

Consolidated Financial Statements  
of Bank Pekao SA - Grupa Pekao SA  
as of 31 December 1998, Prepared in accordance  
with Polish Accounting Standards

## REGISTERED AUDITOR'S OPINION to the Shareholders of Bank Polska Kasa Opieki S.A. - Grupa Pekao S.A.

We have audited the consolidated financial statements of Bank Polska Kasa Opieki S.A. Group (hereinafter called "the Group"), that are attached to this opinion and comprise:

- (i) introduction to the annual report SAB-RB for the year ended 31 December 1998,
- (ii) the consolidated balance sheet as at 31 December 1998, showing total assets and total liabilities and equity of PLN 54,602,419 thousand;
- (iii) the consolidated income statement for the year ended 31 December 1998, showing a net profit of PLN 520,298 thousand;
- (iv) the cash flow statement for the year ended 31 December 1998, showing an increase in cash and cash equivalents of PLN 2,634,190 thousand;
- (v) the detailed schedule of changes in shareholders equity for the year ended 31 December 1998 showing an increase in shareholders equity of 790,870 thousand;
- (vi) schedule of off-balance sheet items totalling PLN 19,900,077 thousand;
- (vii) notes to the financial statements;

and the consolidation records which constitute the basis for their preparation.

The preparation of the consolidated financial statements and the Directors' Report is the responsibility of the holding company's Management Board. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with:

- (a) the provisions of the Accounting Act of 29 September 1994 (Law Journal No. 121/591, with amendments) concerning the audit of annual consolidated financial statements;
- (b) auditing standards issued by the National Board of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements are free of material misstatements or omissions. The audit included examining, on a test basis, accounting documents and entries, amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies employed by the Bank and consideration of significant estimates made during the preparation of the consolidated financial statements. Our audit also included an evaluation of the overall presentation of the consolidated financial statements. We believe that our audit provided a reasonable basis for our audit opinion.

Moreover, we concluded that the information presented in the Directors' Report for the year ended 31 December 1998 is consistent with the information presented in the audited consolidated financial statements.

In our opinion the attached consolidated financial statements have been prepared, in all material respects, on the basis of properly maintained consolidation records and in accordance with the provisions of the Accounting Act, Resolution No. 1/98 of the Banking Supervision Commission regarding specific accounting policies for banks, the Decree of the Council of Ministers of 22 December 1998 concerning the type, format, and frequency of publication of current and periodic information by entities issuing securities admitted to public trading ( Law Journal No. 163 from 30 December 1998) and interpretations of this Decree issued by the Securities Commission (KPWiG).

The consolidation records and consolidated financial statements have been prepared on the basis of the financial statements of the consolidated Group companies, with the application of generally uniform accounting policies and valuation methods.

The consolidation records and consolidated financial statements have been prepared on the basis of the financial statements of 10 Group companies.

The other subsidiary and associated companies forming part of the Group have not been consolidated due to the immateriality of their scale of operations in relation to those of Bank Polska Kasa Opieki S.A. - Grupa Pekao S.A. or due to the fact that they were not acquired with a view to exercising permanent control or significant influence over the financial and operating policies of those companies.

The individual financial statements of consolidated companies as at and for the year ended 31 December 1998 except for Centrozap S.A.(associated company) were audited by us or other member firms of PricewaterhouseCoopers.

The entity financial statements of Centrozap S.A. were audited by another auditor who issued an unqualified audit opinion.

## REGISTERED AUDITOR'S OPINION to the Shareholders of Bank Polska Kasa Opieki S.A. - Grupa Pekao S.A. (cont'd)

The form and contents of the consolidated financial statements comply with relevant laws. They give a clear view of all information relevant to an assessment of the Group's profitability.

Based on our audit of the consolidated financial statements and the consolidation records of the Group, we believe that the attached consolidated financial statements give, in all material respects, a true, fair and clear view, of the Group's financial position as at 31 December 1998 and the results of its operations for the year ended on that date.

Without qualifying our audit opinion on the consolidated financial statements of the Group we draw attention to the following:

- a) the debt securities portfolio of the Group contains Polish State restructuring bonds issued by the Minister of Finance with a carrying value as at 31 December 1998 of PLN 1,113,991 thousand and US dollar - denominated Polish Treasury bonds with a carrying value as at 31 December 1998 of PLN 4,600,153 thousand which at the date of this opinion were not publicly traded.

It is the opinion of the Management Board of Bank Pekao S.A. that these securities, being part of the long-term debt securities portfolio of the Group ensure a low risk income stream and are worth at least the amount disclosed in the financial statements of the Group.

- b) On 6 August 1997 the Chairman of the National Bank of Poland (NBP) issued Decree No 4/97 which requires banks to adopt the accruals basis for the recognition in income of interest earned on loans classified as normal which were granted for the purpose of financing Government Central Investment Projects. The accruals basis replaced the previously applied cash basis. The Group implemented the Decree with effect from 1 January 1997.

In addition the same Decree of the Chairman of the NBP permitted the recognition in income of interest from loans to Central Investment Projects that had previously been shown within deferred income. The amount of such deferred interest that can be recognised as income is related to the amount of interest costs charged to the profit and loss arising from refinancing loans received by the Banks from the NBP. These loans from the NBP refinance the loans granted for the Central Investment Projects.

Accordingly, the Group Banks, which are bound by the terms of the above Decree continue to show capitalised interest income and costs from prior years on the balance sheet. The surplus of deferred interest income over deferred interest expense shown in the balance sheet at 31 December 1998 was PLN 518,651.3 thousand. After taking into the account the effect of taxation this represents an understatement of Group net assets at 31 December 1998 of PLN 342,309.8 thousand.

On behalf of PricewaterhouseCoopers Sp. z o.o.:

Antoni F Reczek

PricewaterhouseCoopers Sp. z o.o.

Chairman of the Board

Registered Auditor  
No. C-11/503

Registered Audit Company  
No. 144

Warsaw, 24 May 1999

## CONSOLIDATED BALANCE SHEET

### ASSETS

		As at 31.12.1997 PLN '000	As at 31.12.1998 PLN '000
	<b>Note</b>		
Cash and balances with the Central Bank	1	2,940,882	5,479,284
Debt securities eligible for rediscount at the Central Bank		10,962	10,502
Amounts due from other financial institutions	2	5,000,316	4,307,932
Amounts due from clients and public sector entities	3	19,051,179	21,532,669
Amounts due from non-consolidated subsidiaries and associated companies	2, 3	510,718	525,904
Amounts due from associated companies consolidated by equity accounting method	2, 3	499,120	823,356
Amounts due from reverse repo transactions	4	1,339,417	44,830
Debt securities	5, 11	15,420,809	16,233,686
Shares in non-consolidated subsidiaries and associated companies	6, 8, 11	240,435	203,021
Shares in subsidiaries and associated companies consolidated using the equity accounting method	7, 8, 11	124,090	177,851
Shares in other entities	9, 11	207,729	351,693
Other securities	10, 11	122,697	14,302
Intangible assets	12	116,697	127,303
Tangible fixed assets	13	1,329,004	1,582,590
Other assets	14	321,779	784,239
Prepayments and accrued income	15	2,563,969	2,403,257
<b>TOTAL ASSETS</b>		<b>49,799,803</b>	<b>54,602,419</b>

## LIABILITIES AND EQUITY

		As at 31.12.1997 PLN '000	As at 31.12.1998 PLN '000
	<b>Note</b>		
Amounts due to the Central Bank		5,859,693	4,926,744
Amounts due to other financial institutions	16	2,533,326	1,678,559
Amounts due to clients and public sector entities	17	32,940,725	38,921,947
Amounts due to non-consolidated subsidiaries and associated companies	16, 17	79,816	30,098
Amounts due to subsidiaries and associated companies consolidated using the equity accounting method	16, 17	12,617	82,009
Liabilities arising from securities sold with a repurchase clause (repo transactions)	18	19,999	-
Liabilities arising from the issue of own securities	19	37,101	17,073
Special funds and other liabilities	20	1,099,591	1,153,970
Accruals and deferred income	21	3,890,376	3,870,153
Provisions	22	168,206	208,095
Subordinated liabilities		-	-
Minority interests		-	-
Negative goodwill	23	881,519	646,067
Share capital	24	137,650	145,340
Supplementary capital	25	45,000	415,275
Revaluation reserve		92,045	92,180
Other reserve capital	26	1,177,673	1,895,626
Foreign exchange differences on foreign branches		(483)	(1,015)
Net profit (loss)		824,949	520,298
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>49,799,803</b>	<b>54,602,419</b>
<b>Book value (net assets)</b>		<b>3,158,353</b>	<b>3,713,771</b>
<b>Number of shares</b>		<b>137,650,000</b>	<b>145,340,000</b>
<b>Book value per share (in PLN)</b>	<b>27</b>	<b>22.94</b>	<b>25.55</b>

## OFF-BALANCE SHEET ITEMS

		As at 31.12.1997 PLN '000	As at 31.12.1998 PLN '000
	<b>Note</b>		
<b>Contingent liabilities</b>	<b>28</b>	<b>10,281,482</b>	<b>11,700,517</b>
1. Liabilities granted		3,841,067	5,185,674
a) financing		3,117,893	4,476,002
b) guarantees		723,174	709,672
2. Liabilities received		6,440,415	6,514,843
a) financing		105,029	5,373
b) guarantees		6,335,386	6,509,470
Liabilities arising from purchase/sale operations		2,033,708	2,282,305
Other, including:		4,279,917	5,917,255
- securities transactions		19,775	72,682
- transactions with financial instruments		279,435	170,512
- deposit transactions		1,383,088	1,733,450
- other		2,597,619	3,940,611
<b>TOTAL OFF-BALANCE SHEET ITEMS</b>		<b>16,595,107</b>	<b>19,900,077</b>

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

		for the period 01.01.1997 - 31.12.1997 PLN '000	for the period 01.01.1998 - 31.12.1998 PLN '000
	<b>Note</b>		
Interest income	29	5,395,511	5,909,093
Interest cost	30	(3,553,595)	(3,975,596)
<b>Net interest income</b>		<b>1,841,916</b>	<b>1,933,497</b>
Commission income	31	642,708	763,644
Commission expense		(68,912)	(96,313)
<b>Net commission income</b>		<b>573,796</b>	<b>667,331</b>
Income from shares and other securities	32	71,818	32,969
Result on financial operations	33	38,532	43,158
Foreign exchange result		185,370	268,468
<b>Profit on banking activities</b>		<b>2,711,432</b>	<b>2,945,423</b>
Other operating income	34	108,075	100,963
Other operating expense	35	(94,284)	(81,763)
Overhead costs	36	(1,286,011)	(1,761,926)
Depreciation and amortisation		(150,670)	(187,457)
Provisions created	37	(630,073)	(805,246)
Release of provisions	38	340,714	519,098
Net provisions		(289,359)	(286,148)
<b>Operating profit</b>		<b>999,183</b>	<b>729,092</b>
Net extraordinary gains (losses)		299	678
1. Extraordinary gains		1,211	1,683
2. Extraordinary losses		(912)	(1,005)
<b>Amortisation of negative goodwill</b>		<b>235,452</b>	<b>235,452</b>
<b>Gross profit</b>		<b>1,234,934</b>	<b>965,222</b>
Taxation	39	(416,408)	(442,051)
Share of net profit (loss) of associated companies consolidated under the equity accounting method		6,423	(2,873)
Minority interests		-	-
<b>Net profit</b>		<b>824,949</b>	<b>520,298</b>
<b>Weighted average number of shares</b>		<b>137,650,000</b>	<b>141,495,000</b>
<b>Net profit per share (in PLN)</b>	<b>40</b>	<b>5.99</b>	<b>3.68</b>

## STATEMENT OF CHANGES IN CONSOLIDATED NET ASSETS

	for the period 31.12.1997 PLN '000	for the period 31.12.1998 PLN '000
<b>Net assets at the beginning of the period</b>	<b>1,459,257</b>	<b>2,276,834</b>
Share capital at the beginning of the period	137,650	137,650
Increase on issue of shares	-	7,690
<b>Share capital at the end of the period</b>	<b>137,650</b>	<b>145,340</b>
Supplementary capital at the beginning of the period	20,000	45,000
Increase:	25,000	370,275
share premiums	-	338,360
appropriation of profits	25,000	31,915
Decrease	-	-
<b>Supplementary capital at the end of the period</b>	<b>45,000</b>	<b>415,275</b>
Revaluation reserve at the beginning of the period	93,796	92,045
Increase on sale and liquidation of fixed assets	-	135
Decrease on sale and liquidation of fixed assets	1,751	-
<b>Revaluation reserve at the end of the period</b>	<b>92,045</b>	<b>92,180</b>
General Banking Risk Fund at the beginning of the period	54,168	158,013
Increase:		
appropriation of profit	37,612	210,660
amounts expensed to the profit and loss account	66,233	-
Decrease:		
transfer to supplementary capital	-	129,663
transfer to liabilities to State Treasury	-	28,350
other	-	340
<b>General Banking Risk Fund at the end of the period</b>	<b>158,013</b>	<b>210,320</b>
<b>Other reserve capital at the beginning of the period</b>	<b>785,160</b>	<b>1,019,660</b>
Increase:		
appropriation of profit	210,070	491,759
transfer from General Banking Risk Fund	-	129,663
release of provisions previously created from restructuring fund	14,119	22,257
net assets of entities consolidated using the equity accounting method	10,167	22,707
other	144	-
Decrease:		
settlement of investments from previous years	-	454
sale and liquidation of fixed assets	-	135
other	-	151
<b>Other reserve capital at the end of the period</b>	<b>1,019,660</b>	<b>1,685,306</b>
Foreign exchange differences from retranslation of foreign branches	(483)	(1,015)
Unappropriated profits at the beginning of the period	368,483	824,949
Increase:	-	-
unappropriated profit of previous year	-	-
Decrease:	(368,483)	(824,949)
appropriation to supplementary capital	(25,000)	(31,915)
appropriation to general risk fund	(37,612)	(210,660)
appropriation to reserve capital	(210,070)	(491,759)
dividends	(24,500)	-
payment of employee bonuses	(69,844)	(90,615)
other deductions	(1,457)	-

<b>Retained earnings from previous years at the end of the period</b>	-	-
<b>Net profit</b>	<b>824,949</b>	<b>520,298</b>
<b>Net assets at the end of the period</b>	<b>2,276,834</b>	<b>3,067,704</b>

In accordance with a resolution of an Extraordinary General Meeting of Shareholders on 19 June 1998 the parent company issued 7,690,000 series B ordinary bearer shares with a nominal value of 1 PLN each for an issue price of 45 PLN each. In accordance with the EGM resolution the share issue was taken up by the European Bank for Reconstruction and Development. The share issue was registered by the Warsaw Regional Court on 6 October 1998.

