercial banks. Eligible capital grew at a slightly faster pace than the total capital base.

The year 1999 saw a certain improvement in the safety of the banking system as measured by **risk-based capital**. The vast majority of the commercial banks reported risk-

based capital ratios over 8%, while all the banks conducting operations for less than one year or less than two had ratios higher than the required 15% or 12%, respectively.

At year end 1999, there were 8 commercial banks with risk-based capital ratios lower than the regulatory minimum of 8% (5 of these institutions had negative ratios). At present, 1 of these banks has been declared bankrupt, while the remaining 7 are implementing rehabilitation programmes.

Ratios lower than 8% were also reported by 43 cooperative banks, with 6 of these banks showing negative ratios. These numbers represent a fall of 59 and 10, respectively, compared to year end 1998.

The **pre-tax earnings** of the banks totalled 5,651.9m zloty<sup>38</sup>, an increase of 21.4% on 1998 (13.1% in real terms<sup>39</sup>), while **net earnings** amounted to 3,491.3m zloty<sup>40</sup>, almost doubling on the previous year (an increase of 91.3%, or 78.3% in real terms).

The growth in earnings and in total assets registered in 1999 differed from that seen in 1998, when the industry grew much more rapidly than the earnings it generated. However, leaving aside one bank which found itself in an exceptional situation in 1998 and contributed decisively to the low earnings reported by the whole sector, it turns out that the pre-tax earnings of the banks almost failed to grow at all (creeping up 1.1%), and in real terms in fact declined (dropping 5.8%). By contrast, additionally excluding one other bank that incurred a large loss in 1999 (and was declared bankrupt at the beginning of 2000) takes the pre-tax earnings of the remaining banks to a level 6.3% higher than the year before (0.9% in real terms).

Of the 77 commercial banks analysed for the present study, 68 closed the year 1999 reporting positive pre-tax earnings (totalling 5,875.8m zloty), while 9 banks ended the year with a pre-tax loss (totalling 547.8m zloty). In the cooperative sector, 775 banks generated a profit before tax (324.7m zloty in all), whereas 6 banks showed a loss (0.9m zloty in all).

Half of the commercial banks in profit before tax (34) increased their pre-tax earnings compared to 1998, with these earnings up almost 13 times at 1 bank, up 4.5 times at another, and more than doubling at 7 institutions. The performance of the remaining half varied considerably: 4 banks moved from negative earnings in 1998 to positive earnings in 1999, 14

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<sup>38</sup> Pre-tax earnings at the commercial banks came to 5,328.0m zloty, an increase of 21.9% (13.6% in real terms).

<sup>39</sup> Adjusted for inflation by reference to annualised average consumer price growth, which came to 7.3% in 1999 relative to 1998. Cf. *Biuletyn Statystyczny GUS* [Statistical Bulletin of the Central Office of Statistics] no. 12 (1999), p. 106, Table 34.

<sup>40</sup> Net earnings at the commercial banks stood at 3,288.2m zloty, an increase of 99.5% (85.9% in real terms).

banks generated over 60% of their previous year's earnings, while 16 banks reported earnings under 50% of the previous year's. Of the 9 banks with a loss before tax, 5 had also recorded a loss at year end 1998, 3 had shown a profit the year before, while 1 bank did not commence operating activity until 1999.

The **income earned** by the banks amounted to 79,125.7m zloty (76,517.4m zloty at the commercial banks), while the **total expense incurred** came to 73,473.8m zloty (71,189.4m zloty at the commercial banks). Total expense and total income grew at approximately the same rate (22.9% and 22.8%, respectively), whereas in 1998 the difference between the two had still been a sizeable 12.5 points.

**Net income from core banking operations** stood at 20,224.4m zloty at the commercial banks (1,403.2m zloty at the cooperative banks), up 16.4% on 1998, or 8.4% in real terms (growth of 15.3% and 7.4% at the cooperative banks). The structure of the income streams involved here has been changing steadily. The basic source of income remains net interest income (NII, representing 63.0% of core net income at the commercial banks and 74.2% at the cooperative banks), yet the relative weight of this income stream declined in 1999 compared to 1998 (down 6.7 points at the commercial banks and 4.3 points at the cooperative banks).

The year 1999 saw the banks' **net interest margins** (NIM) continue to trend downward. Having fallen 0.7 points over the whole of 1998 (coming down to 4.68%), NIM fell a further 0.8 points during the first three quarters of 1999 (to 3.92%). However, margins then recovered 0.1 points in the fourth quarter, helped by two rises in NBP base rates (in September and November) and by the lowering of reserve requirements. Nonetheless, it seems unlikely that the decline in NIM has been arrested on a lasting basis.

Narrowing margins act to reduce profitability, forcing the banks to seek other sources of income and cut costs. This was reflected in 1999 in a surge in net non-interest income (up 42.4%).

An increasingly important component of bank earnings is **net fee & commission income**, which rose 35.4% in 1999 and accounted for 19.9% of net income from core banking operations (as against 17.1% in 1998). **Net gains on financial operations** grew at a record pace (soaring 336.9%), with their share of core net income rising to 4.1% (as against 1.1% a year previously). An increase was also noted in **income on equities and other securities**, which climbed 115.2% to stand at 4.4% of core net income (2.4% in 1998). Despite trading

very actively on the FX market, the banks saw their **net foreign exchange gains** rise just 4.1%, slipping as a proportion of core banking income from 9.7% to 8.7%.

In 1999, the commercial banks reported **general expense** of 11,374.0m zloty, up 18.5% on 1998, while the cooperative banks recorded general expense of 976.0m zloty, up 12.4%. General expense grew more slowly than net income from core banking operations at the cooperative banks, yet more rapidly at the commercial banks, although growth here slackened markedly in comparison to 1998 (when it came to 31.8%). General expense absorbed 56.2% of net income from core banking operations at the commercial banks (as against 55.2% in 1998), and 69.6% at the cooperative banks (as against 71.3%). The prime reason for the growth in general expense at the commercial banks was a 22.1% increase in occupancy expense, which constitutes some 40% of all general expense at the banks. Personnel expense (including associated taxes and contributions) rose 16.3%, which represents slower growth than in 1998 (when this came to 30.3%) and resulted in personnel expense decreasing 1.1 points as a proportion of general expense overall (coming down to 55.8%).

The banks' general expense continues to rise relative to net interest income. General expense represented the equivalent of 89.3% of NII in 1999, while in 1998 it was considerably lower, at 79.2%. An increasing portion of general expense at the commercial banks is being financed by net fee & commission income (35.3% in 1999, compared to 30.9% in 1998).

**Charges on the depreciation of tangible fixed assets and amortisation of intangibles** (totalling 1,595.4m zloty in 1999) are continuing to increase swiftly (up 32.7% over the year). Factors behind the increase in depreciation charges in 1999 included the expansion of the banks' office networks and also capital expenditure associated with the need to replace or secure existing IT systems in connection with Y2K, expenditure which allowed the Millennium date change at the banks to proceed without disruption.

**Charges to specific provisions, general risk reserves and valuation allowances against financial fixed assets** were 2,554.5m zloty **higher than income** from the release of those provisions, reserves and allowances (compared to 2,450.6m zloty in 1998), and corresponded to 12.6% of net income from core banking operations (14.1% in 1998). Due to the growth of adverse classifications in the banks' loan portfolios, the largest contributor to movements in provisions was the rise in **provisions against irregular claims**, with the net

increase in these accounting for 64.4% of total movements in provisions and allowances. The larger volume of provisioning expense than income from the release of provisions was also related to the growth of **general risk reserves** (representing 11.6% of total movements in provisions, reserves and allowances).

The banks' pre-tax profitability and cost/income ratios remained virtually unchanged in 1999. However, an improvement in performance was seen in terms of **average operating efficiency**, as measured by net profitability and by return on assets and return on equity. Net profitability was 1.7 points higher than in 1998, standing at 4.6%. Return on assets (ROA) rose 0.37 points to 1.04%, while return on equity (ROE) went up 5.06 points to 14.23%. ROE higher than annualised average inflation was reported by 43 commercial banks. However, despite the improvement in average return on assets, half of the banks showed ROA no greater than 0.82%, whereas in 1998 half of them had recorded ROA above 1.35%. ROA above 2.0%, which may be considered sound performance in an inflationary environment, was reported by 11 banks, compared to 25 in 1998.

In 1999, the disparity between the performance achieved by particular banks clearly deepened, and in view of the mounting competition within the industry this disparity can be expected to become even more pronounced, which will encourage an acceleration of consolidations within the Polish banking sector.

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

		1993	1994	1995	1996	1997	1998	1999
1	2	3	4	5	6	7	8	9
Number of banks (excluding those declared bankrupt or under liquidation)								
1	Commercial banks, of which:	87	82	81	81	83	83	77
2	Banks with majority public-sector interest <sup>41</sup> of which:	29	29	27	24	15	13	7
	- directly owned by Treasury <sup>42</sup>	16	15	13	8	6	6	3
	- indirectly owned by Treasury	11	11	11	13	8	7	4
	- owned by NBP	2	3	3	3	1	0	0
3	Banks with majority private-sector interest of which:	58	53	54	57	68	70	70
	- with majority Polish equity	48	42	36	32	39 <sup>43</sup>	39	31
	- with majority foreign equity <sup>44</sup>	10	11	18	25	29 <sup>45</sup>	31	39
4	Cooperative banks	1 653	1 612	1 510	1 394	1 295	1 189	781
5	Total banks	1 740	1 694	1 591	1 475	1 378	1 272	858
Total assets (%)								
1	Commercial banks, of which:	93.4	94.7	95.2	95.4	95.5	95.7	95.8
2	Banks with majority public-sector interest of which:	80.4	76.1	68.3	66.5	49.3	45.9	23.9
	- directly owned by Treasury	76.1	70.8	63.0	51.1	38.2	36.7	22.2
3	Banks with majority private-sector interest of which:	13.0	18.6	26.9	28.9	46.2	49.8	71.8
	- with majority Polish equity	10.4	15.4	22.7	15.1	30.9	33.2	24.6
	- with majority foreign equity	2.6	3.2	4.2	13.7	15.3	16.6	47.2
4	Cooperative banks	6.6	5.3	4.8	4.6	4.5	4.3	4.2
5	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>41</sup> 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.

<sup>42</sup> Banks where the Treasury directly holds equity entitling it to exercise at least 50% + 1 votes at a shareholders general meeting.

<sup>43</sup> Including Rzeszowski Bank Regionalny, which was a banking organisation and did not file reports.

<sup>44</sup> Branches of foreign banks and joint-stock banks where foreign parties (natural or juridical persons) jointly hold equity, directly or indirectly, entitling them to exercise at least 50% + 1 votes at a shareholders general meeting.

<sup>45</sup> Including Bank of America Polska SA, which was a banking organisation and did not file reports.

