



BANK ZACHODNI SA

ANNUAL REPORT
2000

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ADDRESS OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Shareholders,

I have the pleasure to present to you, on behalf of the Supervisory Board and the Management Board of Bank Zachodni S.A., the report on the most significant events and achievements of the bank in the year 2000 dominated by the announcement in October of the proposed merger with Wielkopolski Bank Kredytowy S.A.

Having invested PLN100 million in new capital early in the year 2000, AIB European Investments Limited invested a further PLN100 million in November, bringing AIB's shareholding in Bank Zachodni to 83%.

The year 2000 in Bank Zachodni S.A. was the first full calendar year of AIB's presence and support in the bank. During that time the employees of Bank Zachodni S.A. were able not only to get to know better the corporate culture and functional organization of their majority shareholder but also to establish well grounded working relations with their colleagues from Ireland.

This was also the time of initiating tremendous changes that would soon transform the operations of the bank's head office, regions and branches. During the year 2000 Bank Zachodni S.A. was developing its offer by introducing new products (e.g. a very popular Students' Account and a new Personal Account) and by modifying the existing ones, focusing especially on the offer addressed to small and medium companies. More and more attention was devoted to e-banking, that would be one of the characteristics of the new Bank Zachodni.

As you are aware, AIB European Investments Limited has been a 60.1% shareholder in WBK since 1997. Since acquiring its shareholdings, the AIB Group has been very committed to providing a very high level of support to both banks and has encouraged co-operation between the two banks which is already having a substantial impact. The co-operation is most evident in the joint US\$100 million common branch banking information technology investment by the banks on which work is already well underway. The maximum benefit will be derived from this substantial project when the two banks are merged into one organization.

Our main aim is to create and implement a „best in class“ customer focussed branch banking business, which will provide the new bank with a common product set and operating processes. Without any doubts we can refer to these works that started in April 2000 as the largest technology investment in the history of Polish banking. Improved access to customer information and multi branch banking means that the bank will be able to anticipate customers' needs in terms of services and products.

An immediate benefit that was offered to our customers was the introduction already in November 2000 of a common cash machines network of the two merging banks, which is the third largest network in Poland.

Both Bank Zachodni and WBK have very strong market positions in their own regions, which when combined provide a strong foundation for further development in Western and South Western Poland. We believe that the full merger of the two banks makes huge commercial sense and the Management Team of the merged bank has already undertaken extensive planning to make sure that the benefits can be realised from the merger as soon as possible.

There are a number of significant benefits from the merger which we all believe will add to shareholder value. Building critical mass which will result in Bank Zachodni WBK being the largest bank in the Wielkopolska and Dolny Slask regions and the 5th largest bank in Poland in terms of total assets will enable the merged entity to:

- Compete more effectively than the individual banks could do in the face of recent consolidation in the Polish banking market.
- Provide a broader and more uniform range of products with better services and more competitive prices.
- Strengthen its presence in new markets (in this respect a particular focus for expansion will be in the very important Warsaw area).
- Combine the resources of the Management Teams of each bank to create one of the strongest and most experienced bank management teams in Poland.
- Provide staff of each constituent bank with greater opportunities for both training and self advancement.
- Comprise a significant Polish bank listed on the Warsaw Stock Exchange with the liquidity to be attractive to Polish and international investors.

I am convinced that all the effort which is now being devoted to the development of Bank Zachodni and the merger with WBK represents an exciting opportunity for Bank Zachodni's shareholders, customers and staff.

Gary Kennedy

A handwritten signature in black ink, appearing to read 'G. Kennedy', with a stylized, cursive script.