As a result of this share issue the share capital of the parent company increased by 7,690 ths. PLN and the supplementary capital of the parent company increased by 338,360 ths. PLN.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	for the period 01.01.1997 - 31.12.1997 PLN '000	for the period 01.01.1998 - 31.12.1998 PLN '000
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES (I+/-II) - indirect method</b>	<b>975,113</b>	<b>3,281,074</b>
<b>I. Net profit</b>	<b>824,949</b>	<b>520,298</b>
<b>II. Total adjustments:</b>	<b>150,164</b>	<b>2,760,776</b>
1. Minority interests	-	-
2. Share of (profit) loss of associated companies consolidated by equity accounting method	(6,423)	2,873
3. Amortisation (including amortisation of goodwill and negative goodwill)	(70,771)	(38,164)
4. Foreign exchange differences	(185,370)	(268,468)
5. Interests and dividends	(71,818)	(2,114)
6. (Profit) loss on investing activities	(776)	(1,165)
7. Change in other provisions	81,391	(11,371)
8. Taxation charge	416,408	442,051
9. Corporate income tax paid	(313,002)	(462,265)
10. Change in debt securities	(45,228)	(60,722)
11. Change in amounts due from other financial institutions	(1,567,561)	533,431
12. Change in amounts due from clients and public sector entities	(4,921,590)	(2,566,171)
13. Change in receivables from reverse repo transactions	(1,316,456)	1,294,587
14. Change in amounts due to financial institutions	1,493,159	(1,747,025)
15. Change in amounts due to clients and public sector entities	6,343,130	5,960,205
16. Change in liabilities arising from repo transactions	(307,541)	(19,999)
17. Change in liabilities arising from own securities issued	17,248	(20,028)
18. Change in other liabilities	195,548	(459,393)
19. Change in prepayments and accruals	(87,094)	160,712
20. Change in deferred income	83,409	(20,223)
21. Other adjustments	413,501	44,025
<b>B. NET CASH FLOWS FROM INVESTING ACTIVITIES (I-II)</b>	<b>(1,001,743)</b>	<b>(903,110)</b>
<b>I. Proceeds from investing activities</b>	<b>1,829,268</b>	<b>9,792,849</b>
1. Sale of intangible assets	12,853	13,772
2. Sale of tangible fixed assets	365,674	550,685
3. Sale of shares in subsidiaries	22,880	51,800
4. Sale of shares in associated companies	32,894	79,194
5. Sale of shares in parent entity	-	-
6. Sale of other shares and securities (including trading shares and securities)	1,323,149	9,095,284
7. Other proceeds	71,818	2,114
<b>II. Expenditure in respect of investing activities</b>	<b>(2,831,011)</b>	<b>(10,695,959)</b>
1. Purchase of intangible assets	(42,360)	(53,348)
2. Purchase of tangible fixed assets	(660,612)	(930,215)
3. Purchase of shares in subsidiaries	(116,745)	(45,653)
4. Purchase of shares in associated companies	(5,143)	(8,639)
5. Purchase of shares in parent entity	-	-
6. Purchase of other shares and securities (including trading shares and securities)	(2,006,151)	(9,658,104)
7. Purchase of own shares for sale	-	-
8. Other expenditures	-	-

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

	for the period 01.01.1997 - 31.12.1997	for the period 01.01.1998 - 31.12.1998
	PLN '000	PLN '000
<b>C. NET CASH FLOWS FROM FINANCING ACTIVITIES (I-II)</b>	<b>(94,344)</b>	<b>256,226</b>
<b>I. Proceeds from financing activities</b>	<b>-</b>	<b>346,050</b>
1. Long-term bank loans received	-	-
2. Long-term loans received from other financial institutions	-	-
3. Issue of bonds and other debt securities to other financial institutions -	-	-
4. Increase in subordinated liabilities	-	-
5. Proceeds from share issues	-	346,050
6. Contributions to capital received	-	-
7. Other proceeds	-	-
<b>II. Expenses in respect of financing activities</b>	<b>(94,344)</b>	<b>(89,824)</b>
1. Repayment of long-term bank loans	-	-
2. Repayment of long-term loans from other financial institutions -	-	-
3. Redemption of bonds and other securities from other financial institutions	-	-
4. Decrease in subordinated liabilities	-	-
5. Share issue expenses	-	-
6. Redemption of shares	-	-
7. Dividends and other amounts paid to shareholders	-	-
8. Amounts paid as an appropriation of net profit to the Management and Supervisory Boards	-	-
9. Donations	-	-
10. Dividends paid to minority shareholders	(24,500)	-
11. Repayment of principal amounts under finance lease agreements -	-	-
12. Other expenses	(69,844)	(89,824)
<b>D. TOTAL NET CASH FLOWS (A+/-B+/-C)</b>	<b>(120,974)</b>	<b>2,634,190</b>
<b>E. CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>-</b>
- including foreign exchange differences	-	-
<b>F. CASH AND CASH EQUIVALENTS AS AT THE BEGINNING OF THE REPORTING PERIOD</b>	<b>3,213,693</b>	<b>3,092,719</b>
<b>G. CASH AND CASH EQUIVALENTS AS AT THE END OF THE REPORTING PERIOD (F+/-D)</b>	<b>3,092,719</b>	<b>5,726,909</b>

## INTRODUCTION

Bank Polska Kasa Opieki Spółka Akcyjna - Grupa Pekao S.A. ("the Bank") is one of the oldest Polish Banks. It was entered into the Commercial Register maintained by the Warsaw Regional Court on 29 October 1929 and has operated without interruption until the present day. It is now registered in the Commercial Register (reference RHB 13482) maintained by the Warsaw District Court (XVI Registration Section).

### 1. The activities of the Bank - as parent company

The Bank operates on the basis of the Commercial Code, the Banking Law, other relevant Polish legislation and its articles of association. It is a universal commercial bank offering a wide range of banking services to both corporate customers and private individuals. Its operations are performed in both Polish Zloty and foreign currencies. The Bank is also an active participant in both domestic and foreign financial markets.

The Bank's performs the following activities both domestically and internationally:

- 1) acceptance of demand and term deposits,
- 2) maintenance of other bank accounts,
- 3) granting bank loans,
- 4) financial settlements in all forms recognised in both domestic and foreign banking environments,
- 5) performing cheque and bill of exchange operations,
- 6) accepting and placing deposits in Polish and foreign banks,
- 7) granting bank guarantees,
- 8) engaging in foreign currency operations,
- 9) servicing of issues of government securities and provision of fund management services,
- 10) the issue of own securities, trading in such securities and maintaining securities deposit accounts,
- 11) performing services on behalf of third parties in relation to securities issues,
- 12) safekeeping of valuable items, documents and securities and provision of safe deposit boxes
- 13) organisation and participation in bank consortia,
- 14) trading in receivables,
- 15) engaging in futures, forwards and similar transactions,
- 16) provision of custodial services,
- 17) issuing bank debit cards and servicing related operations,
- 18) running a building society,
- 19) offering financial advisory and consultancy services,
- 20) taking up or acquiring shares and related rights in entities other than banks and participation units in trust funds,
- 21) entering into commitments related to the issue of securities,
- 22) trading in securities
- 23) participation (on terms and conditions agreed upon with the debtor) in debt for asset swaps,
- 21) entering into commitments associated with the issue of securities,
- 24) trading in property and receivables secured on property.

## 2. Group structure

At 31 December 1998 the Bank Pekao S.A. Group comprised the parent company and 55 subsidiary and associated companies.

Analysis of Group structure:

	1997	1998
	Number	Number
<b>Subsidiary companies:</b>		
* consolidated	4	6
* not consolidated	32	29
<b>Associated companies:</b>		
* consolidated	3	3
* not consolidated	29	17
<b>Total</b>	<b>68</b>	<b>55</b>

The following companies were consolidated at 31 December 1998:

Name of company	Activity	Bank Pekao S.A.	Status	Consolidation method
Bank Pekao S.A.	Banking	-	Parent	-
Pomorski Bank Kredytowy S.A. (PBKS S.A.)	Banking	100.00%	Subsidiary	Acquisition
Bank Depozytowo - Kredytowy S.A. (BDK S.A.)	Banking	100.00%	Subsidiary	Acquisition
Powszechny Bank Gospodarczy S.A. (PBG S.A.)	Banking	100.00%	Subsidiary	Acquisition
Centralny Dom Maklerski Grupy Pekao S.A. (CDM S.A.)	Securities Brooking	100.00%	Subsidiary	Acquisition
Bank Polska Kasa Opieki Tel Aviv (Bank Pekao) Ltd.	Banking	99.99%	Subsidiary	Equity
Build Ship Spółka z o.o.	Shipbuilding	100.00%	Subsidiary	Equity
Mitteleuropäische Handelsbank AG	Banking	29.99%	Associate	Equity
Bank Handlowy International SA	Banking	23.20%	Associate	Equity
Centrozap S.A.	Trade	21.86%	Associate	Equity

The other subsidiary and associated companies were not consolidated as the scale of their activities is not significant in relation to those of the consolidated Group.

## 3. Period covered by the financial statements

The financial statements cover the financial year ended 31 December 1998. The comparatives presented are for the financial year ended 31 December 1997.

All financial information is presented in PLN '000.

## 4. Transformation of financial information

In these consolidated financial statements certain changes in presentation have been made to financial information previously presented in the 1997 consolidated financial statements. These changes which were made in order to comply with the requirements of a Decree of the Council of Ministers dated 22 December 1998 regarding the nature and frequency of periodic information published by issuers of securities admitted to public trading. These changes which had no impact on the net result, total assets and shareholders funds for that period are discussed in the notes to these accounts.

## 5. Accounting policies applied and changes

1. The consolidated financial statements have been prepared at 31 December 1998 in accordance with:

1) The accounting statements have been prepared in accordance with the following regulations:

- \* The Accounting Law dated 29 September 1994 (as amended),
- \* The Banking Law dated 29 August 1997 (as amended),
- \* Resolution No. 2/98 of the Banking Supervision Commission dated 3 June 1998 concerning the preparation of consolidated financial statements by Banks,
- \* A Decree of the Council of Ministers dated 22 December 1998 concerning the nature, form, scope and frequency of periodic information to be published by issuers of securities admitted to public trading,
- \* A Decree of the Council of Ministers dated 22 December 1998 concerning the requirements to be fulfilled by a share issue prospectus, short form (mini) share issue prospectus, information memorandum and short form (mini) information memorandum,
- \* Decree No.13/94 of the President of the National Bank of Poland dated 10 December 1994 regarding the creation of provisions for banking risk,
- \* The Decree of the Minister of Finance dated 17 January 1997 (as amended on 7 February 1997) regarding the depreciation and amortisation of tangible and intangible fixed assets respectively.

2) The accounting records are maintained under the historical cost convention except for fixed assets that undergo periodic revaluations in accordance with the Law on Accounting.

3) Consolidation methodology

The consolidated financial statements have been prepared:

- \* using the acquisition accounting method in relation to PBKS S.A., BDK S.A., PBG S.A. and CDM S.A.
- \* using the equity accounting method in relation to Banks based in Germany, Luxembourg and Israel (as shown in the table in point 1 of the Introduction) and Build Ship Sp. z o.o. and Centrozap S.A.

The consolidation is based upon the financial statements of the parent company and subsidiary and associated companies for the year ended 31 December 1998.

The financial statements of companies based in other countries are prepared on the basis of the accounting regulations applicable in those countries. There are no significant differences between the accounting policies applied by those companies and the accounting policies applied by the parent company.

Subsidiary companies are consolidated using the acquisition accounting method except for those companies that are not significant in relation to the scale of activities of the Bank Pekao S.A. Group or which were not acquired with the intention of exercising continuous influence over their activities.

Under the acquisition accounting method, a consolidated balance sheet is prepared by adding the respective assets and liabilities of the parent company and the subsidiaries in full, irrespective of the parent company interest held. The cost of acquisition of subsidiary entities and their share capital are eliminated on consolidation. After the addition of the respective balance sheet items, other consolidation eliminations and adjustments are made.

Under the acquisition method, a consolidated profit and loss statement is prepared by combining the incomes and expenditures of the parent company and subsidiaries. These items are combined, in full, irrespective of the parent's interest in the subsidiaries. After the addition of the respective incomes and expenditures, necessary consolidation eliminations and adjustments are made.

The net assets of a subsidiary company are determined at the date that it is acquired by the Bank. In accordance with § 10.1 of Resolution No. 2/98 of the Banking Supervision Commission the market value of the net assets of subsidiary companies is taken to be equal to their book value. The resulting negative goodwill is amortised to the profit and loss account over a period of 5 years commencing from the month following acquisition. The value of negative goodwill is separately disclosed in the consolidated balance sheet.

Associated companies and subsidiary companies with dissimilar activities to the parent company are consolidated using the equity accounting method, except for those subsidiary and companies that are not significant in relation to the activities of Bank Pekao S.A.

The Group's interest in associated companies at the date that the exercise of significant influence commences is calculated as the share of the parent company in the net assets of those companies. The resulting negative goodwill on consolidation is treated in the same manner as that arising on the consolidation of subsidiary companies by the acquisition accounting method.

Under the equity accounting method the assets, liabilities, incomes and costs of companies consolidated using this method are not added to the respective items of the parent and consolidated (using the acquisition accounting method) subsidiary companies.

The "interest in associated companies" at successive balance dates is calculated as described above and increased by the parent company's share of any increase in shareholders funds of the associated company during the period subject to consolidation less dividends received from that company.

- 4) Consolidation eliminations
- The consolidated financial statements are prepared after elimination of the following:
- \* share capital of consolidated subsidiaries,
  - \* consideration paid on acquisition of subsidiaries,
  - \* intra-group receivables and payables,
  - \* turnover and costs of sales relating to intra-group transactions,
  - \* turnover and costs of sales relating to intra-group transactions,
  - \* dividends paid between Group companies.
- 5) Interest on interbank placements, loans, debt securities and customer deposits is calculated up to the last day of the financial year. Interest income and expense is recognised in the profit and loss account on an accruals basis, with the exception of interest arising on loans classified as other than normal which is included in suspended income. These amounts are recognised in income on receipt. Accrued interest is shown in the balance sheet as part of the relevant balance sheet category such as amounts due to/from financial institutions, amounts due to/from clients and the public sector and amounts arising on debt securities.
- 6) The foreign exchange result is calculated taking into account exchange gains and losses arising on the retranslation into Polish zloty of foreign currency denominated assets and liabilities. Retranslations are performed at the daily rate of exchange set by the President of the National Bank of Poland. Foreign exchange differences arising on the retranslation of structural positions are shown separately within liabilities in the balance sheet.
- 7) Provisions comprise mainly provisions created for:
- \* irregular loans
  - \* interbank placements
  - \* financial assets
  - \* off balance sheet liabilities
  - \* general risk.
- Provisions for receivables from financial and non-financial institutions, other assets and off balance sheet liabilities are created in the full amount in accordance with Decree No. 13/94 of the President of National Bank of Poland. The subsidiary Banks PBKS S.A., BDK S.A. and PBG S.A create general provisions for retail lending to private individuals.
- Provisions for financial assets are created in accordance with Resolution No. 1/98 of the Banking Supervision Commission
- A general risk provision is created in accordance with the terms of the Banking Law.
- 8) Depreciation of tangible fixed assets and amortisation of intangible fixed assets is calculated on the basis of a depreciation plan that specifies depreciation rates and annual depreciation charges.
- Planned depreciation rates are determined taking into account the useful economic lives of the related assets. Depreciation rates are reviewed periodically with changes effective from the beginning of the year in which they take place.
- Depreciation rates for particular groups of fixed assets are as follows:
- |                         |               |
|-------------------------|---------------|
| Buildings               | 1.5% - 20.0%  |
| Equipment and machinery | 5.0% - 40.0%  |
| Motor vehicles          | 12.5% - 20.0% |
- Land and capital work in progress are not depreciated.
- Intangible fixed assets are amortised over periods not exceeding 5 years.
- Planned depreciation reflecting the normal usage of tangible and intangible fixed assets is included within operating costs while unplanned depreciation costs are included in other operating costs.
- 9) The taxation charge represents corporate income tax.
- Corporate income tax is calculated at the rate of 36% (1997:38%) on the basis of gross profit (established on the basis of accounting regulations) with adjustments for non-taxable income and non-tax allowable costs.
- The deferred tax provision is calculated on the basis of temporary timing differences in the recognition of income and costs for accounting and taxation purposes. It is calculated taking into account those corporate tax rates that are expected to apply when the timing differences are realised (1997: 36%, 34% and 32%; 1998: 34% and 32%). In order to ensure a uniform presentation of deferred taxation in its Polish Accounting Standards and International Accounting Standards (IAS) financial statements the Bank has taken the decision to adopt the full liability method to calculate its deferred tax provision instead of the previously applied partial liability method.

In accordance with the recommendations of IAS No.12 the full liability method has been applied from 1998. The change in methodology resulted in an increase in the deferred taxation charge for 1998 of 129 112 ths. PLN. If the partial liability method had continued to be applied the net profit of the Group would have been 649 410 ths. PLN. Temporary timing difference include accrued income and costs, provisions for lost loans, unrealised exchange gains and losses and investment reliefs utilised.