		1993	1994	1995	1996	1997	1998	1999
1	2	3	4	5	6	7	8	9
Net loans <sup>46</sup> (%)								
1	Commercial banks, of which:	92.9	93.3	94.5	93.9	94.5	95.0	94.9
2	Banks with majority public-sector interest of which	79.3	73.0	63.7	61.3	43.2	38.8	21.4
	- directly owned by Treasury	76.6	69.1	58.5	42.0	27.9	26.3	19.7
3	Banks with majority private-sector interest of which:	13.6	20.3	30.8	32.6	51.3	56.2	73.5
	- with majority Polish equity	10.9	15.9	25.0	16.6	33.1	34.3	22.6
	- with majority foreign equity	2.7	4.4	5.8	16.0	18.2	21.9	50.9
4	Cooperative banks	7.1	6.7	5.5	6.1	5.5	5.0	5.1
5	Total	100.0	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	95.0
2	Banks with majority public-sector interest of which	81.1	77.3	71.3	70.1	58.0	53.6	29.2
	- directly owned by Treasury	75.6	71.6	65.6	57.2	49.5	46.4	27.9
3	Banks with majority private-sector interest of which:	11.3	16.8	23.2	24.4	36.8	41.2	65.8
	- with majority Polish equity	9.2	14.1	20.2	12.2	24.1	27.5	20.1
	- with majority foreign equity	2.1	2.7	3.0	12.2	12.7	13.7	45.7
4	Cooperative banks	7.6	5.9	5.5	5.5	5.2	5.2	5.0
5	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Total capital base (total core and supplementary capital) (%)								
1	Commercial banks, of which:	92.0	94.3	94.6	95.1	95.2	95.6	95.6
2	Banks with majority public-sector interest of which	76.8	72.6	61.4	55.9	34.0	33.2	16.4
	- directly owned by Treasury	72.8	66.7	55.4	43.7	25.6	25.7	14.0
3	Banks with majority private-sector interest of which:	15.2	21.7	33.2	39.2	61.2	62.4	79.2
	- with majority Polish equity	13.0	18.0	25.6	18.3	37.2	37.7	29.0
	- with majority foreign equity	2.2	3.7	7.6	20.9	24.0	24.7	50.2
4	Cooperative banks	8.0	5.7	5.4	4.9	4.8	4.4	4.4
5	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<sup>46</sup> Loans and advances (excluding purchased debt and funds disbursed under guarantees and endorsements, reported separately since 1996), less specific provisions.

Table 2. Staffing at banks (excluding foreign offices)<sup>47</sup>

Year end	Banking system	Commercial banks			Cooperative banks
		total	banks with majority		
			Polish equity	foreign equity	
1	2 = 3 + 6	3 = 4 + 5	4	5	6
1993	.	119 733	119 045	688	.
1994	.	128 705	127 708	997	.
1995	.	136 048	134 048	2 000	.
1996	169 721	144 201	129 102	15 099	25 520
1997	172 227	147 095	130 823	16 272	25 132
1998	174 043	149 067	131 266	17 801	24 976
1999	174 736	149 638	86 199	63 439	25 098

Table 3. Domestic office network, commercial banks (excluding head offices and representative offices)

Year end		Commercial banks			Cooperative banks
		total	banks with majority		
			Polish equity	foreign equity	
1	2	3 = 4 + 5	4	5	6
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 <sup>48</sup>	Branch offices	1 580	1 437	143	502
	Other offices <sup>49</sup>	7 981	7 888	93	634
1997 <sup>50</sup>	Branch offices	1 629	1 460	169	581
	Other offices	8 023	7 808	215	674
1998 <sup>51</sup>	Branch offices	1 864	1 572	292	668
	Other offices	7 615	7 385	230	730
1999 <sup>52</sup>	Branch offices	2 235	1 243	992	1 044
	Other offices	7 987	6 939	1 048	798

<sup>47</sup> Staffing figures given in equivalent of full-time posts.

<sup>48</sup> 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, of which 11 banks (3 and 8, respectively) did not operate "other offices" either.

<sup>49</sup> Sub-branch offices, customer service offices, etc.

<sup>50</sup> In 1997, there were 13 banks (2 with majority Polish equity and 11 with majority foreign equity) which did not operate any branch offices, of which 11 banks (2 and 9, respectively) did not operate "other offices" either.

<sup>51</sup> In 1998, there were 17 banks (2 with majority Polish equity and 15 with majority foreign equity) which did not operate any branch offices, of which 12 banks (1 and 11, respectively) did not operate "other offices" either.

<sup>52</sup> In 1999, there were 16 banks (1 with majority Polish equity and 15 with majority foreign equity) which did not operate any branch offices, of which 11 banks with majority foreign equity did not operate "other offices" either.

Table 4. Ownership structure, commercial banks

		Value of equity (million zloty)			Structure (%)		
		31/12/97	31/12/98	31/12/99	31/12/97	31/12/98	31/12/99
1	Total equity capital, of which held by:	5 930.1	7 172.8	7 305.9	100.00	100.00	100.00
2	- the Treasury directly	1 303.8	1 351.0	1 036.8	21.99	18.84	14.19
3	- the National Bank of Poland	174.6	8.0	8.0	2.94	0.11	0.11
4	- other state institutions <sup>53</sup>	331.6	319.1	249.9	5.59	4.45	3.42
5	- other domestic investors <sup>54</sup>	589.0	690.2	866.3	9.94	9.62	11.86
6	- foreign investors	2 462.4	3 561.4	4 089.1	41.52	49.65	55.97
7	- dispersed holdings <sup>55</sup>	1 068.7	1 243.1	1 055.8	18.02	17.33	14.45

Table 5. Total assets and equity capital at particular groups of commercial banks (December 31, 1999)

		No. of banks in group	Equity capital <sup>56</sup>				Total assets	
			total		of which: held by foreign investors		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:	38	3 095.8	42.4	497.4	16.1	176 921.9	50.7
2	- with majority public-sector interest	7	1 143.5	15.7	0.0	0.0	87 204.4	25.0
3	- with majority private-sector interest	31	1 952.3	26.7	497.4	25.4	89 717.5	25.7
4	of which: BRE Bank SA, PBK SA, Bank Handlowy SA, BIG Bank Gdanski SA <sup>57</sup>	8	1 053.2	14.4	460.9	43.7	75 872.6	21.7
5	Banks with majority foreign equity, of which:	39	4 210.1	57.6	3 591.7	85.3	172 100.0	49.3
6	- branch offices of foreign banka	3	415.1	5.7	415.1	415.1	5 671.3	1.6
7	- joint-stock banks with 100% foreign equity	16	2 092.8	28.6	2 092.8	100.0	28 459.4	8.2
8	- joint-stock banks with majority foreign equity	20	1 702.2	23.3	1 083.8	63.7	137 969.3	39.5
9	Banks controlled by foreign investors (4+5) <sup>58</sup>	47	5 263.3	72.0	4 053.0	77.0	247 972.6	71.0
10	Total commercial banks	77	7 305.9	100.0	4 089.1	56.0	349 021.9	100.0

<sup>53</sup> State enterprises and banks, companies wholly owned by the Treasury, registered companies with a majority Treasury interest, government agencies, etc.

<sup>54</sup> Including equity held by local government, totalling 11.1m zloty at year end 1997, 11.6m zloty at year end 1998, and 10.4m zloty at both year end 1998 and the end of the third quarter of 1999.

<sup>55</sup> In their reports, the banks disclose only those shareholders entitled to exercise no less than 5% of votes at shareholders general meetings, with the remaining shareholders, entitled to less votes, being grouped together under the heading "other shareholders". Equity held by the latter is customarily referred to as "dispersed holdings". Let us note that listed banks usually do not have information on all their shareholders.

<sup>56</sup> Equity capital of the group as a whole, regardless of the investors involved.

<sup>57</sup> Together with their subsidiary banks, i.e., Gornoslaski Bank Gospodarczy SA, Bank Rozwoju Cukrownictwa SA, Cuprum-Bank SA and BIG Bank SA.

<sup>58</sup> Deutsche Bank Polska SA has already received approval from the Commission for Banking Supervision to take up shares in Bank Wspolpracy Regionalnej SA, entitling the former to exercise over 75% of votes at a shareholders general meeting of the latter, which also signifies the assumption of equity control over BWR Real Bank SA. In this light, it can be estimated that the proportion of banks controlled directly or indirectly by foreign investors will in fact be higher, representing 73.6% of the commercial banks by equity capital and 71.4% by total assets.

Table 6. Foreign equity capital by source

1	2	3	Foreign equity		
			4 (million zloty)	Share in total equity	
				5 held by foreign parties (%)	6 of all commercial banks (%)
1	Germany	1997	818.3	33.23	13.80
		1998	1 138.1	31.96	15.87
		1999 <sup>59</sup>	1 075.8	26.31	14.73
2	USA	1997	470.2	19.10	7.93
		1998	1 028.7	28.88	14.34
		1999	945.9	23.13	12.95
3	Holland	1997	434.3	17.64	7.32
		1998	499.0	14.01	6.96
		1999	538.7	13.17	7.37
4	France	1997	220.6	8.96	3.72
		1998	324.4	9.11	4.52
		1999	343.1	8.40	4.70
5	Ireland	1997	55.4	2.25	0.93
		1998	55.4	1.56	0.77
		1999	290.4	7.10	3.97
6	Austria	1997	229.4	9.32	3.87
		1998	256.7	7.21	3.58
		1999	273.5	6.69	3.74
7	Belgium	1997	24.2	0.98	0.41
		1998	32.0	0.90	0.45
		1999	163.8	4.01	2.24
8	Portugal	1999	110.6	2.70	1.51
9	Italy	1999	72.8	1.78	1.00
10	South Korea	1997	60.4	2.45	1.02
		1998	60.4	1.70	0.84
		1999	60.4	1.48	0.83
11	EBRD	1997	22.0	0.89	0.37
		1998	46.9	1.32	0.65
		1999	52.9	1.29	0.72
12	Czech Republic	1997	33.9	1.38	0.57
		1998	33.9	0.95	0.47
		1999	34.1	0.83	0.47
13	UK	1997	20.2	0.82	0.34
		1998	19.1	0.54	0.27
		1999	26.1	0.64	0.36
14	Other	1997	73.4	2.98	1.24
		1998	66.8	1.88	0.93
		1999	101.0	2.47	1.38
15	Total	1997	2 462.4	100.00	41.52
		1998	3 561.4	100.00	49.65
		1999	4 089.1	100.00	55.97

<sup>59</sup> By way of clarification, let us explain that Bayerische Hypo- und Vereinsbank took up a new issue of shares (series "C") in Bank Przemyslowo-Handlowy SA (to a total value of 11,465,500 zloty). These were paid for by a non-cash consideration (valued at 527m zloty) in the form of title to shares in Hypo-Bank Polska SA and HypoVereinsbank Polska SA. On November 10, 1999, HypoVereinsbank Polska SA was merged with Bank Przemyslowo-Handlowy SA pursuant to Art. 464 §3 of the Commercial Code, i.e., with no increase in the equity capital of the latter. In consequence, the equity capital of German origin in the Polish banking system declined by a total of some 451.2m zloty. However, this does not imply that total German investment decreased. The difference between the non-cash consideration from Bayerische Hypo- und Vereinsbank and the series "C" shares it took up (amounting to 515,543,500 zloty) has been taken to the capital surplus of Bank Przemyslowo-Handlowy SA.

Table 7. Structure of total assets, commercial banks

1	2	Value (million zloty)	Growth rate 12/1998=100		Structure (%)	
		31/12/1999	nominal	real	12/98	12/99
1	2	3	4	5	6	7
1	Cash & due from central bank	16 250.6	66.3	60.3	8.0	4.7
	of which: cash	6 681.9	134.6	122.6	1.6	1.9
	due from central bank	9 568.7	48.9	44.5	6.4	2.8
2	Due from financial sector	55 642.3	129.0	117.5	14.2	15.9
3	Due from non-financial sector	153 731.4	125.3	114.2	40.2	44.0
4	Due from government	12 335.9	174.0	158.5	2.3	3.5
5	Securities	85 350.5	100.9	91.9	27.7	24.5
6	Fixed assets	16 288.3	124.9	113.8	4.3	4.7
7	Other assets	9 422.9	94.3	85.9	3.3	2.7
8	Total assets	349 021.9	114.4	104.2	100.0	100.0

Table 8. Structure of liabilities and capital, commercial banks

1	2	Value (million zloty)	Growth rate 12/1998=100		Structure ( % )	
		31/12/1999	nominal	real	12/98	12/99
1	2	3	4	5	6	7
1	Due to central bank	5 735.9	91.2	83.1	2.1	1.6
2	Due to financial sector <sup>60</sup>	58 813.2	117.8	107.3	16.4	16.9
3	Due to non-financial sector	215 951.3	116.4	106.0	60.7	61.9
4	Due to government	12 674.5	112.8	102.7	3.7	3.6
5	Other liabilities	21 468.4	98.1	89.3	7.2	6.2
6	Capital	29 021.3	113.2	103.1	8.4	8.3
7	Year-to-date earnings	5 328.0	121.9	111.0	1.4	1.5
8	Earnings pending confirmation	29.3	x	x	0.1	0.0
9	Total liabilities and capital	349 021.9	114.4	104.2	100.0	100.0

<sup>60</sup> Excluding liabilities to the NBP disclosed under item 1.