The Chairman of the Supervisory Board

SUPERVISORY BOARD

Garry Kennedy	– President
David McCrossan	– V-ice President
Michael Buckley	– Member
Józef Frąckowiak	– Member
Marek Grzegorzewicz	– Member
Robert Wrzesiński	– Member

THE BANK'S MANAGEMENT BOARD

Aleksander Kompf	– Management Board President
Richard William Horgan	– I Vice-President of the Management Board
Janusz Krawczyk	– Management Board Member
Mateusz Morawiecki	– Management Board Member
Jacek Sieniawski	– Management Board Member

As for 1st January 2000 the Bank Zachodni SA Management Board was made up of the following persons: Tadeusz Głuszczyk - President, Richard William Horgan - Vice-President, Grażyna Niewolik - Vice-President, Andrzej Jędrzejczak - Management Board Member, Peter Nugent - Management Board Member

In 2000 the following changes were made in the Management Board composition:

15.03.2000 the Supervisory Board accepted the resignation of Mr. Tadeusz Głuszczyk from being on the Management Board with regard to planned retirement as well as the resignation of Ms. Grażyna Niewolik from being on the Management Board.

04.04.2000 the Supervisory Board appointed Mr. Austin Hogan Member of the Management Board and at the same time accepted the resignation of Mr. Peter Neugent from being a Management Board Member

09.08.2000 Mr. Aleksander Kompf was appointed President of the Management Board.

27.09.2000 the resignation of Management Board Members Andrzej Jędrzejczak and Austin Hogan was accepted. The following persons were appointed Management Board Members: Mr. Janusz Krawczyk, Mr. Mateusz Morawiecki, Mr. Jacek Sieniawski.

SIGNIFICANT EVENTS

January

- Bank Zachodni included by FOREX Polska in the group of banks that fix interest rates on the WIBID and WIBOR interbank market

February

- Dealing Room of the BZ SA Treasury Department becomes a licensed Money Market Dealer

March

- B1 project started together with WBK whose aim is to develop and implement a new IT system (ICBS)
- Maestro BeZetka - an electronic payment card of the Europay International introduced

April

- Successful tender for a comprehensive service of the Lower Silesian parliament

May

- A new division created in the Head Office - Electronic Banking, which will be responsible for electronic products and services

June

- X-tra Student account introduced. This special account addressed to students became very successful on the market.
- Bonds for Powiat Sredzki issued

July

- Employee shares granted to eligible Bank Zachodni SA staff
- Two hundred and fifty thousandth BZ SA Visa card issued

August

- The first credit card - VISA BZ SA - introduced to the Bank's offer

September

- EURO <26 VISA Elektron card addressed to young people added to the bank's offer

October

- The Management Boards of Bank Zachodni SA and Wielkopolski Bank Kredytowy take a decision to merge both banks
- BZ and WBK ATM network combined into one, the effect being the third biggest network in Poland
- Bonds of Powiat Elbląski issued

November

- The first Annual General Meeting of Shareholders attended by group of the Bank's employees holding shares in BZ SA

December

- BZ SA EGM approves the merger of Bank Zachodni SA with Wielkopolski Bank Kredytowy
- Bank Zachodni SA as a leader of the BZ SA and Brokerage House Consortium organises the first public issue of bonds for Wrocław
- Eurocard/MasterCard Gold BZ SA card added to the Bank's offer

BANK'S FINANCIAL SITUATION

In 2000, Bank Zachodni (BZ) under new management continued substantial restructuring programme, which was reflected in changes in the structure of its balance sheet and profit and loss account. Some of the implications of the restructuring for the bank's P&L have already been presented in the Information Circular published in November 2000. The bank's bottom line forecast for the year presented in the Circular and the actual loss are not materially different and loss for 2000 is more than offset by additional capital injected by AIB. As a result, the bank's capital position at end-2000 was even stronger than at the beginning of the year.

The key element behind the bank's bottom line is the restructuring of the loan portfolio program which was undertaken in 2000 - net risk provisions against loan business for the year amounted to PLN 240 mln. This brought up the loan loss reserve coverage ratio to 47% (78% if to include eligible collateral) - a level at which the bank has all its problematic exposures sufficiently provided against.