- 10) Equity investments and debt securities are shown at cost less provision for permanent diminution in value. The purchase cost of debt securities may be higher or lower than their nominal value. A premium arising on purchase is recognised in costs on a straight-line basis over the period between purchase and maturity. The purchase price of government bonds may include interest arising in the period before acquisition of the bonds by the Bank. Such bonds are shown at nominal value adjusted for interest, and premium or discount on purchase. Trading securities (including those held for operational purposes) are shown at the lower of cost and realisable value.
- 11) Acquired assets held for resale are shown at the value of the loan in relation to which they were seized less provisions for differences between that amount and the net realisable value on sale of the relevant asset.
- 12) Prepayments include costs deferred to the periods to which they relate. They also include capitalised interest costs arising on a refinancing loan received to refinance loans granted to government central investment projects. Until the end of 1996 these capitalised interest costs were not charged to the profit and loss account unless paid on a cash basis. Accruals and deferred income comprise mainly capitalised interest income arising on a government central investment loan granted by PBG S.A. As in the case of capitalised interest costs until the end of 1996 these amounts were only recognised in the profit and loss account on a cash basis (i.e. when received). Accruals and deferred income also include suspended interest, foreign exchange differences arising on retranslation of structural positions and income received in advance.
- 13) The subsidiary Banks create provisions for retirement awards and long service payments to employees. BDK S.A. has adopted a methodology based on the value of average future payments to employees within particular age bands, taking into account the probability that they will continue to be employed by the Bank. PBKS S.A. and PBG S.A. have sought actuarial conformations of their provision calculations. Bank Pekao S.A. taking into account the present pension reforms in Poland will adapt its approach to the new requirements. In addition for the first time the parent and subsidiary Banks created a provision of 55 500 ths. PLN representing the annual employee bonus. In previous years such bonuses had been paid as appropriations of net profit.
- 14) Shareholders' funds comprise share capital and reserves created by the Group companies in accordance with applicable regulations i.e. legislation and company statutes. Shareholders funds include unappropriated profits and uncovered losses from previous periods. The parent company's share of its subsidiary companies' capital and reserves, other than share capital, is added to the respective parent company capital and reserves. Only that part of the subsidiary companies' capital and reserves created after acquisition (particularly retained earnings and revaluation reserve) is added to the parent company's equity and reserves. Share capital comprises only the share capital of the parent company and is shown at its nominal value in accordance with the statute of the Bank and with its entry in the commercial register.
- a) Supplementary capital is principally created from appropriations of profits and share premiums arising on the issue of shares. The parent company, in accordance with its statute, is obliged to transfer 10% of its net profit each year to supplementary capital until supplementary capital reaches a level of 200% of share capital. The subsidiary banks, in accordance with their statutes, are obliged to transfer 10% of their net profit each year to supplementary capital until it reaches the level of 50% of their share capital.
- b) Revaluation reserve represents the accumulated change in net book value of fixed assets arising from revaluations performed in previous years;
- c) Reserve capital may be utilised in accordance with the statutes of the Group companies. It is principally created from appropriations of profits and from transfers from revaluation reserve.
- d) The general banking risk reserve is created from appropriations of net profit in accordance with the terms of the Banking Law dated 29 August 1997. In accordance with article 174 of this Law the existing general banking risk reserve was liquidated when the new Law came into effect on 1 January 1998. As at 1 January 1998, 50% of that part of the existing general banking reserve that was derived from charges to pre tax profits was subject to tax at the rate of 40%. The tax arising is paid in 36 equal instalments commencing 1 January 1998. The tax liability arising was transferred to liabilities while the remaining general banking risk reserve was transferred to other reserve capital. As a result the net assets of the Group decreased by 28,349.8 ths. PLN on 1 January 1998 (representing the amount transferred to tax liabilities). This decrease had a corresponding effect on the capital adequacy ratio.
- e) The equity accounting consolidation reserve represents changes in the net assets of associated companies arising other than as a result of current net profits e.g. foreign currency differences arising on the revaluation of shareholdings by the parent company and unappropriated profits;
- f) Negative goodwill arises where the Bank's share in the market value of the net assets of acquired subsidiary and associated companies acquired is greater than the value of the consideration given to acquire such assets. In accordance with a decision of the Management Board of Bank Pekao S.A. negative goodwill is amortised and credited to the profit and loss account over a period of 5 years commencing from the month after the relevant

acquisition. During 1999 as a result of the merger of the Group Banks the net goodwill balance (after amortisation) at 31 December 1998 of 642,268 ths. PLN arising on consolidation of the subsidiary banks was transferred to reserve capital.

g) The net result for the current year is the profit or loss after taxation for the year as disclosed in the profit and loss account.

## 6. Analysis of companies forming the Group

Company	Shares Held By	Share Capital Held %	Total Assets PLN '000	Interest income/ Net sales and Income from Financial operations PLN '000
<b>Consolidated companies</b>				
<b>Subsidiary companies</b>				
Bank Depozytowo-Kredytowy S.A.	Pekao S.A.	100.00	5,448,270	792,349
Pomorski Bank Kredytowy S.A.	Pekao S.A.	100.00	5,409,681	807,856
Powszechny Bank Gospodarczy S.A.	Pekao S.A.	100.00	13,248,863	1,335,469
Bank Polska Kasa Opieki Tel Aviv (Bank Pekao) Ltd.	Pekao S.A.	99.99	337,591	29,189
Centralny Dom Maklerski Grupy Pekao S.A. Spółka Akcyjna	(See below)	100.00	574,011	271,802
	Pekao S.A.	80.45		
	PBKS S.A.	6.19		
	BDK S.A.	4.94		
	PBG S.A.	8.42		
Build Ship Sp. z o.o.	Pekao S.A.	100.00	7,860	187,048
<b>Associated companies</b>				
MHB Mitteleuropaeische Handelsbank Aktiengesellschaft, Deutsch-Polnische Bank	Pekao S.A.	29.99	3,123,609	154,855
Bank Handlowy International S.A. (BHI)	Pekao S.A.	23.20	1,850,647	99,789
- direct holding		21.63		
- indirect holding		1.57		
Centrozap S.A.	Pekao S.A.	21.86	240,102	344,655
- direct holding		18.83		
- indirect holding		3.03		
<b>Non consolidated companies</b>				
Subsidiary companies				
PRZYMIERZE Towarzystwo Funduszy Inwestycyjnych S.A.	Pekao S.A.	51.00	4,725	7,756
Pekao Leasing Sp. z o.o.	Pekao S.A.	100.00	191,929	133,904
Pekao/Alliance Capital Management S.A.	Pekao S.A.	51.00	17,200	-
Pekao Financial Services Sp. z o.o.	Pekao S.A.	100.00	3,443	276
Pekao Luxembourg Investment Fund Management Company Sp. z o.o.	Pekao S.A.	99.98	507	-
Chłodnia Olsztyn Sp. z o.o.	Pekao S.A.	85.02	25,425	33,507
Przedsiębiorstwo Zarządzania Nieruchomościami Sp. z o.o.	Pekao S.A.	100.00	83,856	12,640
Pekao Delta Trading Company Pty. Ltd.	Pekao S.A.	86.00	1,234	59
Pekao Immobilier Sp. z o.o.	Pekao S.A.	100.00	478	20
Pekao Trading Company (Canada) Ltd.	Pekao S.A.	100.00	15,848	55,054

Pekao Trading Corporation	Pekao S.A.	100.00	20,521	21,623
PK.O. Trading Corporation	Pekao S.A.	100.00	7	-
Wschodnie Towarzystwo Inwestycyjne Sp. z o.o.	BDK S.A.	100.00	53,226	6,511
Drukbank Sp. z o.o.	BDK S.A.	100.00	15,016	2,050
Elektrociepłownia "PZL-Mielec" Sp. z o.o.	BDK S.A.	60.88	28,591	30,746
Elektrociepłownia "GIGA" Sp. z o.o.	BDK S.A.	100.00	18,158	18,439
Zasław Sp. z o.o. (in liquidation)	BDK S.A.	100.00	-	397
Pomorski Fundusz Kapitałowy Sp. z o.o.	PBKS S.A.	100.00	3,853	561
PBG Leasing Sp. z o.o.	PBG S.A.	100.00	159,367	81,524
SRPBG Sp. z o.o.	PBG S.A.	95.00	178	20
CPF LLC	PBG S.A.	53.19	33	-
Grupa Zarządzająca Łódź Sp. z o.o.	PBG S.A.	100.00	591	1,840
Centrum Rozwoju Przedsiębiorczości Sp. z o.o.	PBG S.A.	87.30	159	648
PBG Informatyka Sp. z o.o.	PBG S.A.	51.00	2,168	10,128
PBG Fundusz Inwestycyjny Sp. z o.o.	PBG S.A.	100.00	41,575	12,036
PBG-Nieruchomości Sp. z o.o.	PBG S.A.	100.00	73,856	9,952
Dromeda Sp. z o.o.	PBG S.A.	-	-	-
ESBEL Sp. z o.o. (in liquidation)	PBG S.A.	-	-	-
Bank Depozytowo-Kredytowy (Ukraina) Ltd. (Łuck, Ukraine)	(see below)	100.00	42,045	17,951
	BDK S.A.	35.00		
	WTI	35.00		
	Drukbank Sp. z o.o.	30.00		
<b>Associated companies</b>				
Polski Leasing Przemysłowy S.A.	Pekao S.A.	50.00	69,291	10,192
Grupa Inwestycyjna NYWIG S.A.	Pekao S.A.	29.60	113,298	25,160
SYRENA International Sp. z o.o.	Pekao S.A.	35.00	198,359	77,142
Trinity Management Sp. z o.o.	Pekao S.A.	50.00	5,558	10,692
ILS Sp. z o.o. (in liquidation)	Pekao S.A.	49.00	-	-
BDK-Daewoo Leasing Sp. z o.o.	BDK S.A.	50.00	205,032	115,007
Wytwórnia Silników "PZL-Mielec" Sp. z o.o.	BDK S.A.	39.45	81,403	55,398
Zakład Przetwórstwa Tworzyw Sztucznych "PZL-Mielec" Sp. z o.o.	BDK S.A.	28.77	6,114	6,700
BIAWENA S.A.	BDK S.A.	21.19	18,348	23,914
SRP Investment I Sp. z o.o.	BDK S.A.	50.00	-	-
Lodom Sp. z o.o.	PBKS S.A.	30.08	27,305	5,589
Polcast Sp. z o.o. (in bankruptcy)	PBKS S.A.	33.47	-	-
CPF Management	PBG S.A.	40.00	-	-
FK Pollena Ewa S.A.	PBG S.A.	21.13	31,720	-
Rynex Sp. z o.o.	PBG S.A.	25.57	10,872	2,977
Krajowa Izba Rozliczeniowa S.A.	(see below)	22.96	62,426	89,757
	Pekao S.A.	5.74		
	PBKS S.A.	5.74		
	BDK S.A.	5.74		
	PBG S.A.	5.74		
PolCard S.A.	(see below)	29.70	51,324	81,751
	PBKS S.A.	9.90		
	BDK S.A.	9.90		
	PBG S.A.	9.90		

Bank Pekao S.A. and MHB hold 21.63% and 5.25% of votes respectively at a general meeting of shareholders (AGM) of BHI which is consolidated using the equity accounting method.

In accordance with current regulations the other Group companies have not been consolidated, as they are not significant in relation to the consolidated financial statements of the Group.

## 7. Audit opinion issued by registered auditors

The consolidated financial statements for 1998 were audited by PricewaterhouseCoopers Sp. z o.o. The consolidated financial statements for 1997 were audited by Coopers & Lybrand Sp. z o.o. Unqualified audit opinions were issued in relation to both sets of financial statements.

## 8. Internal organisational units forming part of Bank Pekao S.A.-Grupa Pekao S.A.

The financial statements of the Bank for 1998 and the comparative financial information for 1997 are prepared upon the basis of the financial data of all the Bank's organisational units through which it performs its activities. At 31 December 1998 these organisational units included the Bank's Head Office in Warsaw, the Card and Cheque processing centre, the in house building society, the telephone banking centre, 63 operating branches, 67 sub branches and customer service outlets, and 2 foreign branches in Paris and New York.

None of the above units except for the foreign branches produce their own financial statements. The foreign branches produce financial statements in accordance with the regulations of the countries in which they are based.

## 9. Main differences between Polish Accounting Standards (PAS) and International Accounting Standards (IAS)

The Bank prepares financial statements in accordance with both PAS and IAS. The major differences in accounting policies that arise are:

- Until 31.12.1997 in accordance with PAS the general risk fund existing was created from appropriations of net profit and amounts charged to pre tax profit. In accordance with IAS the general risk fund was created entirely from appropriations of net profit in the succeeding year. This resulted in timing differences in the amounts credited to the general risk fund.
- According to PAS structural foreign exchange differences arising from the retranslation into Polish zloty at the balance date (using the relevant NBP exchange rate) of shareholdings in foreign subsidiary and associated companies are shown within the financial statements as "deferred income". According to IAS these foreign exchange differences are allocated to shareholders funds.
- The Bank makes annual distributions to employee social and bonus funds which are shown as appropriations of net profit in accordance with PAS. According to IAS such distributions are charged to overhead costs in the year that they are made.
- Until the end of 1996 in accordance with PAS capitalised interest income and expense interest related to the financing of government central investment projects was shown within "deferred in come" and "prepayments" respectively. Such amounts were not credited/charged to income until the related interest was received/paid. This treatment gave rise to net unrecognised interest income of 518,651 ths. PLN at 31.12.1998. According to IAS such interest amounts such be credited/charged to income on an accruals basis. These interest amounts have the effect of increasing shareholders funds in IAS financial statements prepared for 1998 and 1997
- The major presentational differences include the treatment of accrued interest. According to PAS such amounts are shown within the relevant asset/liability category while in accordance with IAS they are shown within "other assets" and "other liabilities". Another presentational difference relates to amounts included within "Intangible Fixed Assets" in accordance with PAS: under IAS such amounts except for goodwill are generally shown within "Tangible Fixed Assets".

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### Note 1

#### CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Current account with the NBP*	2,591,447	5,476,450
2. Obligatory reserve	282,889	-
3. Other	66,546	2,834
<b>Total cash and balances with the central bank</b>	<b>2,940,882</b>	<b>5,479,284</b>

#### CASH AND BALANCES WITH THE CENTRAL BANK (BY CURRENCY)

a. In PLN	2,340,393	4,943,565
b. In foreign currencies (converted to PLN)	600,489	535,719
<b>Total cash and balances with the central bank</b>	<b>2,940,882</b>	<b>5,479,284</b>

\* Includes cash in hand and at the Central Bank

Regulatory limits on cash and balances with the NBP:

- as at 31.12.1998 the cash balance includes 313,767 ths. PLN of obligatory reserves, which according to the rules of the Central Bank must be kept as a minimum cash balance. Of this amount 160,000 ths. PLN relates Bank Pekao S.A., 52,500 ths. PLN - PBG S.A., 50,767 ths. PLN - BDK S.A., 50,500 ths. PLN - PBKS S.A.

- an obligatory reserve is also maintained on current account at the NBP. The amount that was required to be maintained in December 1998 was 3,341,829 ths. PLN, of which 1,961,761 ths. PLN relates to Bank Pekao S.A., 471,253 ths. PLN - PBG S.A., 452,326 ths. PLN - BDK S.A., and 456,489 ths. PLN - PBKS S.A. In 1997 the subsidiary Banks maintained their obligatory reserves on a separate account at the NBP, while Pekao S.A. maintained its obligatory reserve on its current account.