Table 9. Total assets, banking system

1	2	Value (million zloty)	Growth rate 12/1998=100		Share in banking system (%)	
		31/12/1999	nominal	real	12/98	12/99
1	2	3	4	5	6	7
1	Banks where control assumed by foreign investors in 1999	102 989.9	108.4	98.7	29.8	28.3
2	Other banks with majority Polish equity	176 921.9	112.6	102.6	49.3	48.5
3	Other banks with majority foreign equity	69 110.1	130.5	118.8	16.6	19.0
4	Commercial banks (1+2+3)	349 021.9	114.4	104.2	95.7	95.8
	of which: listed banks	190 490.4	135.6	123.5	44.1	52.3
5	Cooperative banks	15 409.6	112.5	102.5	4.3	4.2
6	Total banking system (4+5)	364 431.5	114.3	104.1	100.0	100.0

Table 10. Distribution of commercial banks by total assets

1	Total assets, million zloty	31/12/1999			31/12/1998		
		no. of banks	total assets	share, %	no. of banks	total assets	share, %
1	2	3	4	5	6	7	8
1	over 10 000	11	257 431.9	73.8	11	209 346.3	68.6
	of which: over 30 000	2	120 144.8		2	90 908.0	
	15 000 - 30 000	4	69 032.7		2	31 999.4	
	10 000 - 15 000	5	68 254.4		7	86 438.9	
2	1 000 - 10 000	25	73 912.6	21.2	30	81 421.0	26.7
	of which: 6 000 - 10 000	3	25 808.2		4	29 991.8	
	2 000 - 6 000	10	29 696.4		7	25 577.2	
	1 000 - 2 000	12	18 408.0		19	25 852.0	
3	under 1 000	41	17 677.4	5.0	42	14 267.2	4.7
	of which: 500 - 1 000	16	11 755.4		12	7 850.2	
	300 - 500	8	3 208.2		9	3 514.9	
	100 - 300	13	2 557.7		15	2 526.0	
	under 100	4	156.1		6	376.1	
4	Total	77	349 021.9	100.0	83	305 034.5	100.0

Table 11. Banking concentration ratio<sup>61</sup> (%)

Year end	Largest 5 banks	Largest 10 banks	Largest 15 banks
1	2	3	4
share of total assets			
1998	42.9	62.3	75.1
1999	47.7	67.7	79.0
share of deposits from non-financial sector			
1998	51.0	66.7	78.7
1999	55.4	71.0	83.5
share of loans to non-financial sector			
1998	35.7	60.7	72.9
1999	46.0	68.1	77.4

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

Year end	Total banking system	Commercial banks	of which: banks with majority		Cooperative banks
			Polish equity	foreign equity	
1	2	3	4	5	6
Share of loans to non-financial sector (net) in total assets (%)					
1993	30.1	30.0	29.9	31.5	32.5
1994	27.7	27.3	26.9	38.4	35.2
1995	29.6	29.3	28.8	41.1	34.1
1996	34.2	33.7	32.6	40.0	45.0
1997	37.7	37.3	35.9	44.9	45.6
1998	37.5	37.2	34.7	49.4	43.3
1999	41.5	41.1	37.7	44.7	49.9
Share of securities (net) in total assets (%)					
1993	23.6	25.1	25.5	9.9	3.3
1994	28.2	29.7	30.2	14.3	2.9
1995	31.0	32.3	32.8	19.8	5.0
1996	31.4	32.6	34.6	20.5	8.0
1997	26.6	27.3	29.6	15.5	10.3
1998	26.9	27.7	29.7	18.2	8.5
1999	23.8	24.5	27.2	21.7	8.0
Share of deposits in total assets (%)					
1993	55.7	55.1	55.4	46.5	64.3
1994	60.0	59.6	59.9	51.8	67.1
1995	57.0	56.6	57.3	42.1	65.3
1996	56.7	56.1	57.1	50.4	67.4
1997	58.3	57.9	59.7	48.4	67.4
1998	58.8	58.3	60.3	48.4	71.2
1999	60.7	60.2	61.6	58.6	72.0

<sup>61</sup> With reference to largest banks in Poland by total assets.

Table 13. Structure of securities portfolios, commercial banks

1	2	Value, million zloty		Structure, %		Movement, million zloty
		31/12/98	31/12/99	31/12/98	31/12/99	
1	2	3	4	5	6	7
1	Equity securities	1 147.0	1 504.0	1.4	1.8	357.0
	of which issued by:					
	- domestic parties	1 146.9	1 418.5	1.4	1.7	271.6
	- foreign parties	0.1	85.5	0.0	0.1	85.4
2	Debt securities	83 621.8	83 964.8	98.5	98.1	343.0
	of which issued by:					
	- domestic parties	82 563.4	81 927.9	97.3	95.7	-635.5
	- the Treasury	52 283.8	54 403.2	61.6	63.5	2 119.3
	of which:					
	- T-bills	16 010.9	15 630.7	18.9	18.3	-380.1
	- bonds	36 273.0	38 772.4	42.7	45.3	2 499.5
	- NBP	28 056.1	24 366.4	33.1	28.5	-3 689.8
	of which:					
	- money market bills	28 056.1	10 975.8	33.1	12.8	-17 080.4
	- bonds	-	13 390.6	x	15.6	13 390.6
	- other domestic parties	2 223.4	3 158.4	2.6	3.7	935.0
	- foreign parties	1 058.4	2 036.9	1.2	2.4	978.5
3	Other securities	89.0	148.4	0.1	0.2	59.4
4	Total securities (gross)	84 857.8	85 617.2	100.0	100.0	759.4

Table 14. Gross claims of commercial banks on non-financial sector (December 31, 1999)

1	2	Value, million zloty	Structure, (%)	Growth rate, 12/98=100	
				nominal	real
1	2	3	4	5	6
1	Gross claims	155 188.3	96.4	126.1	114.8
	of which:				
	- consumer loans classified satisfactory	26 197.8		146.5	133.4
	- special mention claims	9 685.1		x	x
	- irregular claims	20 795.0		155.2	141.3
	of which: classified loss	7 395.9		123.6	112.6
2	Interest	5 100.2	3.2	107.7	98.1
	of which: classified irregular	4 000.1		105.5	96.1
3	Due on interest subsidies to preferential loans	222.9	0.1	49.0	44.6
4	Other claims	455.1	0.3	102.7	93.5
5	Total claims, gross (1 + 2 + 3 + 4)	160 966.5	100.0	125.0	113.8

Table 15. Gross claims of commercial banks on corporates and persons (December 31, 1999)

		Value, million zloty	Structure, %	Growth rate, 12/98 = 100
1	2	3	4	5
1	Due from corporates	119 420.0	77.0	118.9
2	Due from persons	34 041.7	21.9	153.3
	of which: consumer loans <sup>62</sup>	28 326.3	18.3	147.1
	of which: instalment loans	12 889.5	8.3	154.2
3	Due from other non-financial customers	1 726.6	1.1	363.5
4	Due from non-financial sector (1+2+3)	155 188.3	100.0	126.1

Table 16. Irregular claims (gross) of commercial banks on non-financial sector (December 31, 1999)

1	2	Irregular claims			Proportion of irregular claims, %	
		Million zloty	Structure %	Growth rate 98=100	31/12/98	31/12/99
					6	7
3	4	5	6	7		
1	Due from corporates	18 426.0	88.6	154.2	11.9	15.4
2	Due from persons	2 250.2	10.8	156.5	6.5	6.6
	of which: consumer loans	2 128.5	10.2	155.0	7.1	7.5
	of which: instalment loans	1 116.7	5.4	149.3	8.9	8.7
3	Due from other non-financial customers	118.8	0.6	912.2	2.7	6.9
	Due from non-financial sector (1 + 2 + 3)	20 795.0	100.0	155.2	10.9	13.4

Table 17. Ratio of specific provisions to qualifying claims and off balance sheet commitments

1	Classification	Specific provisions (% of applicable value)		
		required	established	
			31.12.1998	31.12.1999
2	3	4	5	
1	Consumer loans classified satisfactory	0.5	-	0.9
2	Special mention	0.5	-	1.7
3	Substandard	20.0	22.4	21.3
4	Doubtful	50.0	53.9	54.9
5	Loss	100.0	99.9	100.7
6	Total		102.0	104.3

<sup>62</sup> Includes loans, purchased debt and funds disbursed under guarantees on consumer loans.

Table 18. Ratio of irregular classifications to gross claims on non-financial sector (%)

1	2	Ratio of irregular classifications to gross claims (%)			
		3	of which		
			4	5	6
	<b>Banking system</b>				
1	1993	30.1	7.3	6.1	16.7
2	1994	27.9	5.8	5.4	16.7
3	1995	20.4	5.2	3.4	11.8
4	1996	12.7	3.9	1.6	7.2
5	1997	10.2	3.8	1.2	5.2
6	1998	10.5	3.9	1.9	4.7
7	31/03/1999	11.0	4.2	2.2	4.6
8	30/06/1999	11.5	4.3	2.6	4.6
9	30/09/1999	11.8	4.2	3.1	4.5
10	31/12/1999	12.9	5.0	3.3	4.6
	<b>Commercial banks</b>				
1	1993	31.0	7.5	6.4	17.1
2	1994	28.5	5.9	5.7	16.9
3	1995	20.9	5.4	3.5	12.0
4	1996	13.2	4.1	1.7	7.4
5	1997	10.5	3.9	1.2	5.4
6	1998	10.9	4.0	2.0	4.9
7	31/03/1999	11.4	4.3	2.3	4.8
8	30/06/1999	12.0	4.4	2.8	4.8
9	30/09/1999	12.3	4.4	3.2	4.7
10	31/12/1999	13.4	5.2	3.4	4.8
	<b>Cooperative banks</b>				
1	1993	24.4	5.5	4.1	14.8
2	1994	21.3	3.8	2.4	15.1
3	1995	11.7	1.9	1.1	8.7
4	1996	5.3	1.2	0.4	3.7
5	1997	3.7	1.1	0.4	2.2
6	1998	3.5	1.2	0.5	1.8
7	31/03/1999	3.3	1.2	0.4	1.7
8	30/06/1999	3.3	1.3	0.4	1.6
9	30/09/1999	3.4	1.3	0.5	1.6
10	31/12/1999	3.6	1.3	0.5	1.7

Table 19. Structure of gross claims of commercial banks on non-financial sector (December 31, 1999)

1	2	a) total b) zloty	Gross claims		of which:					Share of irregular classifications in total claims (%)	
					Classified special mention	Classified irregular		of which: irregular consumer loans			
		c) foreign currency	million zloty	growth rate 12/98=100	million zloty	million zloty	growth rate 12/98=100	million zloty	growth rate 12/98=100	31/12/98	31/12/99
		3	4	5	6	7	8	9	10	11	12
1	Banks with majority Polish equity	a	73 152.7	76.3	4 343.5	10 159.1	100.2	1 244.4	110.3	10.6	13.9
		b	59 915.0	78.9	3 221.9	8 516.4	97.9	1 195.9	108.6	11.5	14.2
		c	13 237.7	66.3	1 121.6	1 642.7	113.8	48.5	177.7	7.2	12.4
2	Banks with majority foreign equity	a	82 035.6	301.9	5 341.6	10 635.9	326.8	884.1	361.0	11.4	13.0
		b	62 290.4	330.7	3 874.1	7 934.9	311.8	875.0	359.8	13.0	12.7
		c	19 745.2	236.7	1 467.5	2 701.0	380.3	9.1	568.7	7.7	13.7
3	Total commercial banks (1+2)	a	155 188.3	126.1	9 685.1	20 795.0	155.2	2 128.5	155.0	10.9	13.4
		b	122 205.4	128.9	7 096.0	16 451.3	146.3	2 070.9	154.1	11.8	13.5
		c	32 982.9	116.5	2 589.1	4 343.7	201.7	57.6	199.3	7.4	13.2