As with many of its peers, Bank Zachodni's balance sheet growth is liabilities driven. In 2000, its total assets grew by 16.6% with the main driver being the achievement of good growth of customer deposits. There were also AIB equity injections. Unlike the bank's liabilities structure, its assets composition has changed significantly throughout the year: loans declined slightly and surplus funds were invested in securities (mainly floating rate) and on the interbank market. These changes resulted in a shift in the structure of the bank's interest income and expenses. Interest income on customer loans grew by 11%, whereas interest income on interbank lending increased by 70%. On the other hand interest expenses were driven not only by growth in volumes but also by changes in the deposit structure in favour of term deposits.

Although the bank's net interest income (as presented in line three of the bank's financial statements) remained static in nominal terms, it does not take into account income on SWAPs and FRAs presented in line VIII as profit on financial operations. In 2000 net income on these operations amounted PLN 51 mln and in 1999 the bank did not perform these operations. Hence, the bank's net interest income adjusted for SWAPs and FRAs increased by almost 11%.

Fee and commission income declined at the Bank by almost 4% mainly as a result of spinning off the Brokerage House into a subsidiary towards the end of 1999. However, this was more than offset by other sources of non-interest income (e.g. f/x gains grew by 70%) and total non-interest income after adjustments for SWAPs and FRAs increased by 15.6%. Looking into the future, new business areas (such as enhanced e-banking capability) shall provide a stable stream of significant non-interest revenues.

Increase in the Bank's costs reflects the restructuring and development work being undertaken by the new management. In 2000, operational costs increased by 25%, mainly due to branch network, infrastructure investment and development.

Restructuring undertaken by the new management has already resulted in the first signs of business turnaround: profit on banking operations is growing, the bank started to regain its market share in deposits, sales of products for retail customers are increasing and remodelled lending processes and procedures should result in a good and healthy growth in the loan book. Although there is still work to be done the bank clearly shows strong signs of recovery.

FINANCIAL STATEMENTS

in accordance with Polish Accounting Standards

for the year ended 31 December 2000

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REGISTERED AUDITOR'S OPINION
To the Shareholders of Bank Zachodni S.A.

We have audited the financial statements of Bank Zachodni S.A., Wrocław, ul. Rynek 9/11, which are attached to this opinion and comprise:

- (a) the balance sheet as at 31 December 2000 showing total assets and equity and liabilities of PLN 9,311,781 thousand;
- (b) the income statement for the year ended 31 December 2000 showing a net loss of PLN 89,980 thousand;
- (c) the cash flow statement for the year ended 31 December 2000 showing a decrease in cash and cash equivalents of PLN 140,413 thousand;
- (d) the schedule of off-balance sheet items totalling PLN 957,914 thousand;
- (e) the notes to the financial statements.

The preparation of the financial statements in compliance with the binding regulations and of the Directors' Report is the responsibility of the Bank's Management Board. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the following regulations and standards in force in Poland:

- (a) the provisions of chapter 7 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121/591 as amended);
- (b) the auditing standards issued by the National Board of Registered Auditors.

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

Information presented in the Directors' Report for the year ended 31 December 2000 is consistent with the information presented in the audited financial statements.

REGISTERED AUDITOR'S OPINION
To the Shareholders of Bank Zachodni S.A. (cont'd)

The Bank's financial statements for the prior year, shown as comparatives in the current year's financial statements, were audited by another registered auditor, who issued an unqualified opinion on those statements on 11 February 2000. During our audit of the financial statements for the current year, we reviewed the opening balance sheet only to the extent necessary to issue our opinion on the financial statements for the year ended 31 December 2000.

In our opinion and in all material respects the attached financial statements:

- (a) have been prepared on the basis of properly maintained accounting records and in accordance with accounting policies, which have been applied on a consistent basis, specified in the Accounting Act as well as in Resolution No. 1/98 of the Banking Supervision Committee on specific accounting regulations for banks and the preparation of notes to financial statements,
- (b) comply as to form and contents with relevant laws and the Bank's Memorandum of Association,
- (c) give a true and fair view, of the Bank's financial position as at 31 December 2000 and of the results of its operations for the year ended 31 December 2000.