### Note 2

#### AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. From financial institutions excluding subsidiary and associated companies	5,000,315	4,307,933
2. From non consolidated subsidiary and associated companies	379,172	301,790
3. From subsidiary and associated companies consolidated by equity accounting method	491,235	823,356
<b>Total</b>	<b>5,870,722</b>	<b>5,433,079</b>

#### AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS (BY TYPE)

1. Current accounts	200,061	247,625
2. Loans and deposits	5,586,408	5,155,457
3. Purchased receivables	46,785	22,173
4. Realised guarantees	1,832	8,841
5. Other receivables:	-	47,070
- receivables in transit	-	47,070

#### AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS (BY TYPE) (CONT'D)

	31.12.1997 PLN '000	31.12.1998 PLN '000
6. Interest:	50,774	45,444
a) accrued	44,210	34,822
b) payable, not received	6,564	10,622
<b>Total gross amounts due from other financial institutions</b>	<b>5,885,860</b>	<b>5,526,610</b>
7. Provisions for irregular amounts from other financial institutions	(15,138)	(93,531)
<b>Total net amounts due from other financial institutions</b>	<b>5,870,722</b>	<b>5,433,079</b>

#### AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS (BY MATURITY)

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Current accounts	200,061	247,625
2. Term (by time to repayment from balance date):	5,635,025	5,233,541
a) to 1 month	3,915,130	3,780,549
b) between 1 month to 3 months	979,161	665,143
c) between 3 months to 1 year	338,867	185,667
d) between 1 year to 5 years	378,662	444,223
e) above 5 years	9,620	18,737
f) amounts due but not received	13,585	139,222
3. Interest:	50,774	45,444
- accrued	44,210	34,822
- payable, not received	6,564	10,622
<b>Total gross amounts due from other financial institutions</b>	<b>5,885,860</b>	<b>5,526,610</b>

#### AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS (BY CURRENCY)

	31.12.1997 PLN '000	31.12.1998 PLN '000
a. In PLN	1,197,675	1,439,129
b. In foreign currency (converted to PLN)	4,673,047	3,993,950
<b>Total amounts due from other financial institutions</b>	<b>5,870,722</b>	<b>5,433,079</b>

#### GROSS AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS (BY CLASSIFICATION)

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Amounts classified as normal (with interest)	5,866,186	5,374,608
2. Irregular amounts, including:	13,585	139,222
- below standard	-	1,752
- doubtful	-	-
- lost	13,585	137,470
3. Interest from irregular amounts:	6,089	12,780
- accrued	29	2,578
- payable, not received	6,060	10,202
<b>Total gross amounts due from other financial institutions</b>	<b>5,885,860</b>	<b>5,526,610</b>

## CHANGE IN PROVISIONS FOR IRREGULAR AMOUNTS DUE FROM OTHER FINANCIAL INSTITUTIONS

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>Provisions at the beginning of the period</b>	<b>12,914</b>	<b>15,138</b>
a) increase:	2,399	109,855
- provisions created	2,209	102,961
- transfers from other balance sheet positions	-	6,892
- foreign exchange differences	190	2
b) decrease:	-	(3,740)
- transfers to other balance sheet positions	-	(3,740)
c) release	(175)	(27,722)
<b>Provisions for irregular amounts due from other financial institutions at the end of the period</b>	<b>15,138</b>	<b>93,531</b>

### Note 3

## AMOUNTS DUE FROM CLIENTS AND PUBLIC SECTOR ENTITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Clients and public sector entities excluding subsidiary and associated companies	19,051,180	21,532,669
2. Non consolidated subsidiary and associated companies	131,546	224,113
3. Subsidiary and associated companies consolidated by equity accounting method	7,885	-
<b>Total amounts due from clients and public sector entities</b>	<b>19,190,611</b>	<b>21,756,782</b>

## AMOUNTS DUE FROM CLIENTS AND PUBLIC SECTOR ENTITIES (BY TYPE)

1. Loans	19,177,696	21,657,955
2. Purchased receivables	248,034	305,683
3. Realised guarantees	66,423	65,216
4. Other amounts due, including:	56,657	106,395
- receivables in transit	56,657	106,395
5. Interest:	661,895	699,789
- accrued	143,072	112,349
- payable, not received	518,823	587,440
6. Receivables in respect of state contributions to preferential loans	24,625	35,549
<b>Total gross amounts due from clients and public sector entities</b>	<b>20,235,330</b>	<b>22,870,587</b>
Provisions for irregular amounts from clients and public sector entities	(1,044,719)	(1,113,805)
<b>Total net amounts due from clients and public sector entities</b>	<b>19,190,611</b>	<b>21,756,782</b>

#### AMOUNTS DUE FROM CLIENTS AND PUBLIC SECTOR ENTITIES (BY MATURITY)

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>1. Current accounts</b>	<b>1,636,711</b>	<b>1,921,186</b>
<b>2. Term (by time to repayment from balance date):</b>	<b>17,936,724</b>	<b>20,249,612</b>
a) to 1 month	1,181,786	1,276,955
b) between 1 month to 3 months	1,282,354	1,285,412
c) between 3 months to 1 year	3,714,896	3,846,778
d) between 1 year to 5 years	4,805,248	6,839,748
e) above 5 years	5,250,333	5,057,032
f) overdue amounts	1,702,107	1,943,687
<b>3. Interest:</b>	<b>661,895</b>	<b>699,789</b>
- accrued	143,072	112,349
- payable, not received	518,823	587,440
<b>Total gross amounts due from clients and public sector entities</b>	<b>20,235,330</b>	<b>22,870,587</b>

#### AMOUNTS DUE FROM CLIENTS AND PUBLIC SECTOR ENTITIES (BY CURRENCY)

	31.12.1997 PLN '000	31.12.1998 PLN '000
a. In PLN	14,908,153	16,298,870
b. In foreign currency (converted to PLN)	4,282,458	5,457,912
<b>Total amounts due from clients and public sector entities</b>	<b>19,190,611</b>	<b>21,756,782</b>

#### GROSS AMOUNTS DUE FROM CLIENTS AND PUBLIC SECTOR ENTITIES (BY CLASSIFICATION)

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Amounts classified as normal (with interest)	17,989,026	20,320,101
2. Irregular amounts, including:	1,702,107	1,943,687
- below standard	358,335	586,233
- doubtful	303,525	191,392
- lost	1,040,247	1,166,062
3. Interest from irregular amounts:	544,197	606,799
- accrued	40,842	45,108
- payable, not received	503,355	561,691
<b>Total gross amounts due from clients and public sector entities</b>	<b>20,235,330</b>	<b>22,870,587</b>

#### PROVISIONS FOR IRREGULAR AMOUNTS DUE FROM CLIENTS AND PUBLIC SECTOR ENTITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) below standard	64,333	79,429
b) doubtful	107,227	63,663
c) lost	873,159	970,713
<b>Total provisions for irregular amounts due from clients and public sector entities</b>	<b>1,044,719</b>	<b>1,113,805</b>

## CHANGE IN PROVISIONS FOR IRREGULAR AMOUNTS FROM CLIENTS AND PUBLIC SECTOR ENTITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
Provisions at the beginning of the period	919,068	1,044,719
a) increase:	503,544	541,198
- provisions created	463,377	519,514
- transfers from other balance sheet positions	33,503	14,574
- foreign exchange differences	9,413	6,625
- other changes	(2,749)	485
b) utilization in respect of:	(59,767)	(50,152)
- amounts written off	(59,767)	(50,152)
c) release:	(318,126)	(421,960)
- release of provisions	(274,056)	(387,051)
- transfers to other balance sheet positions	(44,070)	(34,909)
<b>Provisions for irregular amounts at the end of the period</b>	<b>1,044,719</b>	<b>1,113,805</b>

### Note 4

#### AMOUNTS RECEIVABLE FROM REVERSE REPO TRANSACTIONS

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) from financial institutions	1,335,637	44,510
b) interest	3,780	320
<b>Total amounts receivable from reverse repo transactions</b>	<b>1,339,417</b>	<b>44,830</b>

### Note 5

#### DEBT SECURITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>DEBT SECURITIES (BY ISSUER)</b>		
1. Issued by central banks, including:	1,216,632	2,288,400
- bonds in foreign currencies	123,243	124,874
2. Issued by other banks, including:	161,666	202,356
- in foreign currencies	159,569	103,297
3. Issued by other financial institutions, including:	139,417	234,472
- in foreign currencies	139,417	140,810
4. Issued by non-financial institutions, including:	290,899	615,224
- in foreign currencies	46,225	178,866
5. Issued by State Treasury, including:	13,579,700	12,769,409
- in foreign currencies	7,962,962	6,572,121
6. Issued by local authorities, including:	32,495	123,825
- in foreign currencies	-	6,296
7. Own debt securities repurchased	-	-
<b>Total debt securities</b>	<b>15,420,809</b>	<b>16,233,686</b>

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>DEBT SECURITIES (BY TYPE)</b>		
1. Issued by State Treasury, including:	13,579,700	12,769,409
a) bonds	10,864,846	10,234,658
b) Treasury bills	2,714,854	2,534,751
5. Issued by other entities, including:	1,841,109	3,464,277
a) bonds	542,118	708,021
b) other (by type):	1,298,991	2,756,256
- commercial papers	173,080	530,084
- NBP bills	1,093,389	2,163,526
- certificates of deposit	32,522	44,647
- bills of exchange	-	17,999
<b>Total debt securities</b>	<b>15,420,809</b>	<b>16,233,686</b>
<b>DEBT SECURITIES (BY DESIGNATION)</b>		
a) trading portfolio	1,124,936	1,876,630
b) investment portfolio	14,295,873	14,357,056
<b>Total debt securities</b>	<b>15,420,809</b>	<b>16,233,686</b>

#### CHANGE IN DEBT SECURITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) Balance at the beginning of the period	14,845,274	15,420,809
b) Increase:	6,047,084	19,636,036
- purchase	5,622,130	19,364,149
- interest accrued	99,282	181,634
- foreign exchange differences	-	58,939
- amortization of premium	-	4,017
- amortization of discount	325,672	-
- acquisition of bonds	-	19,913
- acquisition of bills of exchange	-	7,384
c) Decrease:	(5,471,549)	(18,823,159)
- sale	(3,807,006)	(12,712,442)
- foreign exchange	(55,754)	-
- amortization of premium	(3,617)	-
- amortization of discount	-	(87,874)
- repurchase of securities by issuers	(1,557,162)	(6,007,866)
- transfer to other securities	-	(5,555)
- transfer to other balance sheet positions	(47,125)	-
- change in provisions	(885)	(9,422)
<b>d) balance at the end of the period</b>	<b>15,420,809</b>	<b>16,233,686</b>

At 31.12.1998 debt securities of value 103 177 ths. PLN (31.12.1997: 126 048 ths. PLN) represented security for actual or potential liabilities of the Group. These comprise:

- treasury bills of nominal value 58,080 ths. PLN serving as security for potential liabilities to the Bank Guarantee Fund (31.12.1997: 64,430 ths. PLN)
- treasury bills of nominal value 30,480 ths. PLN (31.12.1997: 0 ths. PLN) blocked as security in relation to the acquisition of SBL

- restructuring bonds of nominal value 11,137 ths. PLN (31.12.1997: 21,144 ths. PLN) serving as security for a World Bank loan
- 2 year State Treasury Bonds with a nominal value of 3,480 ths. PLN (31.12.1997: 0 ths. PLN)
- 10 State Treasury Bonds with a nominal value of 4,994 ths. PLN at 31.12.1997.

At 31.12.1997 the debt securities portfolio included treasury bills of nominal value 35,480 ths. PLN that represented security for deposits accepted as part of repo transactions.

## Note 6

### SHARES IN NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) in subsidiaries	212,092	175,613
b) in associated companies	28,343	27,408
<b>Total shares in non-consolidated subsidiaries and associated companies</b>	<b>240,435</b>	<b>203,021</b>

#### SHARES IN NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES (BY TYPE OF INSTITUTION)

a) in banks	50,172	6,977
b) in other financial institutions	105,808	111,906
c) in non-financial institutions	84,455	84,138
<b>Total shares in non-consolidated subsidiaries and associated companies</b>	<b>240,435</b>	<b>203,021</b>

#### SHARES IN NON-CONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES (BY DESIGNATION)

a) trading portfolio	-	-
b) investment portfolio	240,435	203,021
<b>Total shares in non-consolidated subsidiaries and associated companies</b>	<b>240,435</b>	<b>203,021</b>

## Note 7

### SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES CONSOLIDATED UNDER THE EQUITY ACCOUNTING METHOD

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) in subsidiaries	-	42,786
b) in associated companies	124,090	135,065
<b>Total shares in subsidiaries and associated companies consolidated under the equity accounting method</b>	<b>124,090</b>	<b>177,851</b>

#### SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES CONSOLIDATED UNDER THE EQUITY ACCOUNTING METHOD (BY TYPE OF INSTITUTION)

a) in banks	100,529	151,046
b) in other financial institutions	-	-
c) in non-financial institutions	23,561	26,805
<b>Total shares in subsidiaries and associated companies consolidated under the equity accounting method</b>	<b>124,090</b>	<b>177,851</b>

**SHARES IN SUBSIDIARIES AND ASSOCIATED COMPANIES CONSOLIDATED  
UNDER THE EQUITY ACCOUNTING METHOD (BY DESIGNATION)**

	<b>31.12.1997</b>	<b>31.12.1998</b>
	<b>PLN '000</b>	<b>PLN '000</b>
a) trading portfolio	-	-
b) investment portfolio	124,090	177,851
<b>Total shares in subsidiaries and associated companies consolidated under the equity method at the end of the period</b>	<b>124,090</b>	<b>177,851</b>

## Note 8

## SHARES IN SUBSIDIARY AND ASSOCIATED COMPANIES AT 31.12.1998 (INVESTMENT PORTFOLIO)

	name of the company (with legal form)	registered office	activity	Subsidiary/ Associated company	consolidation method applied	date of acquisition of control/ significant influence	purchase cost of shares	provisions created	book value	proportion of share capital held	proportion of voting rights at General Meeting of Shareholders	other reasons for classification as subsidiary/ associate
1	Bank Polska Kaso Opieki Tel-Aviv (Bank Pekao) Ltd.	Tel Aviv, Israel	banking	subsidiary	equity accounting	1993	25,494	-	41,826	99,99	99,99	-
2	Build Ship Sp. z o.o.	Sopot	shipbuilding	subsidiary	equity accounting	1996	4	-	960	100,00	100,00	-
3	MHB Mitteleuropäische Handelsbank Aktiengesellschaft, Deutsch-Polnische Bank	Frankfurt on Main, Germany	banking	associated	equity accounting	1973	44,752	-	76,735	29,99	29,99	-
4	Bank Handlowy International S.A.	Luxembourg	banking	associated	equity accounting	1979	19,753	-	32,485	23,20	23,20	-
5	Societe Anonyme Luxembourg	Katowice	trading	associated	equity accounting	1995	10,259	-	25,845	21,86	21,86	-
6	Centrozap S.A.	Luck, Ukraine	banking	subsidiary	not consolidated	1997	7,270	-	6,977	35,00	35,00	-
7	Bank Depozytowo Kredytowy Ukraina Ltd	Lublin	leasing	associated	not consolidated	1997	6,225	-	6,225	50,00	50,00	-
8	BOK-Daewoo Leasing Sp. z o.o.	Biala Podlaska	textile industry	associated	not consolidated	1995	320	320	-	21,19	21,19	-
9	BIAWEMA S.A.	Łódź	education	subsidiary	not consolidated	1996	87	-	87	87,30	87,30	-
10	Centrum Rozwoju Przedsiębiorczości Sp. z o.o.	Olsztyn	storage	subsidiary	not consolidated	1993	10,195	5,097	5,098	85,02	85,02	-
11	Chłodnia Olsztyn Sp. z o.o.	Delaware, USA	financial services	subsidiary	not consolidated	1998	3,494	-	3,494	53,19	53,19	-
12	CPF LLC		- company has not commenced activities									
12	CPF Management	British Virgin Islands	management of investment funds	associated	not consolidated	1998	-	-	0	40,00	40,00	-
13	Dromeda Sp. z o.o.	Marcinków	- company has not commenced activities									
13	Dromeda Sp. z o.o.		fruit and vegetable processing - company in liquidation	subsidiary	not consolidated	1994	103	93	10	-	-	-
14	Drukbank Sp. z o.o.	Zamość	printing	subsidiary	not consolidated	1994	13,319	-	13,319	100,00	100,00	-
15	Elektrociepłownia "GIGAK" Sp. z o.o.	Świdnik	heating industry	subsidiary	not consolidated	1997	7,800	-	7,800	100,00	100,00	-
16	Elektrociepłownia "PZL-Mielec" Sp. z o.o.	Mielec	heating industry	subsidiary	not consolidated	1993	5,109	2,555	2,554	60,88	60,88	-
17	ESBEL Sp. z o.o.	Łódź	company in liquidation	subsidiary	not consolidated	1995	4	4	-	-	-	-
18	FK Poliena Ewa S.A.	Łódź	cosmetics	associated	not consolidated	1996	6,570	-	6,570	21,13	26,01	-
19	Grupa Inwestycyjna NYWIG S.A.	Warsaw	financial advisors	associated	not consolidated	1990	444	-	444	29,60	45,68	-
20	Grupa Zarządczo Sp. z o.o.	Łódź	management services	subsidiary	not consolidated	1995	700	-	700	100,00	100,00	-
21	IIS sp. z o.o.	France	company in liquidation	associated	not consolidated	1990	55	76	-	49,00	49,00	-
22	Krajowa Izba Rzeczniowa S.A.	Warsaw	cleaning house	associated	not consolidated	1996	1,250	-	1,250	22,96	22,96	-
23	Ladom Sp. z o.o.	Szczecin	storage	associated	not consolidated	1993	2,526	2,526	-	30,08	30,08	-