Table 20. Structure of housing loans, by classification (December 31, 1999)

million zloty

1	2	Extended to non-financial sector	of which:				Extended to local government
			secured by mortgages and eligible for interest redemption <sup>63</sup>	other eligible for interest redemption <sup>64</sup>	refinanced by Bud-Bank SA <sup>65</sup>	other	
		3	4	5	6	7	8
<b>I. Loans to persons</b>							
1.1	Total housing loans, of which:	5 853.2	95.8	15.4	56.4	5 685.6	x
1.2	classified satisfactory	5 558.2	84.5	3.9	49.8	5 420.0	x
1.3	classified special mention	175.9	0.2	0.1	2.5	173.1	x
1.4	classified irregular	119.1	11.1	11.4	4.1	92.5	x
1.5	Ratio of irregular loans to total housing loans (%)	2.0	11.6	74.0	7.3	1.6	x
1.6	Specific provisions established	43.9	5.8	4.2	1.0	32.9	x
<b>II. Loans to corporates</b>							
2.1	Total housing loans, of which:	5 749.5	0.1	3 914.1	0.5	1 834.8	x
2.2	classified satisfactory	4 846.6	0.1	3 470.5	0.5	1 375.5	x
2.3	classified special mention	25.8	0.0	0.0	0.0	25.8	x
2.4	classified irregular	877.1	0.0	443.6	0.0	433.5	x
2.5	Ratio of irregular loans to total housing loans (%)	15.3	0.0	11.3	0.0	23.6	x
2.6	Specific provisions established	194.3	0.0	113.7	0.0	80.6	x
<b>III. Total</b>							
3.1	Total housing loans, of which:	11 602.7	95.9	3 929.5	56.9	7 520.4	111.2
3.2	classified satisfactory	10 404.8	84.5	3 474.6	50.3	6 795.4	111.2
3.3	classified special mention	201.7	0.2	0.2	2.5	198.8	0.0
3.4	classified irregular	996.2	11.2	454.7	4.1	526.2	0.0
3.5	Ratio of irregular loans to total housing loans (%)	8.6	11.7	11.6	7.2	7.0	0.0
3.6	Specific provisions established	238.2	5.8	117.9	1.0	113.5	0.0

<sup>63</sup> "Mortgage loans" extended to persons until March 31, 1995, repayable in accordance with a "repayment coefficient", and subject to interim central government redemption of a portion of outstanding interest.

<sup>64</sup> "Old" housing loans, extended pursuant to Government resolutions in the years 1965-92, repayable in accordance with a "normative index" and "repayment coefficient", and subject to interim central government redemption of a portion of outstanding interest.

<sup>65</sup> Loans financed by the Mortgage Fund, managed by Bud-Bank SA, and originated via banks participating in a housing development programme under cooperation agreements concluded with Bud-Bank SA.

Table 21. Liabilities of commercial banks to non-financial sector (December 31, 1999)

1	2	Value (million zloty)			Nominal growth rate 12/1998=100			Real growth rate 12/1998=100			Structure (%)	
		3	4	5	6	7	8	9	10	11	12/98	12/99
1	Demand deposits	58 283.5	46 027.3	12 256.2	120.6	121.5	117.2	109.8	110.6	106.7	26.1	27.0
	- taken from corporates	23 024.8	19 997.2	3 027.6	120.0	119.9	120.4	109.2	109.2	109.6	10.3	10.7
	- taken from persons	32 886.1	24 076.3	8 809.8	120.2	122.5	114.1	109.4	111.6	103.9	14.8	15.2
	- taken from other customers	2 372.6	1 953.8	418.8	133.1	125.7	183.7	121.2	114.4	167.3	1.0	1.1
2	Time and assigned deposits	151 686.5	122 642.3	29 044.2	117.2	116.0	122.5	106.8	105.7	111.6	69.7	70.3
	- taken from corporates	31 341.7	25 948.4	5 393.3	128.2	137.4	97.1	116.8	125.1	88.5	13.2	14.5
	- taken from persons	115 693.5	92 194.1	23 499.4	114.2	110.8	129.9	104.0	100.9	118.3	54.6	53.6
	- taken from other customers	4 651.3	4 499.8	151.5	127.5	125.4	257.7	116.2	114.2	234.7	2.0	2.2
3	Brokerage accounts at bank brokerage houses	272.5	272.5	0.0	92.0	92.0	x	83.8	83.8	0.0	0.2	0.1
4	Interest	4 956.3	4 538.2	418.1	82.9	80.1	132.8	75.5	73.0	121.0	3.2	2.3
5	Other liabilities	752.5	567.9	184.6	49.4	64.6	28.7	45.0	58.8	26.1	0.8	0.3
6	Interest on brokerage accounts	0.0	0.0	0.0	0.0	0.0	x	0.0	0.0	0.0	0.0	0.0
7	Total liabilities	215 951.3	174 048.2	41 903.1	116.4	115.7	119.3	106.0	105.4	108.7	100.0	100.0
	- of which: total deposits (1+2)	209 970.0	168 669.6	41 300.4	118.1	117.5	120.9	107.6	107.0	110.1	95.8	97.2
	- taken from corporates	54 366.5	45 945.6	8 420.9	124.6	129.2	104.4	113.5	117.6	95.1	23.5	25.2
	- taken from persons	148 579.6	116 270.4	32 309.2	115.5	113.0	125.2	105.2	102.9	114.0	69.4	68.8
	- taken from other customers	7 023.9	6 453.6	570.3	129.4	125.5	198.8	117.8	114.3	181.1	2.9	3.3

Table 22. Total capital base of the banks (total core and supplementary capital), 1993-1999 (million zloty)

Year end	Commercial banks			Cooperative banks	Banking system
	total	banks with majority			
		Polish equity	foreign equity		
1	2	3	4	5	6
1993	5 966.6	5 822.9	143.7	515.9	6 482.5
1994	8 998.4	8 647.1	351.3	539.5	9 537.9
1995	11 857.5	10 897.2	960.3	670.5	12 528.0
1996	15 723.4	12 260.8	3 462.6	801.7	16 525.1
1997	20 206.9	15 115.3	5 091.6	1 011.7	21 218.6
1998	25 796.7	19 156.3	6 640.4	1 198.5	26 995.2
1999	29 588.9	14 043.0	15 545.9	1 368.5	30 957.4

Table 23. Adjusted capital base (eligible capital) of the banks<sup>66</sup>, 1993-1999 (million zloty)

Year end	Commercial banks			Cooperative banks	Banking system
	total	banks with majority			
		Polish equity	foreign equity		
1	2	3	4	5	6
1993	3 270.5	3 129.4	141.1	123.9	3 394.4
1994	5 193.0	4 851.8	341.2	63.5	5 256.5
1995	7 349.6	6 463.3	886.3	311.3	7 660.9
1996	12 024.2	8 754.1	3 270.1	502.0	12 526.2
1997	17 108.9	12 235.2	4 873.7	751.6	17 860.5
1998	21 500.8	15 063.7	6 437.1	966.8	22 467.6
1999	24 607.3	10 146.7	14 460.6	1 208.9	25 816.2

Table 24. Distribution of commercial banks by risk-based capital ratio

1	Risk-based capital ratio, %	Number of banks at year end						
		1993	1994	1995	1996	1997	1998	1999
2		3	4	5	6	7	8	9
1	8% and over, of which:	69	64	68	73	73	75	69
	over 30%	24	30	26	24	20	18	17
	15% - 30%	26	21	27	21	27	23	31
	12% - 15%	4	5	7	15	15	14	7
2	8% - 12%	15	8	8	13	11	20	14
	Under 8%, of which:	18	18	13	8	8	8	8
	2% - 8%	5	2	2	1	2	3	3
3	0% - 2%	0	1	0	0	0	0	0
	under 0%	13	15	11	7	6	5	5
4	Total (1+2)	87	82	81	81	81	83	77
5	Median value	16.5	20.8	18.5	17.5	16.9	15.0	16.6
6	Arithmetic mean	9.4	11.5	11.5	12.3	12.5	11.7	13.2

<sup>66</sup> The adjusted capital base (eligible capital) represents the sum of core and supplementary capital less unabsorbed prior period losses, losses pending confirmation and current period loss, equity holdings (direct and indirect) in other financial institutions, any shortfall in specific provisions, Treasury stock, and from 2001 onwards – intangible assets (subject to phased deductions in line with an established schedule).

Table 25. Distribution of cooperative banks by risk-based capital ratio

1	Risk-based capital ratio, %	Number of banks at year end						
		1993	1994	1995	1996	1997	1998	1999
1	2	3	4	5	6	7	8	9
1	8% and over	1300	1188	1144	1074	1119	1087	738
	of which:							
	over 30%	125	60	61	22	16	18	21
	15% - 30%	788	689	613	380	384	380	267
	12% - 15%	205	241	217	267	310	312	205
	8% - 12%	182	198	253	405	409	226	245
2	Under 8%, of which:	353	424	366	320	176	102	43
	2% - 8%	114	94	119	169	120	79	34
	0% - 2%	19	21	32	26	17	7	3
	under 0%	220	309	215	125	39	16	6
3	Total (1+2)	1653	1612	1510	1394	1295	1189	781
4	Arithmetic mean	4.7	2.2	8.4	8.8	11.1	11.8	12.8

Table 26. Off balance sheet commitments

1	2	Value (million zloty)		Structure (%)		Growth rate 12/98=100	
		12/98	12/99	12/98	12/99	nominal	real
1	2	3	4	5	6	7	8
1	Contingent commitments extended	45 836.9	58 714.1	28.5	22.5	128.1	116.7
2	Commitments to purchase and sell	115 056.0	202 089.7	71.5	77.5	175.6	160.0
	- foreign exchange operations	90 619.7	123 922.3	56.3	47.5	136.7	124.5
	- commitments on financial instruments	9 230.2	52 638.5	5.7	20.2	570.3	519.4
	- other commitments	15 206.1	25 528.9	9.5	9.8	167.9	152.9
3	Total off balance sheet commitments	160 892.9	260 803.7	100.0	100.0	162.1	147.6

Table 27. Off balance sheet commitments as percentage of total assets and capital

1	2	OBS commitments to total assets, %		OBS commitments to capital, %	
		12/98	12/99	12/98	12/99
1	2	3	4	5	6
1	Commercial banks	52.6	74.5	746.2	1 057.0
2	Cooperative banks	3.4	4.5	47.7	57.9
3	Banking system	50.5	71.6	716.1	1 010.2

Table 28. Off balance sheet foreign exchange operations, commercial banks

1	Value (million zloty)		Structure (%)		Growth rate 12/98=100	
	12/98	12/99	12/98	12/99	nominal	real
1	2	3	4	5	6	7
FX operations, of which:	90 619.7	123 922.3	100.0	100.0	136.7	124.5
- spot transactions	35 540.5	8 604.2	39.2	6.9	24.2	22.0
- deposit transactions	5 033.0	1 819.0	5.6	1.5	36.1	32.9
- forward transactions	49 926.1	113 220.4	55.1	91.4	226.8	206.5
- unrealised gains/losses on swap transactions	120.1	278.7	0.1	0.2	232.1	211.4

Table 29. Total income, expense and earnings

Period	Banking system	Commercial banks	of which: with majority			of which: listed banks	Cooperative banks
			Polish equity	of which: public-sector equity	foreign equity		
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	64 415.7	61 783.2	45 414.8	27 231.8	16 368.5	28 472.4	2 632.4
1999	79 125.7	76 517.4	32 350.1	15 553.2	44 167.3	48 596.9	2 608.2
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	59 760.3	57 413.0	42 503.8	26 281.8	14 909.2	25 467.4	2 347.3
1999	73 473.8	71 189.4	29 214.0	14 372.3	41 975.4	44 793.5	2 284.4
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	2 865.2	1 058.2	2 851.6	350.6
1998	4 655.4	4 370.3	2 911.0	950.0	1 459.3	3 005.0	285.1
1999	5 651.9	5 328.0	3 136.1	1 180.9	2 191.9	3 803.4	323.8
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	1 824.9	1 648.4	725.2	-383.3	923.2	1 837.7	176.5
1999	3 491.3	3 288.2	2 052.3	937.4	1 235.9	2 369.3	203.1

Table 30. Profitability (net & pre-tax) and cost/income ratio

Period	Bank system	Commercial banks	of which, with majority			of which: listed banks	Cooperative banks
			Polish equity	of which: public-sector equity	foreign equity		
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	7.8	7.6	6.9	3.6	9.8	11.8	12.2
1999	7.7	7.5	10.7	8.2	5.2	8.5	14.2
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	3.1	2.9	1.7	-1.5	6.2	7.2	7.5
1999	4.8	4.6	7.0	6.5	2.9	5.3	8.9
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	92.8	92.9	93.6	96.5	91.1	89.5	89.2
1999	92.9	93.0	90.3	92.4	95.0	92.2	87.6

Table 31. Key bank performance indicators, commercial banks<sup>67</sup>

		12/98	03/99	06/99	09/99	12/99
1	2	3	4	5	6	7
1	Number of banks analysed	79	78	78	77	75
2	Earning assets to total assets (%)	83.44	83.07	81.84	86.43	86.87
3	Performing assets to total assets (%)	82.41	81.83	80.40	84.74	84.99
4	Interest received to average total assets <sup>68</sup> (%)	14.70	11.76	11.26	10.96	11.16
5	Interest paid to average total assets (%)	10.02	7.70	7.23	7.04	7.12
6	Net interest income to average total assets (%)	4.68	4.06	4.04	3.92	4.05
7	Income from core banking operations <sup>69</sup> to average total assets (%)	6.64	6.03	6.03	5.82	6.01
8	General expense to average total assets (%)	3.69	3.30	3.41	3.39	3.58
9	Pre-tax earnings to average total assets (%)	1.71	2.43	1.97	2.14	1.69
10	ROA (net earnings to average total assets), (%)	0.67	1.59	1.32	1.40	1.04
11	ROE (net earnings to average core capital), (%)	9.17	21.82	18.10	18.97	14.23

Table 32. General expense, commercial banks

1	2	Banks with majority			
		Polish equity		foreign equity	
		1998	1999	1998	1999
3	4	5	6		
1	Occupancy expense per branch office (thousand zloty)	553.9	477.0	907.5	749.0
2	Other physical expense per branch office (thousand zloty)	1 174.1	1 261.0	2 271.4	1 558.7
3	Personnel expense per employee (thousand zloty) <sup>70</sup>	34.5	36.8	52.8	50.1
4	Personnel expense / pre-tax earnings (%)	155.4	101.1	64.4	145.0
5	Average monthly salary (thousand zloty)	1 975.0	2 577.0	3 074.5	3 550.6
6	Pre-tax earnings per employee (thousand zloty)	22.2	36.4	82.0	34.6

<sup>67</sup> Compiled on the basis of the Uniform Bank Performance Report.

<sup>68</sup> Less accrued and outstanding unpaid interest on irregular assets.

<sup>69</sup> The total of: net interest income, net fee & commission income, net FX gains/losses, and net income from securities operations.

<sup>70</sup> Salary expense together with associated taxes and contributions.



Table 33. Profit and loss account, Polish banking sector, 1999 (million zloty)

1	2	Commercial banks	of which:				Listed banks	Cooperative 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:	34 457.4	17 532.8	10 261.3	7 271.5	16 924.6	17 258.9	2 083.2	36 540.6
	- from financial institutions	3 828.9	1 685.3	595.5	1 089.8	2 143.6	1 427.5	403.6	4 232.5
	- from customers and government	19 974.0	9 389.7	4 861.0	4 528.7	10 584.3	11 013.8	1 526.5	21 500.5
	- on securities	9 184.3	5 422.6	3 965.5	1 457.1	3 761.7	4 278.8	150.2	9 334.6
	- other interest income	1 470.1	1 035.2	839.2	196.0	434.9	538.8	2.9	1 473.0
II	Interest expense, of which:	21 721.0	11 088.0	6 335.1	4 753.0	10 833.0	10 836.2	1 041.8	22 762.9
	- to financial institutions	4 764.4	1 970.4	363.7	1 606.7	2 794.0	2 725.5	25.3	4 789.7
	- to customers and government	16 746.4	9 041.7	5 941.2	3 100.5	7 704.7	7 993.6	1 015.7	17 762.1
	- other interest expense	210.2	75.9	30.2	45.7	134.3	117.0	0.9	211.0
III	Net interest income (I-II)	12 736.4	6 444.8	3 926.2	2 518.5	6 291.6	6 422.7	1 041.4	13 777.8
IV	Fee & commission income	4 645.2	2 167.9	1 062.9	1 105.0	2 477.3	2 757.2	374.4	5 019.6
V	Fee & commission expense	626.8	326.7	170.6	156.1	300.2	277.2	16.1	642.9
VI	Net fee & commission income (IV-V)	4 018.4	1 841.3	892.3	948.9	2 177.1	2 480.0	358.3	4 376.7
VII	Income from equities and other securities	893.7	809.6	82.3	727.3	84.1	797.1	0.5	894.2
VIII	Net gains/losses on financial operations	819.8	474.5	42.6	431.9	345.3	666.5	3.0	822.8
	FX gains	28 192.3	7 283.7	2 749.7	4 534.0	20 908.6	22 284.5	0.0	28 192.3
	FX losses	26 436.1	6 633.7	2 631.1	4 002.6	19 802.5	21 087.9	0.0	26 436.1
IX	Net FX gains/losses	1 756.2	650.0	118.7	531.4	1 106.1	1 196.6	0.0	1 756.2
X	Net income from core banking operations	20 224.4	10 220.2	5 062.1	5 158.1	10 004.3	11 563.0	1 403.2	21 627.6
XI	Other operating income	1 049.9	715.7	206.9	508.8	334.2	731.7	27.1	1 077.0
XII	Other operating expense	421.3	191.3	54.6	136.7	230.0	264.6	17.8	439.1
XIII	General expense	11 374.0	5 580.8	3 198.5	2 382.3	5 793.2	5 949.5	976.0	12 350.0
	- of which: personnel expense (including tax and contributions)	6 351.2	3 171.3	1 840.5	1 330.9	3 179.9	3 449.5	730.0	7 081.2
XIV	Depreciation charges, fixed assets and intangibles	1 595.4	878.3	556.8	321.5	717.1	807.4	65.2	1 660.6
XV	Charges to provisions and valuation allowances	6 881.0	3 346.8	1 226.7	2 120.1	3 534.2	4 003.2	165.6	7 046.6
XVI	Release of provisions and valuation allowances	4 326.6	2 198.7	948.8	1 250.0	2 127.8	2 534.0	117.9	4 444.5
XVII	Net movements in provisions and valuation allowances (XV-XVI), of which:	2 554.5	1 148.1	277.9	870.2	1 406.4	1 469.3	47.7	2 602.1
	- net movements in specific provisions against claims and OBS commitments, etc., and in general banking risk reserves	2 325.4	1 050.1	255.7	794.3	1 275.3	1 310.4	47.6	2 373.0
	- net movements in valuation allowances against financial fixed assets	229.1	98.0	22.2	75.8	131.1	158.9	0.1	229.2
XXVIII	Net operating income (X+XI-XII-XIII-XIV+/-XVII)	5 329.2	3 137.4	1 181.1	1 956.3	2 191.8	3 803.9	323.7	5 652.8
XIX	Extraordinary gains/losses	-1.1	-1.3	-0.3	-1.0	0.1	-0.5	0.2	-1.0
XX	Pre-tax earnings (XXVIII+/-XIX)	5 328.0	3 136.1	1 180.9	1 955.2	2 191.9	3 803.4	323.8	5 651.9
XXI	Taxes	2 039.8	1 083.8	243.5	840.3	956.0	1 434.0	120.7	2 160.5
XXII	Net earnings	3 288.2	2 052.3	937.4	1 114.9	1 235.9	2 369.3	203.1	3 491.3
	Total income	76 517.4	32 350.1	15 553.2	16 796.9	44 167.3	48 596.9	2 608.2	79 125.7
	Total expense	71 189.4	29 214.0	14 372.3	14 841.7	41 975.4	44 793.5	2 284.4	73 473.8