## Note 8

### SHARES IN SUBSIDIARY AND ASSOCIATED COMPANIES AT 31.12.1998 (INVESTMENT PORTFOLIO) (cont'd)

24	PK.O. Trading Corporation S.A.	New York, USA	subsidiary	not consolidated	1955	5	-	7	100,00	100,00	100,00	-
25	PBG Fundusz Inwestycyjny Sp. z o.o.	Łódź	subsidiary	not consolidated	1994	9.413	-	9.413	100,00	100,00	100,00	-
26	PBG Informatyka Sp. z o.o.	Łódź	subsidiary	not consolidated	1996	102	-	102	51,00	51,00	51,00	-
27	PBG Leasing Sp. z o.o.	Łódź	subsidiary	not consolidated	1995	4.000	-	4.000	100,00	100,00	100,00	-
28	PBG-Nieruchomości Sp. z o.o.	Łódź	subsidiary	not consolidated	1996	18.000	-	18.000	100,00	100,00	100,00	-
29	Pekao / Alliance Capital Management S.A.	Warsaw	subsidiary	not consolidated	1998	8.772	-	8.772	51,00	51,00	51,00	-
30	Pekao Delta Trading Company Pty. Ltd.	Sydney, Australia	subsidiary	not consolidated	1986	1.165	1.322	-	86,00	86,00	86,00	-
31	Pekao Financial Services Sp. z o.o.	Warsaw	subsidiary	not consolidated	1998	4.500	-	4.500	100,00	100,00	100,00	-
			- company has not commenced activities									
32	Pekao Leasing Sp. z o.o.	Warsaw	subsidiary	not consolidated	1995	10.000	-	10.000	100,00	100,00	100,00	-
33	Pekao Luxembourg Investment Fund Management Company Sp. z o.o.	Luxembourg	subsidiary	not consolidated	1997	479	-	507	99,98	99,98	99,98	-
			- company has not commenced activities									
34	Pekao Trading Company (Canada) Ltd.	Toronto, Canada	subsidiary	not consolidated	1956	3.034	-	3.848	100,00	100,00	100,00	-
35	Pekao Trading Corporation S.A.	New York, USA	subsidiary	not consolidated	1948	350	-	505	100,00	100,00	100,00	-
36	PEKAO IMMOBILIER Sp. z o.o.	France	subsidiary	not consolidated	1990	23	-	31	100,00	100,00	100,00	-
37	PolCard S.A.	Warsaw	associated	not consolidated	1996	2.040	-	2.040	29,70	29,70	29,70	-
			cash transactions									
38	Polcast Sp. z o.o. (in bankruptcy)	Działekno	associated	not consolidated	1994	2.269	2.269	-	33,47	33,47	33,47	-
39	Polski Leasing Przemysłowy S.A.	Warsaw	associated	not consolidated	1997	2.000	-	2.000	50,00	50,00	50,00	-
40	Pomorski Fundusz Kapitałowy Sp. z o.o.	Szczecin	subsidiary	not consolidated	1998	4.000	179	3.821	100,00	100,00	100,00	-
41	Przedsiębiorstwo Zarządzania Nieruchomościami Sp. z o.o.	Warsaw	subsidiary	not consolidated	1996	6.770	-	6.770	100,00	100,00	100,00	-
			investment and administration									
42	PRZYMIERZE Towarzystwo Funduszy Inwestycyjnych S.A.	Warsaw	subsidiary	not consolidated	1996	12.750	-	12.750	51,00	51,00	51,00	-
43	Rynek Sp. z o.o.	Płock	associated	not consolidated	1997	2.500	-	2.500	25,57	25,57	25,57	-
			service, trading and manufacturing activity									
44	SRP Investment I Sp. z o.o.	Lublin	associated	not consolidated	-	2	-	2	50,00	50,00	50,00	-
45	SRPBG Sp. z o.o.	Łódź	subsidiary	not consolidated	1997	1.140	-	2.280	95,00	95,00	95,00	-
46	SYRENA International Sp. z o.o.	Warsaw	associated	not consolidated	1989	302	302	-	35,00	35,00	35,00	-
47	Timiny Management Sp. z o.o.	Warsaw	associated	not consolidated	1995	2.089	-	2.089	50,00	50,00	50,00	-
48	Wschodnie Towarzystwo Inwestycyjne Sp. z o.o.	Lublin	subsidiary	not consolidated	1995	50.268	-	50.268	100,00	100,00	100,00	-
49	Wytwórnia Siniaków "PZL-Mielec" Sp. z o.o.	Mielec	associated	not consolidated	1993	5.400	1.976	3.424	39,45	39,45	39,45	-
50	Zakład Przetwórstwa Tworzyw Sztucznych "PZL-Mielec" Sp. z o.o.	Mielec	associated	not consolidated	1995	1.729	865	864	28,77	28,77	28,77	-
51	Zastaw Sp. z o.o. (in liquidation)	Zagórze	subsidiary	not consolidated	1995	5.299	5.299	-	100,00	100,00	100,00	-
			company in liquidation									

## Note 9

### SHARES IN OTHER ENTITIES

	31.12.1997	31.12.1998
	PLN '000	PLN '000
a) in banks	10,363	25,781
b) in other financial institutions	16,191	165,806
c) in non-financial institutions	181,175	160,106
<b>Total shares in other entities</b>	<b>207,729</b>	<b>351,693</b>
<b>SHARES IN OTHER ENTITIES (BY DESIGNATION)</b>		
b) trading portfolio	128,493	48,764
c) investment portfolio	79,236	302,929
<b>Total shares in other entities</b>	<b>207,729</b>	<b>351,693</b>

SHARES IN OTHER EQUITIES (INVESTMENT PORTFOLIO) AS AT 31.12.1998

	name of the company (with the legal form)	registered office	activity	book value	proportion of share capital held	proportion of total voting rights at a General Meeting of Shareholders	value of shares not paid up by the Group	dividends received or due for the last year
1	I NFI Pierwszy S.A.	Warsaw	investment fund	7,651	3.59	3.59	-	-
2	II NFI Drugi S.A.	Warsaw	investment fund	7,651	3.59	3.59	-	-
3	III NFI S.A.	Warsaw	investment fund	39,711	15.17	15.17	-	-
4	IV NFI S.A. Progress S.A.	Warsaw	investment fund	9,660	4.86	4.86	-	-
5	V NFI S.A. Victoria S.A.	Warsaw	investment fund	7,651	3.63	3.63	-	-
6	VI NFI S.A. Magna Polonia S.A.	Warsaw	investment fund	2,748	1.29	1.29	-	-
7	VII NFI S.A. Kazimierza Wielkiego S.A.	Warsaw	investment fund	9,367	4.91	4.91	-	-
8	IX NFI Kwiakowskiego S.A.	Warsaw	investment fund	29,267	10.10	10.10	-	-
9	XI NFI S.A.	Warsaw	investment fund	35,238	16.12	16.12	-	-
10	XII NFI S.A. Piast S.A.	Warsaw	investment fund	7,651	3.63	3.63	-	-
11	XIII NFI Fortuna S.A.	Warsaw	investment fund	501	0.24	0.24	-	-
12	XV NFI Heiman S.A.	Warsaw	investment fund	7,651	3.63	3.63	-	-
13	Autosan SA	Sanok	production of busses	1,618	7.03	7.03	-	-
14	Biuro Informacji Kredytowej S.A.	Warsaw	creation of credit database	2,325	14.95	14.95	-	-
15	BOTRANS	France	export-import activities	-	13.00	13.00	-	-
16	Brok S.A.	Brok	beer production	4,018	8.50	8.50	-	-
17	Centralna Tabela Ofert S.A.	Warsaw	financial services	379	7.92	8.04	-	-
18	Cera S.A.	Warsaw	ratings agency	323	13.26	13.26	-	-
19	DAEWOO MOTOR POLSKA Sp. z o.o.	Lublin	car manufacturing	8,602	2.60	2.60	-	400
20	Elektromontaż S.A.	Warsaw	construction	5,715	9.81	5.35	-	-
21	Fabryka Sukna "RATEX" SA	Rakszawa	textile manufacture	140	10.27	10.27	-	-
22	Huta Kara S.A.	Piotrków Tryb.	glass foundry	981	7.68	7.68	-	-
23	Huta Konin S.A.	Konin	aluminium smelter	30,000	7.42	5.04	-	-
24	Huta Stalowa Wola SA	Stalowa Wola	steel mill	83	5.21	5.21	-	-
25	Międzynarodowa Szkoła Bankowości i Finansów Sp. z o.o.	Katowice	training	24	8.34	8.34	-	-

**SHARES IN OTHER EQUITIES (INVESTMENT PORTFOLIO) AS AT 31.12.1998**

name of the company (with the legal form)	registered office	activity	book value	proportion of share capital held	proportion of total voting rights at a General Meeting of Shareholders	value of shares not paid up by the Group	dividends received or due for the last year
26 NZPS Polesie SA	Włodawa	leather industry	269	15.61	15.61	-	-
27 Oława S.A.	Oława	lead, zinc and tin production	2,606	9.24	9.24	-	-
28 Optimus S.A.	Nowy Sącz	manufacture of computers	18,543	5.88	2.63	-	-
29 PHZ Baltona S.A.	Gdynia	trading	804	5.80	5.80	-	-
30 Polska Giełda Finansowa S.A.	Warsaw	financial services	100	6.15	6.15	-	-
31 Przekrój Sp. z o.o.	Krakow	publishing	200	10.00	10.00	-	-
32 SWIFT	Belgium	international system of banking communication	690	0.12	0.12	-	-
33 System Pozagiełdowego Obrotu Instrumentami Finansowymi S.A.	Warsaw	financial services	200	12.30	12.30	-	-
34 Telbank S.A.	Warsaw	telecommunications	6,887	8.60	8.60	-	80
35 Toruńskie Konsorcjum Budowlane "Kabudex" S.A.	Toruń	construction	5	5.00	5.00	-	-
36 Trans Universal Poland S.A.	Warsaw	transport services	2,628	15.84	4.46	-	-
37 Uniprom S.A.	Warszawa	printing and publishing	5,000	10.64	10.64	-	-
38 Via Polonia S.A.	Łódź	motorway construction	-	10.00	10.00	-	-
39 Vistula S.A.	Krakow	clothing manufacture	4,163	7.93	7.93	-	-
40 WSK PZL-Świdnik S.A.	Świdnik	aviation industry	-	11.84	11.84	-	-
41 Zakład Hufniczy Sp. z o.o.	Stalowa Wola	steel manufacture	-	5.55	5.55	-	-
42 Zakład Mechaniczny Sp. z o.o.	Stalowa Wola	production of construction equipment	-	5.23	5.23	-	-
Other			41,879	-	-	-	34
<b>TOTAL</b>			<b>302,929</b>				

## Note 10

### OTHER SECURITIES AND EQUITY RIGHTS

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>OTHER SECURITIES AND EQUITY RIGHTS (BY TYPE)</b>		
a) participation units in trust funds	12,000	12,000
b) Mass Privatisation Certificates (PŚU)	110,697	2,302
<b>Total other securities and equity rights</b>	<b>122,697</b>	<b>14,302</b>
<b>OTHER SECURITIES AND EQUITY RIGHTS (BY DESIGNATION)</b>		
a) trading portfolio	109,145	-
b) investment portfolio	13,552	14,302
<b>Total other securities and equity rights</b>	<b>122,697</b>	<b>14,302</b>

## Note 11

### SECURITIES, SHARES AND OTHER EQUITY RIGHTS

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Operating securities held by brokerage house	-	-
2. Trading portfolio	1,362,574	1,925,394
3. Investment portfolio	14,753,186	15,055,159
<b>Total securities, shares and other equity rights</b>	<b>16,115,760</b>	<b>16,980,553</b>
<b>CHANGE IN SECURITIES, SHARES AND OTHER EQUITY RIGHTS</b>		
At the beginning of the period	15,507,380	16,115,760
a) increase:	6,624,861	19,840,124
- purchase	6,134,715	19,481,761
- accrued interest	99,282	181,634
- foreign exchange differences	-	50,001
- amortisation of premium	-	4,017
- amortisation of discount	325,672	-
- transfer from other balance sheet positions	24,155	3,312
- bonds taken from Brokerage House	-	19,913
- acceptance of Bills of Exchange	-	7,384
- increase in net assets	14,909	19,157
- change in provision	26,128	60,409
- transfer of contribution in kind	-	7,975
- others	-	4,561
b) decrease:	(6,016,481)	(18,975,331)
- sale	(4,313,808)	(12,873,917)
- foreign exchange differences	(55,717)	-
- amortisation of premium	(3,617)	-
- amortisation of discount	-	(87,874)
- purchase of shares by issuers	(1,557,162)	(6,007,866)
- transfer to other balance sheet positions	(66,313)	(5,674)
- change in provision	-	-
- others	(19,864)	-
<b>At the end of the period</b>	<b>16,115,760</b>	<b>16,980,553</b>

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>SECURITIES, SHARES AND OTHER EQUITY RIGHTS (BY CURRENCY)</b>		
a. in PLN	7,527,687	9,684,995
b. in foreign currencies	8,588,073	7,295,558
b1. Unit/currency ths/USD	2,332,040	1,975,008
ths PLN	8,204,117	6,920,429
b2. Unit/currency ths/DM	122,112	98,015
ths PLN	239,766	205,000
b3. Unit/currency ths/JPY	1,235,721	615,529
ths PLN	33,419	18,976
b4. Other currencies (ths PLN)	110,771	151,153
<b>Total securities, shares and other equity rights (by currency)</b>	<b>16,115,760</b>	<b>16,980,553</b>

**SECURITIES, SHARES AND PARTICIPATION UNITS  
- TRADING PORTFOLIO (BY MARKETABILITY)**

A. Unlimited marketability, listed on stock exchange (book value)		
a) shares (book value):	127,380	47,615
- market value	144,867	48,020
- purchase cost	139,873	93,399
b) bonds (book value):	67,895	123,581
- market value	69,660	124,701
- purchase cost	67,895	122,876
c) other (by type) (book value):	-	-
c1) Mass Privatisation Certificates (book value)	109,146	-
- market value	130,667	-
- purchase cost	109,146	-
B. Unlimited marketability, listed on the regulated over-the-counter market (book value)		
a) shares (book value):	-	1,149
- market value	-	1,161
- purchase cost	-	1,303
b) bonds (book value):	-	3,916
- market value	-	3,934
- purchase cost	-	3,867
c) other (by type) (book value):	-	-
C. Unlimited marketability, not listed on stock exchanges or on the regulated over-the-counter market (book value)		
a) shares (book value):	1,112	-
- market value	1,112	-
- purchase cost	1,112	500
b) bonds (book value):	39,903	3,156
- market value	37,172	3,156
- purchase cost	38,281	2,951
c) other (by type) (book value):		
c1) Treasury bills (book value)	526,998	1,203,402
- market value	526,998	1,203,402
- purchase cost	559,994	1,203,402
c2) commercial papers (book value)	171,205	524,613
- market value	171,205	524,613
- purchase cost	169,041	524,613

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>SECURITIES, SHARES AND PARTICIPATION UNITS</b>		
<b>- TRADING PORTFOLIO (BY MARKETABILITY) (CONT'D)</b>		
c3) NBP bills (book value)	318,935	-
- market value	318,935	-
- purchase cost	317,191	-
c4) bills of exchange (book value):	-	17,962
- market value	-	17,962
- purchase cost	-	16,924
D. Limited marketability (book value)	-	-
a) shares (book value):	-	-
- estimated market value	-	-
- purchase cost	-	-
b) bonds (book value):	-	-
- estimated market value	-	-
- purchase cost	-	-
c) other (by type) (book value):	-	-
<b>Total purchase cost</b>	<b>1,402,533</b>	<b>1,969,335</b>
<b>Total adjustments to value</b>	<b>(39,959)</b>	<b>(43,941)</b>
<b>Total market value/estimated market value</b>	<b>1,363,444</b>	<b>1,926,949</b>
<b>Total book value</b>	<b>1,362,574</b>	<b>1,925,394</b>