Table 34. Profit and loss account, Polish banking sector, 1998<sup>71</sup>

		of which:					million zloty		
		Commercial banks	of which:			with majority foreign equity	Listed banks	Cooperative banks	Banking system
			with majority Polish equity	public sector	private				
I	Interest income, of which:	37 768.8	30 577.1	19 023.8	11 553.3	7 191.7	15 166.4	2 244.5	40 013.3
	- from financial institutions	4 017.2	2 786.5	1 209.6	1 576.9	1 230.6	1 444.3	439.9	4 457.1
	- from customers and government	20 400.8	16 002.6	8 970.0	7 032.6	4 398.2	8 714.9	1 599.7	22 000.5
	- on securities	11 400.3	9 886.6	7 333.7	2 553.0	1 513.7	4 499.5	204.5	11 604.9
	- other interest income	1 950.5	1 901.3	1 510.5	390.8	49.2	507.7	0.3	1 950.8
II	Interest expense, of which:	25 646.4	21 061.7	13 227.7	7 834.0	4 584.6	10 058.2	1 288.1	26 934.4
	- to financial institutions	5 042.5	3 350.3	1 246.0	2 104.3	1 692.3	2 149.6	34.5	5 077.1
	- to customers and government	20 358.1	17 551.5	11 969.6	5 581.9	2 806.6	7 761.3	1 252.4	21 610.5
	- other interest expense	245.7	159.9	12.1	147.8	85.8	147.3	1.2	246.9
III	Net interest income (I-II)	12 122.5	9 515.4	5 796.2	3 719.3	2 607.0	5 108.2	956.4	13 078.9
IV	Fee & commission income	3 417.1	2 671.1	1 430.0	1 241.2	745.9	1 852.7	268.9	3 686.0
V	Fee & commission expense	448.7	333.2	190.7	142.5	115.4	187.1	10.2	458.9
VI	Net fee & commission income (IV-V)	2 968.4	2 337.9	1 239.2	1 098.7	630.5	1 665.7	258.7	3 227.1
VII	Income from equities and other securities	415.3	386.7	108.6	278.2	28.6	315.3	0.1	415.4
VIII	Net gains/losses on financial operations	187.6	106.3	-213.4	319.8	81.3	370.1	2.2	189.9
	FX gains	14 509.8	7 074.4	4 440.1	2 634.2	7 435.4	8 188.0	0.0	14 509.8
	FX losses	12 823.3	6 016.3	4 031.0	1 985.3	6 807.0	7 192.3	0.0	12 823.3
IX	Net FX gains/losses	1 686.5	1 058.1	409.1	648.9	628.4	995.7	0.0	1 686.5
X	Net income from core banking operations	17 380.2	13 404.5	7 339.7	6 064.8	3 975.7	8 455.0	1 217.5	18 597.7
XI	Other operating income	685.8	586.1	331.0	255.1	99.7	309.9	24.9	710.7
XII	Other operating expense	442.1	377.1	200.4	176.7	65.0	191.1	17.2	459.3
XIII	General expense	9 600.1	7 620.4	4 725.7	2 894.6	1 979.7	4 078.5	868.3	10 468.4
	- of which: personnel expense (including tax and contributions)	5 462.6	4 522.3	2 825.5	1 696.8	940.3	2 333.4	654.8	6 117.4
XIV	Depreciation charges, fixed assets and intangibles	1 202.7	957.7	612.0	345.7	244.9	532.0	52.6	1 255.3
XV	Charges to provisions and valuation allowances	5 546.4	4 831.4	2 625.2	2 206.2	715.0	2 462.9	109.0	5 655.4
XVI	Release of provisions and valuation allowances	3 095.9	2 707.6	1 441.7	1 265.9	388.2	1 505.3	89.8	3 185.7
XVII	Net movements in provisions and valuation allowances (XV-XVI), of which:	2 450.6	2 123.8	1 183.5	940.3	326.8	957.7	19.1	2 469.7
	- net movements in specific provisions against claims and OBS commitments, etc., and in general banking risk reserves	2 318.7	2 013.3	1 160.7	852.6	305.4	873.7	19.1	2 337.8
	- net movements in valuation allowances against financial fixed assets	131.9	110.5	22.8	87.7	21.4	84.0	0.0	131.9
XVIII	Net operating income (X+XI-XII-XIII-XIV+/-XVII)	4 370.6	2 911.6	949.1	1 962.5	1 459.0	3 005.7	285.0	4 655.7
XIX	Extraordinary gains/losses	-0.4	-0.7	0.9	-1.6	0.3	-0.8	0.1	-0.3
XX	Pre-tax earnings (XVIII+/-XIX)	4 370.3	2 911.0	950.0	1 960.9	1 459.3	3 005.0	285.1	4 655.4
XXI	Taxes	2 721.8	2 185.7	1 333.4	852.3	536.1	1 167.3	108.6	2 830.5
XXII	Net earnings	1 648.4	725.2	-383.3	1 108.6	923.2	1 837.7	176.5	1 824.9
	Total income	61 783.2	45 414.8	27 231.8	18 183.0	16 368.5	28 472.4	2 632.4	64 415.7
	Total expense	57 413.0	42 503.8	26 281.8	16 222.0	14 909.2	25 467.4	2 347.3	59 760.3

<sup>71</sup> Figures for 1998 incorporate any adjustments stemming from auditors' recommendations.

Table 35. Cooperative sector as proportion of total banking system (December 31, 1999)

1	2	Total assets		Total capital base (total core and supplementary capital) <sup>72</sup>		Loans to non-financial customers (net)		Personal deposits		Total losses <sup>73</sup>		Pre-tax earnings <sup>74</sup>	
		million zloty	%	million zloty	%	million zloty	%	million zloty	%	million zloty	%	million zloty	%
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Total regional and affiliating banks <sup>75</sup>	23 300.9	6.39	1 519.1	4.91	8 491.3	5.61	8 442.1	5.38	595.6	19.71	477.6	7.70
2	Total cooperative banks, of which affiliated to:	15 409.6	4.23	1 368.5	4.42	7 685.5	5.08	8 358.9	5.33	33.0	1.09	324.7	5.24
3	Gospodarczy Bank Wielkopolski SA	2 070.0	0.57	169.9	0.55	1 171.2	0.77	1 077.1	0.69	13.4	0.44	50.9	0.82
4	Gospodarczy Bank Poludniowo Zachodni SA	2 859.9	0.78	238.3	0.77	1 316.6	0.87	1 502.1	0.96	3.2	0.11	72.1	1.16
5	Bank Unii Gospodarczej SA	1 842.4	0.51	153.0	0.49	968.1	0.64	1 040.1	0.66	3.8	0.13	32.1	0.52
6	Warminsko-Mazurski Bank Regionalny SA	1 089.3	0.30	109.0	0.35	613.4	0.41	661.6	0.42	0.0	0.00	19.4	0.31
7	Lubelski Bank Regionalny SA	1 168.5	0.32	101.8	0.33	591.6	0.39	709.5	0.45	1.0	0.03	18.8	0.30
8	Baltycki Bank Regionalny SA	543.0	0.15	56.3	0.18	272.5	0.18	266.8	0.17	2.6	0.09	10.2	0.16
9	Pomorsko-Kujawski Bank Regionalny SA	1 069.6	0.29	100.1	0.32	622.3	0.41	570.9	0.36	1.0	0.03	21.1	0.34
10	Dolnoslaski Bank Regionalny SA	687.9	0.19	60.7	0.20	320.9	0.21	331.4	0.21	1.2	0.04	9.3	0.15
11	Malopolski Bank Regionalny SA	1 824.4	0.50	167.1	0.54	763.1	0.50	1 035.7	0.66	1.4	0.05	48.7	0.79
12	Rzeszowski Bank Regionalny SA	359.6	0.10	36.0	0.12	133.5	0.09	165.6	0.11	0.1	0.00	5.5	0.09
13	Mazowiecki Bank Regionalny SA	1 753.7	0.48	155.8	0.50	793.0	0.52	952.6	0.61	5.2	0.17	34.8	0.56
14	Cooperative sector (1+2)	38 710.5	10.62	2 887.6	9.33	16 176.8	10.69	16 801.0	10.71	628.6	20.80	802.3	12.94
15	National Cooperative Banking Group	32 276.9	8.86	2 384.4	7.70	13 234.6	8.75	14 132.9	9.01	621.7	20.57	682.8	11.01
16	Banking system	364 431.5	100.00	30 957.4	100.00	151 304.8	100.00	156 938.5	100.00	3 022.0	100.00	6 200.5	100.00

<sup>72</sup> Prior to regulatory deductions.

<sup>73</sup> Current period loss, prior period losses and loss pending confirmation.

<sup>74</sup> Current period earnings.

<sup>75</sup> Banks listed in items 3 to 13 below, together with Bank Gospodarki Zywosciowej SA.

Table 36. Polish gross domestic product and total banking assets

Year	Gross domestic product			Total banking assets (at year end)		
	million zloty	growth rate <sup>76</sup>	million euro/ECU	million zloty	% of GDP	growth rate <sup>77</sup>
1	2	3	4	5	6	7
1995	306 318.3	107.0	97 725.7	149 342.2	48.8	112.0
1996	385 448.1	106.0	114 125.7	197 076.9	51.1	111.4
1997	469 372.1	106.8	126 669.0	247 668.9	52.8	111.0
1998	549 466.7	104.8	140 059.3	318 726.8	58.0	118.5
1999	611 576.2	104.1	144 683.3	364 431.5	59.6	104.1

Table 37. Basic financial data on the banks, December 31, 1999 (million euro)

1	2	Commercial banks	of which: with majority		Cooperative banks	Banking system
			Polish equity	foreign equity		
		million euro (EUR/PLN = 4.17)				
1	2	3	4	5	6	7
1	Total assets	83 698.3	42 427.3	41 271.0	3 695.3	87 393.6
2	Loans, net	34 441.1	15 989.9	18 451.2	1 843.0	36 284.1
3	Securities, net	20 467.7	11 524.0	8 943.7	296.4	20 764.1
4	Deposits taken from non-financial sector	50 352.5	26 154.7	24 197.8	2 660.4	53 013.9
5	- of which: deposits from individuals	35 630.6	19 455.9	16 174.7	2 004.5	37 635.1
6	Total capital base (total core and supplementary capital)	7 095.6	3 367.6	3 728.0	328.2	7 423.8
7	- of which: core capital	6 729.9	3 179.8	3 550.1	299.4	7 029.3
8	- of which: equity capital	1 749.7	740.1	1 009.6	71.0	1 820.7
9	Adjusted capital base (eligible capital)	5 901.0	2 433.3	3 467.7	289.9	6 190.9
10	Pre-tax earnings	1 277.7	752.1	525.6	77.7	1 355.4
11	Net earnings	788.5	492.2	296.3	48.7	837.2

<sup>76</sup> In real terms, previous year = 100.

<sup>77</sup> In real terms, December previous year = 100.

## Appendix 1

### Listing of banks in Poland at December 31, 1999<sup>78</sup>

Bank code    Name of bank

#### I. Banks with majority Polish equity

##### 1.1. Banks with majority public-sector interest<sup>79</sup>

- state banks

1	102	Powszechna Kasa Oszczednosci Bank Panstwowy
2	113	Bank Gospodarstwa Krajowego
		- joint-stock banks directly owned by the Treasury <sup>80</sup>
3	203	Bank Gospodarki Zywnosciowej SA
		- joint-stock banks indirectly owned by the Treasury <sup>81</sup>
4	132	Bank Pocztowy SA
5	140	Bank Rozwoju Budownictwa Mieszkaniowego SA
6	146	Wschodni Bank Cukrownictwa SA
7	154	Bank Ochrony Srodowiska SA

##### 1.2. Banks with majority private-sector interest

8	103	Bank Handlowy w Warszawie SA
9	111	Powszechny Bank Kredytowy SA
10	114	BRE Bank SA (until March 1999: Bank Rozwoju Eksportu SA)
11	115	BIG Bank SA
12	116	BIG Bank Gdanski SA
13	130	Bank Wspolpracy Europejskiej SA
14	135	BWR Real Bank SA
15	137	Bank Inicjatyw Spoleczno-Ekonomicznych SA <sup>82</sup>
16	142	Bank Rozwoju Cukrownictwa SA
17	147	Bank Spolem SA
18	148	Bank Cukrownictwa Cukrobank SA
19	153	Bank Staropolski SA <sup>83</sup>
20	156	Gornoslaski Bank Gospodarczy SA
21	162	Bank Wschodni SA
22	163	Bank Czestochowa SA

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<sup>78</sup> Excluding NBP, cooperative banks and banks declared bankrupt or under liquidation.

<sup>79</sup> State banks and joint-stock banks where the Treasury, directly or indirectly, holds equity entitling it to exercise at least 50% + 1 votes at a shareholders general meeting.

<sup>80</sup> Joint-stock banks where the Treasury (represented by the Minister of the Treasury) directly holds equity entitling it to exercise at least 50% + 1 votes at a shareholders general meeting.

<sup>81</sup> Joint-stock banks where the Treasury (represented by the Minister of the Treasury), public-sector organisations, state enterprises or state-owned joint-stock companies hold equity jointly entitling them to exercise at least 50% + 1 votes at a shareholders general meeting.

<sup>82</sup> On November 22, 1999, Bank Energetyki SA was merged with Bank Inicjatyw Spoleczno-Ekonomicznych SA.

<sup>83</sup> The operations of this bank were suspended by the Commission for Banking Supervision as of January 13, 2000, and a court declaration of bankruptcy was issued on February 11.

23	168	Invest-Bank SA
24	169	Cuprum-Bank SA
25	191	Bank Wspolpracy Regionalnej SA
26	194	Lukas Bank Swietokrzyski SA
27	197	Wielkopolski Bank Rolniczy SA

- regional banks

28	161	Gospodarczy Bank Wielkopolski SA
29	170	Bank Unii Gospodarczej SA
30	193	Gospodarczy Bank Poludniowo-Zachodni SA
31	201	Warminsko-Mazurski Bank Regionalny SA
32	202	Lubelski Bank Regionalny SA
33	204	Pomorsko-Kujawski Bank Regionalny SA
34	205	Malopolski Bank Regionalny SA
35	206	Mazowiecki Bank Regionalny SA
36	208	Baltycki Bank Regionalny SA
37	210	Dolnoslaski Bank Regionalny SA
38	211	Rzeszowski Bank Regionalny SA

II. Banks with majority foreign equity<sup>84</sup>

2.1. Branch offices of foreign banks

1	180	ING Bank NV, Warsaw Branch Office
2	181	American Express (Poland) Ltd <sup>85</sup>
3	184	Societe Generale, Warsaw Branch Office

2.2. Joint-stock banks with 100% foreign equity

4	167	ABN AMRO Bank (Polska) SA
5	171	GE Capital Bank SA
6	175	Raiffeisen-Centrobank SA (to be renamed Raiffeisen Bank Polska SA)
7	178	Bank Austria Creditanstalt Poland SA
8	179	Credit Lyonnais Bank Polska SA
9	182	Citibank (Poland) SA
10	185	GE Bank Mieszkaniowy SA (until July 1999: Polsko-Amerykanski Bank Hipoteczny SA)
11	186	BNP-Dresdner Bank (Polska) SA
12	187	Westdeutsche Landesbank (Polska) SA
13	188	Deutsche Bank Polska SA
14	200	Rabobank Polska SA
15	207	Ford Bank Polska SA
16	209	Bankgesellschaft Berlin (Polska) SA (until September 1999: Berliner Bank [Polska] SA)
17	212	Bank of America (Polska) SA

<sup>84</sup> Branches of foreign banks and joint-stock banks where foreign parties (natural or juridical persons) jointly hold equity, directly or indirectly, entitling them to exercise at least 50% + 1 votes at a shareholders general meeting.

<sup>85</sup> The Head Office of American Express placed its Polish branch in liquidation as of January 1, 2000.

18	213	Volkswagen Bank Polska SA
19	214	Fiat Bank Polska SA

2.3. Joint-stock banks with majority foreign equity (under 100%)

20	105	Bank Slaski SA
21	106	Bank Przemyslowo-Handlowy SA <sup>86</sup>
22	109	Wielkopolski Bank Kredytowy SA
23	112	Bank Zachodni SA
24	124	Bank Polska Kasa Opieki SA (until July 1999: Bank Polska Kasa Opieki SA - Grupa Pekao SA)
25	141	Bank Wlasnosci Pracowniczej - Unibank SA (until October 1999: Bank Wlasnosci Pracowniczej SA)
26	144	Bank Komunalny SA
27	150	Kredyt Bank SA (until July 1999: Kredyt Bank PBI SA)
28	152	Bank Przemyslowy SA
29	155	LG Petro Bank SA
30	158	BWR Bank Secesyjny SA <sup>87</sup> (as of January 2000: DaimlerChrysler Services (debis) Bank Polska SA)
31	160	Pierwszy Polsko-Amerykanski Bank SA
32	174	Bank Amerykanski w Polsce SA "AmerBank"
33	183	Polsko-Kanadyjski Bank Sw. Stanislawy SA
34	195	Opel Bank SA
35	196	AIG Bank Polska SA
36	215	Rheinhyp-BRE Bank Hipoteczny SA

2.4. Joint-stock companies indirectly controlled by foreign capital

37	128	Prosper-Bank SA <sup>88</sup>
38	139	Gliwicki Bank Handlowy SA <sup>89</sup>
39	189	Hypo-Bank Polska SA <sup>90</sup> (as of January 2000: HypoVereinsbank Bank Hipoteczny SA)

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<sup>86</sup> Bayerische Hypo- und Vereinsbank AG contributed 100% of the equity of Hypo-Bank Polska SA and HypoVereinsbank Polska SA to Bank Przemyslowo-Handlowy SA, and subsequently – on November 10, 1999 – carried out the merger of HypoVereinsbank Polska SA and Bank Przemyslowo-Handlowy SA.

<sup>87</sup> In March 1999, the bank's offices were incorporated into the organisational structure of Bank Wspolpracy Regionalnej SA, and on May 31 the latter sold its 94.76% interest in BWR Bank Secesyjny SA to a foreign investor (DaimlerChrysler Services [debis] AG), which undertook to recapitalise the bank through an additional share issue.

<sup>88</sup> Bank controlled by foreign investors via Kredyt Bank SA.

<sup>89</sup> Bank controlled by Irish investors via Wielkopolski Bank Kredytowy SA.

<sup>90</sup> As of October 1999, bank controlled by German investors via Bank Przemyslowo-Handlowy SA, which holds 100% of the bank's equity.

## Appendix 2

### Schedule of listed banks at December 31, 1999<sup>91</sup>

Bank code	Name of bank
1	103 Bank Handlowy w Warszawie SA
2	105 Bank Slaski SA
3	106 Bank Przemyslowo-Handlowy SA
4	109 Wielkopolski Bank Kredytowy SA
5	111 Powszechny Bank Kredytowy SA
6	114 BRE Bank SA
7	116 BIG Bank Gdanski SA
8	124 Bank Polska Kasa Opieki SA
9	144 Bank Komunalny SA
10	150 Kredyt Bank SA
11	154 Bank Ochrony Srodowiska SA
12	155 LG Petro Bank SA
13	160 Pierwszy Polsko-Amerykanski Bank SA
14	163 Bank Czestochowa SA
15	174 Bank Amerykanski w Polsce SA "AmerBank"
16	191 Bank Wspolpracy Regionalnej SA

## Appendix 3

### Schedule of banks with minority foreign equity at December 31, 1999<sup>92</sup>

Bank code	Name of bank
1	103 Bank Handlowy w Warszawie SA
2	111 Powszechny Bank Kredytowy SA
3	114 BRE Bank SA
4	116 BIG Bank Gdanski SA
5	137 Bank Inicjatyw Spoleczno-Ekonomicznych SA
6	163 Bank Czestochowa SA
7	191 Bank Wspolpracy Regionalnej SA
8	197 Wielkopolski Bank Rolniczy SA

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<sup>91</sup> Banks that have been admitted for public trading by Poland's Securities and Exchange Commission.

<sup>92</sup> The proportion of foreign equity at the first four banks is close to 50%. Let us note that, in their reports, banks disclose only those shareholders entitled to no less than 5% of votes at shareholders general meetings, with the remaining shareholders being grouped together under the heading "other shareholders". Listed banks traded on the Warsaw Stock Exchange do not generally possess information on shareholders entitled to less than 5% of votes at shareholders general meetings.

## Appendix 4

### SELECTED LEGISLATION RELATING TO THE BANKING SYSTEM<sup>93</sup> (as at December 31, 1999)

#### I. ACTS OF PARLIAMENT

1. The Commercial Code of June 27, 1934, issued as an Ordinance of the President of the Polish Republic (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; 121/1997, items 769 & 770; and 101/1999, item 1178).

*NB: Amendments to the Commercial Code associated with the taking effect of the Act on Economic Activity of November 19, 1999 (as published in Dziennik Ustaw no. 101/1999, item 1178), are to gain force of law on January 1, 2001. The Act on Economic Activity also amends the Ordinance of the President of the Polish Republic of June 27, 1934, setting out Introductory Regulations to the Commercial Code (as published and amended in Dziennik Ustaw nos. 57/1936, item 503; 40/1945, item 224; 31/1946, item 197; 60/1946, item 329; 5/1947, item 20; 58/1961, item 319; 16/1964, item 94; and 121/1997, item 769).*

2. The Cooperatives 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; 121/1997, item 770; 40/1999, item 399; revised pursuant to 60/1999, item 636; 77/1999, item 874; and 99/1999, item 1151).
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 & 777; 137/1997, item 926; 139/1997, items 933 & 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; 144/1998, item 931; 162/1998, items 1112 & 1121; 49/1999, item 484; 62/1999, item 689; and 95/1999, item 1101).
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; revised pursuant to 52/1996, item 235; 106/1996, item 496; 118/1996, item 561; 98/1997, item 603; and 141/1997, item 943).
5. The Act on the Restructuring of Cooperative 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; 118/1997,

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<sup>93</sup> Prepared by the Legal Interpretations Section, GINB.

item 754; 139/1997, item 933; 140/1997, item 939; 141/1997, item 945; 60/1998, item 382; 106/1998, item 668; 107/1998, item 669; 155/1998, item 1014; 9/1999, item 75; and 83/1999, item 931).

7. 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).
8. 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; 162/1998, item 1121; and 40/1999, item 399).
9. 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; 141/197, item 943; 162/1998, item 1121; and 108/1999, item 1226).
10. 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).
11. The Act on Cooperative Savings and Loan Associations of December 14, 1995 (as published and amended in *Dziennik Ustaw* nos. 1/1996, item 2; and 101/1999, item 1178).  
  
*NB: The amendments to the Act on Cooperative Savings and Loan Associations set out in Dziennik Ustaw no. 101/1999, item 1178, are to take effect three months from the promulgation, on December 17, 1999, of the Act on Economic Activity.*
12. 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).
13. The Act on Non-Possessory Liens and Lien Registers of December 6, 1996 (as published and amended in *Dziennik Ustaw* nos. 149/1996, item 703; 121/1997, item 769; and 106/1998, item 668).
14. 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).
15. 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).
16. The Criminal Code of June 6, 1997 (as published and amended in *Dziennik Ustaw* nos. 88/1997, item 553, with corrigendum in no. 128/1997, item 840; 64/1999, item 729; and 83/1999, item 931).
17. The Taxation Act of August 29, 1997 (as published and amended in *Dziennik Ustaw* nos. 137/1997, item 926; 160/1997, item 1083; 106/1998, and item 668; and in *Monitor Polski* nos. 28/1997, item 394, with respect to the amounts referred to in Art. 41 §1, subpara. 2, and Art. 112 §2; and 28/1999, item 434, with respect to the amounts referred to in Art. 41 §1, subpara. 2, and Art. 112 §2).

18. 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)
19. The Act on Public Trading in Securities 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 Banking Act of August 29, 1997 (as published and amended in *Dziennik Ustaw* nos. 140/1997, item 939; 160/1998, item 1063; 162/1998, item 1118; 11/1999, item 95; and 40/1999, item 399).
21. The Act on Mortgage Bonds and Mortgage Banks of August 29, 1997 (as published and amended in *Dziennik Ustaw* nos. 140/1997, item 940; and 107/1998, item 669).
22. The Foreign Exchange Act of December 18, 1998 (as published and amended in *Dziennik Ustaw* nos. 160/1998, item 1063; and 83/1999, item 931).