**SECURITIES, SHARES AND PARTICIPATION UNITS**  
**- INVESTMENT PORTFOLIO (BY MARKETABILITY)**

A. Unlimited marketability, listed on stock exchanges (book value)		
a) shares (book value)	7,677	228,401
- adjustments (net)	(1,579)	(9,631)
- purchase cost	9,256	238,032
b) bonds (book value):	1,331,445	2,360,509
- adjustments (net)	115,592	144,700
- purchase cost	1,215,853	2,215,809
c1) Mass Privatisation Certificates (book value):	1,518	2,302
- adjustments (net)	(33)	-
- purchase cost	1,551	2,302
B. Unlimited marketability, listed on the regulated over-the-counter market (book value):		
a) shares (book value)	-	-
- adjustments (net)	-	-
- purchase cost	-	-
b) bonds (book value):	-	238,155
- adjustments (net)	-	10,182
- purchase cost	-	227,973
c) other (book value):	-	-
- adjustments (net)	-	-
- purchase cost	-	-

C. Unlimited marketability, not listed on stock exchanges or on the regulated over-the-counter market (book value)	-	-
a) shares (book value)	2,214	28,180
- adjustments (net)	(66,541)	(1,426)
- purchase cost	68,755	29,606
b) bonds (book value):	4,128,858	3,602,053
- adjustments (net)	423,141	137,779
- purchase cost	3,705,717	3,464,274
c1) Eurofundusz units (book value):	12,000	12,000
- adjustments (net)	-	-
- purchase cost	12,000	12,000
c2) treasury bills (book value):	2,137,124	1,279,150
- adjustments (net)	206,635	(209)
- purchase cost	1,930,489	1,279,359
c3) NBP bills (book value):	774,454	2,163,526
- adjustments (net)	30,354	169
- purchase cost	744,100	2,163,357
c4) commercial papers (book value):	1,875	5,471
- adjustments (net)	0	(104)
- purchase cost	1,875	5,575
D. Limited marketability (book value)		
a) shares (book value)	433,904	427,220
- adjustments (net)	(318,275)	(241,492)
- purchase cost	752,179	668,712
b) bonds (book value):	5,838,863	4,611,309
- adjustments (net)	3,794,633	3,178,817
- purchase cost	2,044,230	1,432,492
c1) certificate of deposit (book value):	32,522	44,647
- adjustments (net)	1,214	1,741
- purchase cost	31,308	42,906
c2) treasury bills (book value):	50,732	52,199
- adjustments (net)	1,255	4,056
- purchase cost	49,477	48,143
c3) bills of exchange (book value):	-	37
- adjustments (net)	-	-
- purchase cost	-	37
<b>Total purchase cost</b>	<b>10,566,790</b>	<b>11,830,577</b>
<b>Total adjustments to value</b>	<b>4,186,396</b>	<b>3,224,582</b>
<b>Total book value</b>	<b>14,753,186</b>	<b>15,055,159</b>

## Note 12

### INTANGIBLE ASSETS

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) organization cost incurred in respect of start-up or expansion of a joint-stock company	228	245
b) research and developments costs	-	-
c) goodwill	32,466	21,272
d) concessions, patents, licenses and similar items	5,771	11,695
e) computer software	24,144	28,130
f) rights to perpetual usufruct of land	21,244	40,295
g) other intangible assets	32,752	24,779
h) prepayments for intangible assets	92	887
<b>Total intangible assets</b>	<b>116,697</b>	<b>127,303</b>

## Note 12

## MOVEMENTS OF INTANGIBLE FIXED ASSETS (BY TYPE)

	organisation costs incurred in respect of start-up or expansion of a joint - stock company	research and development costs	goodwill	concessions, patents, licences and similar items	computer software	rights to perpetual usufruct of land	other intangible assets	prepayments for intangible assets	total
a) gross value of intangible fixed assets at the beginning of the period	232	-	60,448	8,806	49,115	21,500	38,530	92	178,723
b) additions:	64	-	136	9,370	21,400	19,892	1,597	888	53,347
- purchase	64	-	-	6,017	8,783	2,390	151	713	18,118
- transfer from capital work in progress	-	-	-	3,159	8,895	465	1,348	166	14,033
- other	-	-	136	194	3,722	17,037	98	9	21,196
c) disposals:	-	-	(133)	(21)	(4,588)	(711)	(8,224)	(93)	13,770
- sale	-	-	-	-	(7)	(682)	(12)	-	701
- other	-	-	(133)	(21)	(4,581)	(29)	(8,212)	(93)	13,069
d) gross value of intangible fixed assets at the end of the period	295	-	60,451	18,155	65,927	40,681	31,903	887	218,299
e) accumulated amortisation at the beginning of the period	4	-	27,982	3,035	24,971	255	5,778	-	62,025
f) amortisation for the period:	46	-	11,197	3,425	12,826	131	1,346	-	28,971
- amortisation for the period	46	-	11,284	3,367	14,513	219	2,266	-	31,695
- other additions	-	-	-	76	703	0	9	-	788
- other disposals	-	-	(87)	(18)	(2,390)	(88)	(929)	-	(3,512)
g) accumulated amortisation at the end of the period	50	-	39,179	6,460	37,797	386	7,124	-	90,996
h) net value of intangible fixed assets at the end of the period	245	-	21,272	11,695	28,130	40,295	24,779	887	127,303

## Note 13

### TANGIBLE FIXED ASSETS

	31.12.1997 PLN '000	31.12.1998 PLN '000
Tangible fixed assets		
a) fixed assets, including:	1,120,403	1,390,414
- land and buildings used by the Bank for its own business activities	669,144	803,026
- other land and buildings	36,397	37,295
- equipment	206,870	288,882
- motor vehicles	27,100	31,855
- other fixed assets	180,892	229,356
b) capital work in progress	204,814	188,559
c) prepayments for capital work in progress	3,787	3,617
<b>Total tangible fixed assets</b>	<b>1,329,004</b>	<b>1,582,590</b>

### FIXED ASSETS (OWNERSHIP STRUCTURE)

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) own	1,325,216	1,578,972
b) used under lease or other similar agreements, including:	-	-
<b>Total fixed assets</b>	<b>1,325,216</b>	<b>1,578,972</b>

### OFF BALANCE SHEET ASSETS

	31.12.1997 PLN '000	31.12.1998 PLN '000
used under lease or other similar agreements, including:	59,446	87,904
- value of land used under perpetual usufruct (leasehold) agreements	22,937	27,205
<b>Total of off balance sheet assets</b>	<b>59,446</b>	<b>87,904</b>

## Note 14

## MOVEMENTS OF TANGIBLE FIXED ASSETS (BY TYPE)

	land and buildings occupied by the bank for its own business activities	other land and buildings	equipment	motor vehicles	other tangible fixed assets	total
a) gross value of tangible fixed assets at the beginning of the period	786,875	39,195	364,274	49,554	365,502	1,605,400
b) additions:	183,864	1,794	168,863	19,831	129,068	503,420
- purchase	45,916	-	37,123	3,945	29,751	116,735
- transfer from capital work in progress	114,627	366	108,327	12,428	70,537	306,285
- property taken over	66	0	1,666	100	61	1,893
- other	23,255	1,428	21,747	3,358	28,719	78,507
c) decreases:	(27,578)	(154)	(28,430)	(7,012)	(36,708)	(99,882)
- sale	(2,239)	-	(1,398)	(1,015)	(247)	(4,899)
- liquidation	(470)	-	(8,414)	(76)	(5,127)	(14,087)
- other	(24,869)	(154)	(18,618)	(5,921)	(31,334)	(80,896)
d) gross value of tangible fixed assets at the end of the period	943,161	40,835	504,707	62,373	457,862	2,008,938
e) accumulated depreciation at the beginning of the period	117,731	2,798	157,404	22,454	184,609	484,996
f) depreciation for the period:	22,404	742	58,421	8,064	43,897	133,528
- depreciation charge for the year	24,644	452	70,503	8,979	49,113	153,691
- additions	13,647	291	7,678	1,907	4,712	28,235
- disposals	(15,887)	(1)	(19,760)	(2,822)	(9,928)	(48,398)
g) accumulated depreciation at the end of the period	140,135	3,540	215,825	30,518	228,506	618,524
h) net value of tangible fixed assets at the end of the period	803,026	37,295	288,882	31,855	(229,356)	1,390,414

Unplanned depreciation amounting to 900 ths PLN relates to liquidated fixed assets

## Note 14

### OTHER ASSETS

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Assets for sale	1,583	44,963
2. Other, including:	320,196	739,276
- inter-bank clearing accounts	32,209	317,355
- receivables relating to the sale of securities	19,354	124,326
- loans to employees granted out of the Employee Social Fund	36,150	49,167
- taxation receivables from the State Treasury	22,323	31,753
<b>Total other assets</b>	<b>321,779</b>	<b>784,239</b>

## Note 15

### PREPAYMENTS AND ACCRUED INCOME

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) prepayments and accrued income, including:	20,526	16,717
- amounts paid in advance	11,412	14,308
- amortisation of fixtures and fittings acquired before 1 January 1995	9,114	2,409
b) other prepayments and accrued income, including:	2,543,443	2,386,540
- capitalised interest on refinancing loan	2,537,220	2,384,082
- amounts arising on SWAP transactions	-	455
- other	6,223	2,003
<b>Total prepayments and accrued income</b>	<b>2,563,969</b>	<b>2,403,257</b>

## Note 16

### AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Amounts due to financial institutions excluding subsidiary and associated companies	2,533,327	1,678,559
2. Amounts due to non-consolidated subsidiary and associated companies	29,060	13,434
3. Amounts due to companies consolidated by equity accounting method	12,617	68,935
<b>Total amounts due to other financial institutions</b>	<b>2,575,004</b>	<b>1,760,928</b>

#### AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS (BY TYPE)

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Current accounts and deposits	2,432,067	1,474,121
2. Loans	41,614	30,665
3. Other liabilities:	84,737	251,334
- liabilities in transit	84,737	251,334
4. Interest	16,586	4,808
<b>Total amounts due to other financial institutions</b>	<b>2,575,004</b>	<b>1,760,928</b>

#### AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS (BY MATURITY)

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Current	318,275	277,869
2. Term (by period remaining to maturity):	2,240,143	1,478,251
a) to 1 month	1,659,071	1,305,162
b) between 1 month to 3 months	88,422	113,620
c) between 3 months to 1 year	454,591	20,947
d) between 1 year to 5 years	605	6,110
e) above 5 years	37,454	32,412
f) overdue amounts	-	-
3. Interest	16,586	4,808
<b>Total amounts due to other financial institutions</b>	<b>2,575,004</b>	<b>1,760,928</b>

#### AMOUNTS DUE TO OTHER FINANCIAL INSTITUTIONS (BY CURRENCY)

a. in PLN	626,296	985,132
b. in foreign currencies (converted to PLN)	1,948,708	775,796
<b>Total amounts due to other financial institutions</b>	<b>2,575,004</b>	<b>1,760,928</b>

#### Note 17

#### AMOUNTS DUE TO CLIENTS AND PUBLIC SECTOR ENTITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Amounts due to clients and public sector entities excluding subsidiary and associated companies	32,940,724	38,921,946
2. Amounts due to non consolidated subsidiary and associated companies	50,756	16,664
3. Amounts due to entities consolidated by equity accounting method	-	13,074
<b>Total amounts due to clients and public sector entities</b>	<b>32,991,480</b>	<b>38,951,684</b>

#### AMOUNTS DUE TO CLIENTS AND PUBLIC SECTOR ENTITIES (BY TYPE)

1. Current accounts and deposits	32,359,361	38,247,628
2. Liabilities in transit	61,246	76,686
3. Interest	570,873	627,370
<b>Total amounts due to clients and public sector entities</b>	<b>32,991,480</b>	<b>38,951,684</b>

**AMOUNTS DUE TO CLIENTS AND PUBLIC SECTOR  
- SAVING ACCOUNTS**

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Current	648	697
2. Term (by period remaining to maturity):	129,838	3,475
a) to 1 month	9,002	690
b) between 1 month to 3 months	16,991	1,009
c) between 3 months to 1 year	101,283	1,765
d) between 1 year to 5 years	2,562	11
e) above 5 years	-	-
f) overdue amounts	-	-
3. Interest	15,432	189
<b>Total amounts due to clients and public sector entities - saving accounts</b>	<b>145,918</b>	<b>4,361</b>

**AMOUNTS DUE TO CLIENTS AND PUBLIC SECTOR ENTITIES - OTHER**

1. Current	11,858,088	12,433,355
2. Term (by period remaining to maturity)	20,432,033	25,886,787
a) to 1 month	4,778,038	8,431,422
b) between 1 month to 3 months	5,506,469	6,884,774
c) between 3 months to 1 year	8,905,142	9,384,254
d) between 1 year to 5 years	1,241,759	1,186,045
e) above 5 years	625	292
f) overdue amounts	-	-
3. Interest	555,441	627,181
<b>Total amounts due to clients and public sector entities</b>	<b>32,845,562</b>	<b>38,947,323</b>

**AMOUNTS DUE TO CLIENTS AND PUBLIC SECTOR ENTITIES (BY CURRENCY)**

a. in PLN	17,257,397	23,011,131
b. in foreign currencies (converted to PLN)	15,734,083	15,940,553
<b>Total amounts due to clients and public sector entities - other</b>	<b>32,991,480</b>	<b>38,951,684</b>

**Note 18**

**LIABILITIES ARISING FROM SECURITIES SOLD  
WITH A REPURCHASE CLAUSE (REPO TRANSACTIONS)**

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) financial institutions	19,999	-
b) interest	-	-
<b>Total amounts due arising from repo transactions</b>	<b>19,999</b>	<b>-</b>

## Note 19

### LIABILITIES ARISING FROM THE ISSUE OF OWN SECURITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Certificates	20,827	4,799
2. Bill of exchange issued by parent company	9,000	9,000
3. Bills of exchange issued by subsidiary Banks	7,274	3,274
4. Interest	-	-
<b>Total liabilities arising from the issue of own securities</b>	<b>37,101</b>	<b>17,073</b>

### CHANGE IN LIABILITIES ARISING FROM THE ISSUE OF OWN SECURITIES

At the beginning of the period	19,853	37,101
a) increase:	17,248	-
- foreign exchange differences	15	-
- issue of certificates of deposit	17,233	-
b) decrease:	-	(20,028)
- payment on maturity of Bill of Exchange	-	(4,000)
- redemption of certificates of deposit	-	(16,001)
- redemption of Bank Pekao S.A. bills	-	(27)
<b>At the end of the period</b>	<b>37,101</b>	<b>17,073</b>

## Note 20

### SPECIAL FUNDS AND OTHER LIABILITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
1. Company Social Fund	42,840	49,552
2. Liabilities to customers relating to the acceptance of cheques and similar documents	2,915	6,283
3. Inter-bank and inter-branch clearing accounts	834,346	757,269
4. Liabilities towards brokerage houses	-	110,779
5. Fiscal liabilities	-	78,766
6. Other	219,490	151,321
<b>Total special funds and other liabilities</b>	<b>1,099,591</b>	<b>1,153,970</b>

## Note 21

### ACCRUALS AND DEFERRED INCOME

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) accruals, including:	56,123	152,778
- provisions for payments to employees	49,808	114,550
- amounts related to SWAP transactions	3,868	4,718
- other	2,447	33,510
b) deferred income, including:	3,244,091	3,067,757
- capitalised interest income on central investments	3,085,220	2,905,177
- unrealized foreign exchange differences	91,010	96,555
- income received in advance	37,801	52,089
- other	30,060	13,936
c) suspended income:	590,162	649,618
- suspended interest	556,391	637,646
- other suspended interest	33,771	11,972
<b>Total accruals and deferred income</b>	<b>3,890,376</b>	<b>3,870,153</b>

## Note 22

### PROVISIONS

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>PROVISIONS (BY TYPE)</b>		
Deferred tax	84,972	58,611
Other provisions:	83,234	149,484
a) amounts in dispute	47,466	12,674
b) guarantees	28,467	27,537
c) general banking risk	-	82,252
d) sundry	7,301	27,021
<b>Total other provisions</b>	<b>168,206</b>	<b>208,095</b>