## II. IMPLEMENTING LEGISLATION

1. 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 and amended in *Dziennik Ustaw* nos. 57/1996, item 259; and 144/1997, item 963).
2. Ordinance of the Council of Ministers on the general terms of home loans extended under time savings plans, June 11, 1996 (as published in *Dziennik Ustaw* no. 68/1996, item 330).
3. Ordinance of the Council of Ministers on detailed conditions and procedures for the extension of guarantees and endorsements by the Treasury and fees payable on such guarantees and endorsements, August 5, 1997 (as published and amended in *Dziennik Ustaw* nos. 99/1997, item 606; and 92/1999, item 1046).
4. Ordinance of the Council of Ministers on conditions and procedures for the sale of Treasury debt arising on guarantees and endorsements extended, the exchange of such debt for equity, the repayment of such debt in instalments, and the cancellation of such debt, in whole or in part, September 2, 1997 (as published in *Dziennik Ustaw* no. 106/1997, item 683).
5. Ordinance of the Council of Ministers on detailed conditions to be fulfilled in giving notice of intent to merge businesses and specifying the directing bodies of the organisations concerned required to give such notice, December 7, 1999 (as published in *Dziennik Ustaw* no. 99/1999, item 1161).
6. Ordinance of the Council of Ministers on detailed principles, procedures and conditions for securities lending involving brokerage houses, banks conducting brokerage activity and banks operating securities accounts, December 21, 1999 (as published in *Dziennik Ustaw* no. 110/1999, item 1269).
7. Ordinance of the Council of Ministers specifying the scope, procedures, format and time frames for submitting information on the operations and financial situation of brokerage houses, banks conducting brokerage activity and banks operating securities accounts,

- December 22, 1998 (as published and amended in *Dziennik Ustaw* nos. 163/1998, item 1158; and 99/1999, item 1270).
8. Ordinance of the Council of Ministers specifying the minimum dedicated equity assigned to the conduct by a bank of brokerage activity and operation of a securities account, December 22, 1998 (as published and amended in *Dziennik Ustaw* nos. 163/1998, item 1157; and 99/1999, item 1273).
  9. Ordinance of the Minister of Justice on the principles and procedures applicable to the annulment of documents attesting to conclusion of a savings deposit agreement, September 7, 1998 (as published in *Dziennik Ustaw* no. 121/1998, item 795).
  10. Resolution no. 10/98 of the NBP Management Board on the principles and procedures for calculating and maintaining regulatory required reserves, June 5, 1998 (as published and amended in *Dziennik Urzędowy NBP* nos. 10/1998, item 23; and 20/1999, item 33).
  11. Resolution no. 13/1999 of the NBP Management Board on the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the compilation of the balance of payments and the balances of central government foreign assets and liabilities, March 29, 1999 (as published in *Dziennik Urzędowy NBP* no. 8/1999, item 12).
  12. Resolution no. 15/1999 of the NBP Management Board on the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the determination of monetary policy, for periodic assessments of Poland's monetary situation, and for an evaluation of the financial condition of the banks and the risks within the banking sector, April 23, 1999 (as published in *Dziennik Urzędowy NBP* no. 10/1999, item 15).
  13. Regulation of the President of the NBP on the form and procedures for conducting monetary settlements through the offices of banks, May 29, 1998 (as published in *Monitor Polski* no. 21/1998, item 320).
  14. Regulation no. 8/98 of the President of the NBP on methods and procedures for counting, sorting, packing and designating packages of notes and coin, and the performance of operations involving the supply of notes and coin to the banks, June 15, 1998 (as published and amended in *Dziennik Urzędowy NBP* nos. 12/1998, item 24; and 11/1999, item 18).
  15. Resolution no. 1/98 of the Commission for Banking Supervision 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).
  16. Resolution no. 2/98 of the Commission for Banking Supervision 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).
  17. Regulation no. 1/98 of the Commission for Banking Supervision on the detailed principles applicable to the separate financial treatment of housing associations at banks, and on settlements between a bank ceasing to operate a housing association and the bank acquiring this business, June 3, 1998 (as published in *Dziennik Urzędowy NBP* no. 14/1998, item 29).
  18. Regulation no. 2/98 of the Commission for Banking Supervision on reporting requirements concerning balances on savings-and-loan accounts, housing loans extended under time savings plans 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).

19. Resolution no. 4/98 of the Commission for Banking Supervision on bank procedures in cases of money laundering, and on the trigger amount and conditions for maintaining a record of cash deposits in excess of a specified amount, and of the particulars of the parties performing such deposits and the parties to whose account the deposits are made, June 30, 1998 (as published in *Dziennik Urzędowy NBP* no. 18/1998, item 40).
20. Regulation no. 4/98 of the Commission for Banking Supervision on detailed conditions for the extension of bank guarantees and endorsements, June 30, 1998 (as published in *Dziennik Urzędowy NBP* no. 18/1998, item 39).
21. Resolution no. 7/98 of the Commission for Banking Supervision on the method of utilising the reserve which a mortgage bank may establish to secure mortgage bonds, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 42).
22. Resolution no. 8/98 of the Commission for Banking Supervision on detailed procedures for determining the capital base of banks belonging to banking groups or of banking groups themselves for the purposes of applying the norms and limits stipulated in the Banking Act, on other items of bank balance sheets to be included in supplementary capital, and the conditions and procedure for such inclusion, and on items of bank balance sheets that are to constitute deductions in calculating a bank's capital base, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 43).
23. Resolution no. 9/98 of the Commission for Banking Supervision on detailed procedures for cooperative banks assembling their initial capital, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 44).
24. Resolution no. 10/98 of the Commission for Banking Supervision on detailed procedures for the provision of initial capital to joint-stock banks and state banks, August 5, 1998 (as published in *Dziennik Urzędowy NBP* no. 19/1998, item 45).
25. Resolution no. 11/98 of the Commission for Banking Supervision 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).
26. Resolution no. 12/98 of the Commission for Banking Supervision on the procedure and conditions for including a specified portion of cooperative members' additional liability in the supplementary capital of cooperative banks, December 2, 1998 (as published in *Dziennik Urzędowy NBP* no. 26/1998, item 60).
27. Regulation no. 5/98 of the Commission for Banking Supervision on the method of calculating a bank's risk-based capital ratio and the percentage risk weights to be assigned to particular categories of asset and off balance sheet exposure, December 2, 1998 (as published in *Dziennik Urzędowy NBP* no. 26/1998, item 61).
28. Resolution no. 13/98 of the Commission for Banking Supervision on procedures for provisioning against the risk of banking operations, December 22, 1998 (as published and amended in *Dziennik Urzędowy NBP* nos. 29/1998, item 65; 7/1999, item 11; and 23/1999, item 39).
29. Resolution no. 1/1999 of the Commission for Banking Supervision on procedures for the performance of banking supervision, January 6, 1999 (as published and amended in *Dziennik Urzędowy NBP* nos. 2/99, item 3; 14/1999, item 22; and 25/1999, item 42).

30. Resolution no. 1/1999 of the Monetary Policy Council on the rediscount and refinance rates, January 20, 1999 (as published in *Dziennik Urzędowy NBP* no. 3/99, item 4).
31. Resolution no. 2/1999 of the Commission for Banking Supervision specifying a model collateral register for mortgage bonds, February 3, 1999 (as published in *Dziennik Urzędowy NBP* no. 6/99, item 10).
32. Resolution no. 36/28/PKK/1999 of the NBP Management Board on the issue by the National Bank of Poland of bonds to be assigned to the banks in connection with the lowering of the regulatory reserve ratio, June 25, 1999 (as published in *Dziennik Urzędowy NBP* no. 15/99, item 23).
33. Resolution no. 12/1999 of the Monetary Policy Council on the regulatory reserve ratio for banks, July 21, 1999 (as published in *Dziennik Urzędowy NBP* no. 15/99, item 24).
34. Resolution no. 31/99 of the Supervisory Board of the Bank Guarantee Fund establishing the percentage rate applicable in 2000 to the guaranteed deposit protection fund established by institutions included in the compulsory deposit protection scheme, November 15, 1999 (as published in *Biuletyn Bankowego Funduszu Gwarancyjnego* no. 4/1999).
35. Resolution no. 32/99 of the Supervisory Board of the Bank Guarantee Fund establishing the percentage rate applicable in 2000 to the compulsory annual contribution to the Bank Guarantee Fund made by institutions included in the compulsory deposit protection scheme, and specifying the time frame for making the said contribution, November 15, 1999 (as published in *Biuletyn Bankowego Funduszu Gwarancyjnego* no. 4/1999).
36. Resolution no. 17/1999 of the Monetary Policy Council on the rediscount and refinance rates, November 17, 1999 (as published in *Dziennik Urzędowy NBP* no. 21/99, item 35).
37. Resolution no. 18/1999 of the Monetary Policy Council on principles applicable to the conduct of open market operations, November 17, 1999 (as published in *Dziennik Urzędowy NBP* no. 21/99, item 36).
38. Resolution no. 8/1999 of the Commission for Banking Supervision on procedures for provisioning against the risk of banking operations, December 22, 1999 (as published in *Dziennik Urzędowy NBP* no. 26/99, item 43).

*NB: This resolution takes effect as of March 30, 2000. Once it does so, the previous resolution on this question will become void, i.e., Resolution no. 13/98 of the Commission for Banking Supervision on procedures for provisioning against the risk of banking operations, December 22, 1998 (as published and amended in *Dziennik Urzędowy NBP* nos. 29/1998, item 65; 7/1999, item 11; and 23/1999, item 39).*

### 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; 28/1997, item 153; 54/1997, item 349; 117/1999, item 751; 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; 141/1995, item 692; 114/1996, item 542; 139/1996, item 646; 149/1996, item 703; 43/1997, item 272; 115/1997, item 741; 117/1997, item 751; 157/1997, item 1040; 106/1998, item 668; 117/1998, item 758; and 52/1999, item 532).
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; 157/1997, item 1026; 40/1999, item 401; 41/1999, item 412; and 108/1999, item 1227).
6. The Act on Combatting Monopoly Practices and Consumer Protection of February 24, 1990 (text as amended published in *Dziennik Ustaw* no. 52/1999, item 547).
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; 121/1997, item 770; 139/1997, item 934; 155/1998, item 1015; 49/1999, item 483; and 101/1999, item 1178).  
*NB: Amendments to the Act on Insurance Activity enacted by the Act on Economic Activity are to gain force of law on January 1, 2001.*
8. The Act on Companies Involving Foreign Equity of June 14, 1991 (text as amended published in *Dziennik Ustaw* nos. 26/1997, item 143; 160/1998, item 1063; and 49/1999, item 484).  
*NB: The Act on Companies Involving Foreign Equity is to become void on January 1, 2001, i.e., as the new Act on Economic Activity takes effect.*
9. The Act on Combatting Unfair Competition of April 16, 1993 (as published and amended in *Dziennik Ustaw* nos. 47/1993, item 211; 106/1996, item 496; 88/1997, item 554; and 106/1998, item 668).
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).
11. The Act on Economic Activity of November 19, 1999 (as published in *Dziennik Ustaw* no. 101/1999, item 1178).

*NB: The Act on Economic Activity is to take effect on January 1, 2001, with the exception of the provisions of Art. 4, subparas. 3 and 4, Titles 5 and 6, and Articles 89, 90 and 98, paras. 1 and 2, which take effect 14 days from promulgation of the Act, and also of Art. 13 with*

*respect to the possibility of fulfilling certain requirements via accounts at cooperative savings and loan associations, Art. 79, and Art. 88, paras. 2 and 3, which take effect 3 months from promulgation of the Act (which took place on December 17, 1999).*

### III. PRUDENTIAL RECOMMENDATIONS

1. Prudential recommendations for banks concerning liquidity monitoring systems (covering letter of 5/I/1996, ref. NB/ZPN/643/96).
2. Supervisory prudential recommendations of March 3, 1997 (covering letter of 3/III/1997, ref. NB/ZPN/218/97):
  - a) Recommendation A on the management of derivatives risk;
  - b) Recommendation B on the control of capital investment risk;
  - c) Recommendation C on the management of risk related to large exposures.
3. Prudential recommendation D on the management of IT and telecommunications risk, October 20, 1997 (covering letter of 20/X/1997, ref. NB/ZPN/790/97).
4. Prudential recommendation E on the preparation of IT systems for operation in the Year 2000, December 19, 1997 (covering letter of 19/XII/1997, ref. NB/ZPN/1032/97).
5. Prudential recommendation F on the basic criteria applied by the Commission for Banking Supervision in assessing the real estate appraisal policies issued by mortgage banks, November 12, 1998 (covering letter of 13/XI/1998, ref. NB/BASB/IV/139/98).
6. Prudential recommendation G on the management of interest rate risk at banks, June 23, 1999 (covering letter of 29/VI/1999, ref. NB/BI/I/68/99).
7. Prudential recommendation H on bank internal controls and audit, December 1, 1999 (covering letter of 8/XII/1999, ref. NB/BPN/II/1341/99).
8. Prudential recommendation I on the management of foreign exchange risk at banks and principles for the performance by banks of transactions involving exposure to foreign exchange risk, December 1, 1999 (covering letter of 8/XII/1999, ref. NB/BPN/II/1347/99).