### CHANGE IN PROVISION FOR DEFERRED TAX

Provision for deferred tax at the beginning of the period	9,031	84,972
a) increase in relation to adjustment of opening balance	34,101	-
b) increase (other):	127,731	350,382
- accrued interest income	120,699	337,975
- investment reliefs	7,032	12,203
- net foreign exchange differences	-	204
c) decrease:	85,891	376,743
- accrued interest costs	47,446	300,329
- provisions for loans and other provisions	26,214	76,414
- net foreign exchange differences	12,231	-
<b>Provision for deferred tax at the end of the period</b>	<b>84,972</b>	<b>58,611</b>

## CHANGE IN OTHER PROVISIONS

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>At the beginning of the period</b>	<b>62,987</b>	<b>83,234</b>
a) increase:	73,783	160,740
- creation of provisions	47,857	138,426
- transfers from other balance sheet positions	25,207	21,944
- foreign exchange differences	719	370
b) utilization:	(30,292)	(50,987)
- amounts written off	(2,384)	(28,245)
- other	(27,908)	(22,742)
c) release in respect of:	(23,244)	(43,503)
- release of provisions	(23,244)	(43,503)
<b>Provisions at the end of the period</b>	<b>83,234</b>	<b>149,484</b>

## Note 23

### NEGATIVE GOODWILL

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) negative goodwill - subsidiaries	875,820	642,268
b) negative goodwill - associated companies	5,699	3,799
<b>Total negative goodwill</b>	<b>881,519</b>	<b>646,067</b>

### CHANGE IN NEGATIVE GOODWILL - SUBSIDIARIES

a) Gross value at the beginning of the period	1,203,662	1,169,561
b) Increase	-	-
c) Decrease:		
- adjustment of negative goodwill at 1.01.1997	(34,101)	-
d) Gross value at the end of the period	1,169,561	1,169,561
e) accumulated amortisation of negative goodwill at the beginning of the period	(60,189)	(293,741)
f) amortisation of negative goodwill for the period:	(233,552)	(233,552)
- amortisation of negative goodwill		
g) accumulated amortisation of negative goodwill at the end of the period	(293,741)	(527,293)
<b>h) Net value at the end of the poeriod</b>	<b>875,820</b>	<b>642,268</b>

### CHANGES IN NEGATIVE GOODWILL - ASSOCIATED COMPANIES

a) Gross value at the beginning of the period	9,497	9,497
b) Increase	-	-
c) Decrease	-	-
d) Gross value at the end of the period	9,497	9,497
e) accumulated amortisation of negative goodwill at the beginning of the period	(1,899)	(3,798)
f) amortisation of negative goodwill for the period	(1,899)	(1,900)
g) accumulated amortisation of negative goodwill at the end of the period	(3,798)	(5,698)
<b>h) Net value at the end of the period</b>	<b>5,699</b>	<b>3,799</b>

<b>Negative goodwill - subsidiaries</b>	<b>PBG S.A.</b>	<b>BDK S.A.</b>	<b>PBKS S.A.</b>
Negative goodwill calculated on acquisition of control on 1.10.1996	403,652	470,634	329,376
Correction of negative goodwill at 1.01.1997	(14,330)	(9,664)	(10,107)
Negative goodwill after correction	389,322	460,970	319,269
Accumulated amortisation at 31.12.1998	(175,610)	(207,716)	(143,967)
Net value at 31.12.98	213,712	253,254	175,302
<b>Negative goodwill - associated companies</b>			
Purchase costs of shareholding in Centrozap Sp. z o.o. at 31.12.1995	10,259		
Net assets on acquisition	76,045		
Bank Pekao S.A.shareholding in Centrozap Sp. z o.o.	25.98%		
Bank Pekao SA share of net assets	19,756		
Negative goodwill at 31.12.1995	9,497		
Accumulated amortisation at 31.12.1998	(5,698)		
Net value at 31.12.98	3,799		

## Note 24

### SHARE CAPITAL

Series/Issue	Type of share	Nature of privileges	Nominal value of 1 share = 1.00 PLN				
			Number of shares	Nominal value of issue	Paid up	Date of registration	Rights to dividends (from)
A	ordinary bearer	none	137,650,000	137,650	in full	97-12-21	98-01-01
B	ordinary bearer	none	7,690,000	7,690	in full	98-10-06	98-01-01
<b>Total shares</b>			<b>145,340,000</b>				
<b>Total share capital (ths.PLN)</b>				<b>145,340</b>			

On 7 September 1998 the parent company issued 7,690,000 series B ordinary bearer shares at a nominal value of 1 PLN each. The issue price was 45 PLN per share. In accordance with a resolution of the Management Board the share issue was taken up by the European Bank of Reconstruction and Development. The share issue was registered by the Warsaw Regional Court on 6 October 1998.

The following shareholders hold more than 5% of votes at a general meeting of shareholders:

1. The State Treasury - represented by the Minister of the Treasury - 65.98 % (direct interest of 65.61%), after taking into account employees entitled to receive shares,
2. European Bank of Reconstruction and Construction - 5.29 %

## Note 25

### SUPPLEMENTARY CAPITAL

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) share premium	-	338,360
b) statutory supplementary capital	45,000	45,900
c) supplementary capital created in excess of statutory requirements	-	31,015
<b>Total supplementary capital</b>	<b>45,000</b>	<b>415,275</b>

## Note 26

### OTHER RESERVE CAPITAL (BY TYPE):

	31.12.1997 PLN '000	31.12.1998 PLN '000
General banking risk reserve	158,013	210,320
Equity accounting consolidation reserve	19,044	41,751
Reserve fund	1,000,616	1,643,555
<b>Total other reserve capital</b>	<b>1,177,673</b>	<b>1,895,626</b>

## Note 27

### INFORMATION NEEDED FOR CALCULATION OF NET BOOK VALUE PER SHARE

	31.12.1997 PLN '000	31.12.1998 PLN '000
Equity:		
Share capital	137,650	145,340
Supplementary capital	45,000	415,275
Reserve capital	1,000,616	1,643,555
General banking risk reserve	158,013	210,320
Revaluation reserve	92,045	92,180
Foreign exchange differences on foreign branches	(483)	(1,015)
Equity accounting consolidation reserve	19,044	41,751
Net profit	824,949	520,298
Total equity:	2,276,834	3,067,704
Negative goodwill	881,519	646,067
<b>Book value</b>	<b>3,158,353</b>	<b>3,713,771</b>
Number of shares (in ths.)	137,650	145,340
<b>Net book value per share (in PLN)</b>	<b>22.94</b>	<b>25.55</b>

## Note 28

### OFF-BALANCE SHEET LIABILITIES

	31.12.1997 PLN '000	31.12.1998 PLN '000
Guarantees granted on behalf of:		
a) subsidiaries	1,685	-
b) associated companies	12,204	21,457
c) parent entity	-	-
d) other entities	678,876	670,637
<b>Total guarantees</b>	<b>692,765</b>	<b>692,094</b>

## NOTES TO PROFIT AND LOSS ACCOUNT

### Note 29

#### INTEREST INCOME

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. From financial institutions	494,258	513,652
2. From clients and public sector entities	3,129,284	3,121,603
3. From securities, including:	1,451,873	1,948,779
a) fixed income securities	1,445,914	1,948,779
b) floating income securities	5,959	-
4. Other	320,096	325,059
<b>Total interest income</b>	<b>5,395,511</b>	<b>5,909,093</b>

### Note 30

#### INTEREST EXPENSE

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. From operations with financial institutions	1,015,649	832,729
2. From operations with clients and public sector entities	2,522,644	3,134,137
3. Other	15,302	8,730
<b>Total interest expense</b>	<b>3,553,595</b>	<b>3,975,596</b>

### Note 31

#### COMMISSION INCOME

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Commissions from banking operations	421,417	536,346
2. Commissions from brokerage activities	221,291	227,298
<b>Total commission income</b>	<b>642,708</b>	<b>763,644</b>

## Note 32

### INCOME ON SECURITIES, SHARES AND OTHER EQUITY RIGHTS

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Subsidiaries	23,638	14,867
2. Associated companies	45,427	14,897
3. Other entities	2,753	3,205
<b>Total income on securities, shares and other equity rights</b>	<b>71,818</b>	<b>32,969</b>

## Note 33

### RESULT ON FINANCIAL OPERATIONS

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Result on operations in securities:	42,902	36,630
a) income on securities operations	128,889	516,650
b) cost of securities operations	85,987	480,020
2. Result on other securities operations	(4,370)	6,528
<b>Total result on financial operations</b>	<b>38,532</b>	<b>43,158</b>

## Note 34

### OTHER OPERATING INCOME

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
a) asset management on behalf of third parties	17,053	2,771
b) sale or liquidation of fixed assets and other assets for sale	2,032	9,068
c) recovery of doubtful receivables	25,352	7,800
d) compensation and damages received	705	238
e) donations/grants received	19,500	13,468
f) other:	43,433	67,618
including rents, advertising and other sundry income	23,808	20,362
<b>Total other operating income</b>	<b>108,075</b>	<b>100,963</b>

## Note 35

### OTHER OPERATING COSTS

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
a) costs attributable to asset management on behalf of third parties	23,507	23,722
b) sale or liquidation of fixed assets and other assets for sale	1,415	7,730
c) amounts written off	9,679	943
d) compensation, penalties and fines paid	3,350	5,880
e) donations	27,000	5,176
f) unplanned amortization	846	900
g) other:	28,487	37,412
including depreciation of fixtures and fittings acquired before 1.01.1995	14,011	8,931
<b>Total other operating costs</b>	<b>94,284</b>	<b>81,763</b>

## Note 36

### OVERHEAD COSTS

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Salaries	522,462	739,562
2. Statutory employment costs */	273,118	347,562
3. Non-personnel costs	435,937	630,731
4. Taxes and charges	15,472	19,409
5. Contributions and payments to Bank Guarantee Fund	39,022	24,662
6. Other	-	-
<b>Total overhead costs</b>	<b>1,286,011</b>	<b>1,761,926</b>

\*/ - including social security of 318,982 ths. PLN (1997 - 250,361 ths.PLN)

## Note 37

### PROVISIONS CREATED

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Provisions created:	612,833	767,244
- irregular loans	465,587	622,475
- off-balance sheet liabilities	47,857	30,737
- general banking risk	66,233	93,052
- other assets	27,177	6,343
- other	5,979	14,637
2. Revaluation:	17,240	38,002
- revaluation of financial assets	17,240	38,002
- other	-	-
<b>Total provisions</b>	<b>630,073</b>	<b>805,246</b>

## Note 38

### RELEASE OF PROVISIONS

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Release of provisions:	314,448	470,884
- irregular loans	274,231	414,773
- off-balance sheet liabilities	23,244	32,703
- general banking risk	-	10,800
- other assets	15,582	11,787
- other	1,391	821
2. Release of provisions in respect of revaluation:	26,266	48,214
- financial assets	26,266	48,214
- other	-	-
<b>Total release of provisions</b>	<b>340,714</b>	<b>519,098</b>

## Note 39

### TAXATION

	12 month to 31.12.1997 PLN '000	12 month to 31.12.1998 PLN '000
1. Consolidated gross profit	1,234,934	965,222
2. Consolidation adjustments	(204,420)	(221,070)
3. Permanent differences between gross profit and taxable income	96,778	(16,192)
4. Temporary differences between gross profit and taxable income	(298,285)	217,320
5. Other differences between gross profit and taxable income, including:	156,482	358,931
- losses from previous years	-	-
6. Taxable income	985,489	1,304,211
7. Corporate income tax at 38% / 36%	374,486	469,516
8. Tax reliefs/deductions	(8,734)	(5,927)
9. Corporate income tax borne	365,752	463,589
10. Provision for deferred tax:		
- balance at the beginning of the period (after adjustment)	43,132	84,972
- increases	127,731	350,382
- decreases	(85,891)	(376,743)
- balance at the end of the period	84,972	58,611
11. Deferred tax asset:	-	-
- balance at the beginning of the period	-	-
- increases	-	-
- decreases	-	-
- balance at the end of the period	-	-
12. Other income taxes (foreign branches and withholding tax)	8,816	4,823
<b>13. Taxation charge shown in consolidated profit and loss account</b>	<b>416,408</b>	<b>442,051</b>

**Information about the main differences between the taxation charge shown in the profit and loss account and corporate income tax arising on taxable income**

	1997 PLN '000	1998 PLN '000
A. Main items resulting in a decrease of corporate income tax:		
1. Tax exempt income	34,769	73,209
2. Deductions from taxable income:		
- investment relief	34,500	63,417
- investment relief premium	36,928	17,250
3. Donations	26,328	4,023
4. Deduction from corporate income tax - tax withheld on domestic dividends and tax on foreign income	8,734	5,927
B. Income and costs of previous years realised for tax purposes in current year	270,390	496,059
	<b>1998</b>	<b>Tax rate</b>
C. Main components of deferred tax provision of 58,611 ths. PLN		
1. Accrued interest income	2,209,396	34/32 %
2. Accrued interest cost	(1,582,497)	34/32 %
3. Net unrealised foreign exchange differences	(37,328)	34%
4. Provisions for lost loans	(301,436)	34%
5. Other provisions	(224,300)	34%
6. Net investment relief	162,219	34%
7. Other	(23,588)	34%

The corporate tax rates used are those expected to apply when the related timing differences are realised.

**The consolidated taxation charge is 442 051 ths. PLN comprising:**

	1998
1. Parent company	125,154
2. Subsidiary companies	360,897
comprising:	
CDM S.A.	33,711
BDK S.A.	94,274
PBKS S.A.	93,579
PBG S.A.	95,333

The deferred tax credit for the year was 26,360 ths. PLN

- The parent company had a deferred tax charge of 26 661 ths. PLN.  
The deferred tax charge resulted from a change in methodology for the calculation of deferred taxation.
- The subsidiary companies showed a deferred tax credit of 53 021 ths. PLN.  
The deferred tax credit arose as a result of the early redemption of capitalised interest on series A restructuring bonds.

## Note 40

### INFORMATION REQUIRED TO CALCULATE EARNINGS PER SHARE

	1997 PLN '000	1998 PLN '000
<b>Net profit (ths. PLN) from 1 January to 31 December</b>	<b>824,949</b>	<b>520,298</b>
Weighted average number of shares	137,650,000	141,495,000
<b>Net profit per share (PLN)</b>	<b>5.99</b>	<b>3.68</b>

### NET PROFIT (LOSS)

	31.12.1997 PLN '000	31.12.1998 PLN '000
a) net profit of the parent entity (after consolidation adjustments)	521,365	275,155
b) net profit (loss) of subsidiaries (after consolidation adjustments)	297,161	238,284
c) net profit (loss) of associated companies (after consolidation adjustments)	6,423	6,859
<b>Total net profit</b>	<b>824,949</b>	<b>520,298</b>

### Segmental analysis of net profit of the Group

	31.12.1997 PLN '000	31.12.1998 PLN '000
Banking	736,406	457,173
Brokerage services	87,085	60,169
Other	1,458	2,956
<b>Total</b>	<b>824,949</b>	<b>520,298</b>

## Note 41

### INFORMATION NECESSARY FOR CALCULATION OF CAPITAL ADEQUACY RATIO

	31.12.1997 PLN '000	31.12.1998 PLN '000
1) Risk weighted assets	20,347,718	25,678,896
2) Own funds:	2,292,923	2,925,746
a) Core funds	2,306,120	3,148,351
b) "Supplementary" funds	296,837	280,574
c) Deductions from own funds	(310,034)	(503,179)

## NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

	31.12.1997 PLN '000	31.12.1998 PLN '000
<b>Cash and cash equivalents comprise:</b>		
Cash in hand	1,039,456	1,255,337
Current account in the Central Bank	1,551,990	4,221,114
Obligatory reserve	282,889	-
Cheques	2,310	1,718
Treasury stamps	715	1,115
Gold bullion	13,250	-
Current amounts due from financial institutions	202,109	247,625
<b>Total</b>	<b>3,092,719</b>	<b>5,726,909</b>
<b>"Other" positions in the statement of cash flows comprise:</b>		
a) "Other adjustments" from operating activity:		44,025
- foreign exchange differences		268,468
- change in shares in other entities and other securities - investment portfolio		(224,443)
b) "Other proceeds" from investing activities - dividends received		2,114
c) "Other proceeds" from financing activities - appropriation of profit for employee bonuses		(89,824)

### **Explanation of the division of the Bank's activities between operating, investing and financing applied in the preparation of the statement of cash flows.**

Operating activity comprise the Group's basic activities that are not included in investing and financing activities

Investing activities include the purchase and sale of tangible and intangible fixed assets, shares in subsidiaries, associated companies, other entities, other equity rights and securities (including trading debt securities)

Proceeds from financing activities indicate the Group's sources of long term finance. These include the issue of shares by the parent company.

Expenditures related to financing activities include the realisationm of obligations to shareholders (payment of dividends), remuneration of members of the Management and Supervisory Boards and annual bonus payments (paid out of net profit) to employees.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Structure of the Group's lending exposure to individual borrowers, groups of companies and industrial sectors

The Banking Law dated 29 August 1997 established maximum exposure limits for Banks. In accordance to article 71.1 of this Law a Bank's total exposure arising from loans, purchased bonds and other securities (apart from shares), guarantees, letters of credit and other receivables in relation to one borrower or group of related borrowers may not exceed 25% of the Bank's own funds. In addition article 71.4 of the Law also sets a total exposure limit of 800% of own funds in relation to individual exposures exceeding 10% of own funds.

As at 31 December 1998 the Group only had one exposure that exceeded the limit specified in article 71.1.

Of this exposure 99.5% represented loans to finance a government central investment project and 0.5% represented standard commercial loans. Loans granted to finance government central investment projects are guaranteed by the State Treasury. The structure of the Bank's lending exposure is presented in the tables below. (Exposure comprises utilised loans, capitalised interest, off balance sheet liabilities and commercial papers).

#### a) In relation to individual borrowers:

Exposure to 10 largest clients	% of loan portfolio
Client 1	19.23
Client 2	1.56
Client 3	1.29
Client 4	1.22
Client 5	1.04
Client 6	0.94
Client 7	0.78
Client 8	0.70
Client 9	0.70
Client 10	0.68
Total exposure to 10 largest clients	28.14

The above exposures are classified as normal.

#### b) In relation to Groups of related companies:

Exposure to 5 largest groups of related companies	% of loan portfolio
Group 1	19.23
Group 2	1.74
Group 3	1.56
Group 4	1.40
Group 5	1.29
Total exposure to 5 largest groups of related companies	25.22

**c) In relation to sectors:**

In order to minimise sector risk the Group has developed a mechanism to monitor the sector structure of its lending exposure. This system involves the setting of concentration limits for particular sectors, monitoring of the loan portfolio and the establishment of appropriate information gathering mechanisms. The system uses the classifications applied by the European Classification of Economic Activities (EKD).

Concentration limits are based on assessments of investment risk, quality of the Banks lending exposure to a particular sector, current economic trends, the Banks own funds and the total assets of particular sectors.

A monthly comparison of the Bank's exposure to particular sectors with the current limits for those sectors permits the timely identification of those sectors presenting an exposure risk.

If such a situation is identified an analysis of the economic situation of that sector is performed taking into account current and predicted trends and the quality of the current exposure to that sector. These measures enable the Bank to develop policies that reduce sector risk and permit a timely reaction to changing circumstances.

<b>Sector</b>	<b>% of loan portfolio</b>
Wholesale and retail trade	12.93
Production of food, beverages and tobacco products	6.27
Production of transport equipment	3.97
Transport, communication and storage	6.16
Production of chemicals and synthetic fibres	2.45
Utilities (electricity, gas, water)	27.29
Construction	3.16
Brokerage, financial intermediation	5.95
Metallurgy	4.17
Real estate (brokerage and rental)	3.62
Production of wood pulp, paper and paper products	1.59
Mining	1.78
Other EKD classifications where the individual share in the loan portfolio does not exceed 2%	20.66
<b>Total</b>	<b>100.00</b>

## 2. Financial instruments

At 31.12.1998 the Group was involved in the following transactions:

- a) asset swaps - these hedge against interest rate risk arising on the purchase of fixed income securities. The transactions comprise the purchase of securities and the conclusion of an IRS (Interest Rate SWAP) and are entered into with the intention of holding the security until maturity. The purchase of fixed income securities is financed by variable interest funds drawn from the market. These asset swap transactions are characterised by:
- \* the price of the instrument is determined when the transaction is entered into
  - \* maturity is determined when the transaction is entered into and matches the maturity of the underlying security
  - \* the investor has the possibility of early settlement as the instrument is tradable
  - \* the realisation price of the instrument equals the market price
  - \* coupons are paid quarterly, half yearly or annually.
- The nominal value of such interest rate asset swaps concluded by the Bank as at 31.12.1998 was 141 516 ths. PLN
- b) futures transactions - the sale of standard futures contracts on American and French government bonds to hedge against the interest rate risk associated with the Bank's debt securities portfolio. The value of transactions at 31.12.1998 was 53 591 ths. PLN.
- c) Foreign currency exchange operations. These represent spot transactions performed at a pre determined exchange rate (settlement takes place 2 working days after the transaction is agreed). The value of such transactions at 31.12.1998 was 1 437 003 ths. PLN.
- d) Currency swaps. These represent a combination of spot and forward foreign currency transactions. A specific amount of currency is exchanged through a spot transaction. At the same time a forward contract is established to re-exchange the same amount of currency at a pre-determined rate on a future date. The nominal value of such transactions at 31.12.1998 was 446 842 ths. PLN. These transactions are used to manage the Banks liquidity (and amounts on nostro accounts).

The nominal value of current foreign currency exchange operations and swap transactions (representing the amount of currency purchased or sold) do not reflect the actual market risk associated with these transactions.

## 3. Off balance sheet liabilities

	<b>31.12.1998</b>
	<b>PLN '000</b>
1) Granted to financial institutions:	285,428
- financing	240,878
- guarantees	29,848
- confirmed export letters of credit	14,702
2) Granted to non financial institutions including:	4,734,299
- financing	4,154,472
- guarantees	579,827
3) Granted to public sector entities including:	165,947
- financing	80,652
- guarantees	85,295
<b>Total off balance sheet liabilities granted</b>	<b>5,185,674</b>

Included in the above are amounts of 116 377 ths. PLN granted to subsidiary and associated companies comprising: 88104 ths. PLN granted to non consolidated subsidiary and associated companies and 28 273 ths. PLN granted to subsidiary and associated companies consolidated using the equity accounting method. During 1998 of the Group Banks only Bank Pekao S.A. was involved in underwriting the issue of bonds and commercial papers. These are presented below.

Issuer	Type of security underwritten	Value of commitment '000 PLN	Term of agreement	Type of agreement
PP Elektrownia Bełchatów	Commercial paper	150,000	31.07.98-31.07.00	Underwriting
Rabobank Polska S.A.	Commercial paper	150,000	01.12.98-01.12.00	Underwriting
Gdynia local authority	Municipal Bonds	206,300	29.12.98-29.12.09	Underwriting
Stołeczny Zakład Energetyczny S.A.	Commercial paper	30,000	18.08.98-18.08.02	Underwriting
Zakłady Chemiczne Alwernia	Commercial paper	10,000	05.11.98-05.11.99	Underwriting
Mostostal Export	Commercial paper	90,000	31.07.98-31.07.99	Underwriting
Hortex Holding S.A.	Commercial paper	100,000	08.12.98-08.12.00	Underwriting
XI NFI	Commercial paper	50,000	21.12.98-21.12.00	Underwriting
IX NFI	Commercial paper	50,000	20.07.98-20.07.00	Underwriting
Protektor S.A.	Commercial paper	10,000	09.12.98-09.12.00	Underwriting
Elektrownia Dolna Odra	Commercial paper	60,000	21.09.98-21.09.00	Underwriting

The securities underwritten are freely transferable and not traded on the Stock Exchange or a regulated OTC market.

#### 4. Income, costs and operating results of activities discontinued during the period or expected to be discontinued in the following period

No activities were discontinued during 1998. The Group does not expect to discontinue any activities during 1999.

## 5. Capital expenditure by companies consolidated using the acquisition accounting method

Capital expenditure during 1998 was as follows: ('000 PLN):

	Pekao S.A.	BDK S.A.	PBG S.A.	PBKS S.A.	CDM S.A.
Buildings	44,903	33,722	37,069	28,968	464
Information Technology	111,272	15,218	31,545	24,380	4,362
Other	47,826	10,264	6,304	11,043	3,931
<b>Total</b>	<b>204,001</b>	<b>59,204</b>	<b>74,918</b>	<b>64,391</b>	<b>8,757</b>

The planned capital expenditure of Bank Pekao S.A. and CDM S.A. for 1999 is 669 000 ths. PLN comprising:

Buildings	161,000 Ths. PLN
Information Technology	349,000 Ths. PLN
Other	159,000 Ths. PLN

## 6. Transactions with related parties

Group companies did not enter any significant transactions with:

- members of the Management or Supervisory Boards of Group companies,
- the spouses, siblings, children or grandparents of members of the Management or Supervisory Boards of Group companies,
- other persons having a close personal relationship with members of Management and Supervisory Boards,
- shareholders holding more than 10% of voting rights at a general meeting of shareholders.

**The following balances of a lending/deposit taking nature existed at 31.12.1998 with Group companies that were not consolidated or were consolidated using the equity accounting method.**

Receivables:

	PLN '000
From financial institutions	1,106,578
From non financial institutions	292,686
Accrued interest	20,581
Overdue interest	36,931
Amounts in transit	11
<b>Total gross receivables</b>	<b>1,456,787</b>
Provisions	107,527
<b>Total</b>	<b>1,349,260</b>
Liabilities:	
To financial institutions	82,126
To non financial institutions	29,692
Accrued interest	289
<b>Total</b>	<b>112,107</b>

The following consolidation eliminations relating to transactions between consolidated companies have been made in preparing the consolidated financial statements:

- Receivables from and amounts due to financial institutions have been reduced by 4,483,563 ths. PLN,
- Off balance sheet liabilities have been reduced by 24,239 ths. PLN,
- Interest income and costs have been reduced by 66,088 ths. PLN,
- Commission income and costs have been reduced by 7,116 ths. PLN,
- Other income and costs have been reduced by 16,711 ths. PLN.

## 7. Information about average employment

In 1998 the average employment in companies consolidated using the acquisition accounting method was 25,592 as shown below:

Head Office	3,011
Domestic branches	21,566
Foreign branches	88
Foreign representative offices	10
CDM (brokerage house)	917

## 8. Remuneration of Management and Supervisory Board of parent company

	1998	1997
a) paid by Bank Pekao S.A. ('000 PLN)		
Management Board *	5,130	2,665
Supervisory Board	177	312
<b>Total</b>	<b>5,307</b>	<b>2,977</b>

\* / - includes remuneration of members of the Management Board relieved of their duties by the Supervisory Board during the first quarter of 1998.

b) paid by subsidiary and associated companies ('000 PLN)		1998
Management Board		253
Supervisory Board		-
<b>Total</b>		<b>253</b>

## 9. Loans granted to members of the Management and Supervisory Boards of the parent company

- granted by the Bank ('000 PLN)

	As at 31.12.1998	As at 31.12.1997
Management Board	79	50
Supervisory Board	-	-
<b>Total</b>	<b>79</b>	<b>50</b>

The loans were granted on commercial terms

At 31 December 1998 no member of the Management or Supervisory Board of the Bank had a loan from any of the Bank's subsidiary or associated banks. At 31 December 1998 there were no guarantees issued by the Bank on behalf of members of the Management or Supervisory Board.

## 10. Significant events relating to prior years recognised in the 1998 financial statements

1. The Paris branch of Bank Pekao S.A. is the defendant in 3 actions concerning its lending to a group of related companies in previous years. The Bank refutes the claims against it and has taken appropriate legal measures to defend its case. The Bank has provisions against all amounts due from the companies covered by the court actions. The Bank has no objective means of assessing the likelihood of whether similar court actions will be initiated in the future. If such situations do occur the Bank will create adequate provisions.
2. During 1998 one of the Group Banks created a provision of 17,104 ths. PLN for liabilities to the State Treasury. These liabilities related to the transfer of ownership rights of certain buildings used by that Bank. These liabilities were paid at the end of 1998.

## 11. Significant events occurring after the balance date

- 1) Adjusted for in the 1998 financial statements  
During the first quarter of 1999 amounts receivable from a borrower based in the Commonwealth of Independent States were repaid. In accordance with the recommendations of the Banking Supervision Commission the Group had earlier created a provision against these receivables. As a result the Group's "Russian Risk" provisions were reduced by 14,016 ths. PLN at 31.12.1998.
- 2) Not adjusted for in the 1998 financial statements  
On 31 December 1998 Pomorski Bank Kredytowy S.A. - Grupa Pekao S.A., Bank Depozytowo-Kredytowy S.A. - Grupa Pekao S.A. and Powszechny Bank Gospodarczy S.A. - Grupa Pekao S.A. were deleted from the Commercial Register. This procedure formed part of the process leading to the merger of these Banks with Bank Pekao S.A. on 1 January 1999 and does not require an adjustment of the 1998 financial statements.

## 12. Changes in accounting policies during 1998

- 1) In accordance with the recommendations of International Accounting Standard (IAS) No.12 Bank Pekao S.A. applied the full liability method for calculating deferred taxation instead of the previously applied partial liability method. This resulted in a 129,112 ths. PLN increase in the Group's taxation charge for 1998.
- 2) Until the end of 1997 Bank Pekao S.A. paid an annual bonus to employees as an appropriation of net profit. This was last performed as an appropriation of 1997 net profit. In 1998 the Bank adopted the policy that such bonuses will be charged to the profit and loss account. At 31.12.1998 the provision for the annual bonus amounted to 55,500 ths. PLN.

## 13. Foreign exchange rates applied in preparation of the consolidated financial statements

- 1) Certain financial information has been presented in ECU using one of 2 exchange rates:
  - balance sheet items have been retranslated using the mid rate set by the NBP as at 31.12.1998 (4.0925 PLN for 1 ECU),
  - profit and loss account items have been retranslated using an average of month end mid rates set by the NBP during 1998 (3.9296 PLN for 1 ECU).
- 2) Amounts derived from the financial statements of the foreign branches in Paris and New York have been retranslated as follows:
  - a) balance sheet items have been retranslated using mid rates set by the NBP as at 31.12.1998:
    - 3.5040 PLN for 1 USD,
    - 0.6237 PLN for 1 French Franc.
  - b) profit and loss items have been retranslated using an average of month end mid rate set by the NBP during 1998:
    - 3.5024 PLN for 1 USD,
    - 0.5944 PLN for 1 French Franc.

## 14. The Year 2000 problem

1. Review of IT systems  
Bank Pekao S.A., BDK S.A., PBG S.A., PBKS S.A., CDM and other institutions forming part of the Group performed an inventory and year 2000 review of all IT systems taking into consideration operating and application software, hardware and telecommunications equipment. A year 2000 compliance definition was established which formed the basis of all further evaluation work. A procedure of obtaining both external and internal compliance certificates for software and hardware was put into place. Compliance certificates received from external suppliers were subject to verification tests.
2. Dealing with the threat to IT systems  
The Group is performing tests of all individual components of IT systems as well as global testing of entire systems. The Group Banks and CDM have participated in tests organised by international organisations such as SWIFT, VISA and EURO-PAY and Polish financial institutions such as NBP, KDPW, GPW and CeTO. In addition to testing, contingency plans are being prepared for all components of IT systems in the event that they malfunction. The Group plans to use external experts to review both the results of testing and the contingency plans developed.
3. Current state of affairs  
Bank Pekao S.A. and CDM have completed the process of modifying critical systems. Operating and application software has been replaced. The exchange of computer hardware is in its final stages. All tasks have been completed on schedule. The Bank plans to meet the Year 2000 readiness date of 30.06.1999 recommended by GINB (the General Inspectorate of Banking Supervision).
4. Costs  
Some of the costs borne by the Group in addressing the year 2000 problem were incurred as part of the overall IT modernisation and development process. The budget allocated to the year 2000 process for 1998 was about 13 500 ths. PLN. The estimated costs for 1999 are about 22 000 ths. PLN.



# Foreign Network of Bank Pekao SA

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