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



Adam Celiński
Registered Auditor
No C-33/7039



Antoni F Reczek
Chairman of the Board
PricewaterhouseCoopers Sp. z o.o.
Registered Auditor
No 90011/503



PricewaterhouseCoopers Sp. z o.o.
Registered Audit Company
No. 144

Warsaw, 19 February 2001.

BALANCE SHEET

as at 31 December 1999 and 31 December 2000

in PLN

	As at	
	31.12.1999	31.12.2000
ASSETS		
I. Cash and amounts due from Central Bank (NBP)	703 825 001,03	567 233 621,92
1. A'vista	703 096 945,53	566 272 570,50
2. Obligatory reserve	—	—
3. Other	728 055,50	961 051,42
II. Debt securities eligible for refinancing with Central Bank (NBP)	—	—
III. Receivables due from other financial institutions	385 140 405,81	1 567 632 154,22
1. A'vista	19 570 959,99	23 385 407,75
2. Term	365 569 445,82	1 544 246 746,47
IV. Receivables due from customers and budget sector	4 654 159 376,20	4 455 640 783,36
V. Debt securities	1 697 111 268,01	1 911 564 450,83
1. Issued by the State entities	1 634 793 622,78	1 874 068 868,42
2. Other	62 317 645,23	37 495 582,41
VI. Shares and other variable income securities	20 860 047,10	123 865 507,98
VII. Investments in subsidiary entities	40 029 640,42	33 587 651,52
1. In financial institutions	26 580 151,52	26 840 151,52
2. Other	13 449 488,90	6 747 500,00
VIII. Investments in affiliated entities	2 658 226,61	1 534 783,50
1. In financial institutions	—	—
2. Other	2 658 226,61	1 534 783,50
IX. Fixed income securities	—	—
1. In financial institutions	—	—
2. Other	—	—
X. Intangibel fixed assets	47 114 729,25	26 973 637,92
1. Costs of organisation at set up or later increase of capital	4 068,93	297 717,08
2. Goodwill	31 662 612,62	9 312 532,66
3. Other intangible fixed assets	15 448 047,70	17 363 388,18
4. Advances for intangible fixed assets	—	—
XI. Tangible fixed assets	375 741 489,29	433 064 642,01
1. Land and buildings	238 911 871,10	231 425 042,03
2. Other tangible fixed assets	115 546 753,84	129 319 271,75
3. Construction in progress	20 721 882,82	71 934 613,28
4. Advances for construction in progress	560 981,53	385 714,95
XII. Own shares and shares for resale	—	—
XIII. Other assets	49 818 746,22	146 070 868,79
1. Assets taken over for resale	4 534 516,93	815 782,22
2. Other	45 284 229,29	145 255 086,57
XIV. Accruals and prepayments	7 165 307,36	44 613 203,18
TOTAL ASSETS	7 983 624 237,30	9 311 781 305,23

in PLN

	As at	
	31.12.1999	31.12.2000
LIABILITIES		
I. Liabilities to the Central Bank (NBP)	–	–
II. Liabilities due to other financial institutions	405 243 582,09	653 208 913,00
1. A'vista	73 821 659,02	62 267 232,73
2. Term	331 421 923,07	590 941 680,27
III. Liabilities due to customers and the budget sector	6 331 639 150,98	7 218 899 128,05
1. Saving deposits	1 800,00	1 800,00
– a'vista	–	–
– term	1 800,00	1 800,00
2. Other	6 331 637 350,98	7 218 897 328,05
– a'vista	2 168 383 375,06	1 968 698 809,04
– termi	4 163 253 975,92	5 250 198 519,01
IV. Liabilities relating to securities issued	2 449 953,26	1 641 703,93
1. Own bonds	–	–
2. Other	2 449 953,26	1 641 703,93
V. Special funds and other liabilities	25 981 877,89	106 363 568,76
1. Special funds	8 030 502,07	8 890 780,87
2. Other liabilities	17 951 375,82	97 472 787,89
VI. Accruals and deferred income	286 613 981,13	300 645 071,42
1. Accruals	19 771 191,39	51 974 823,12
2. Deferred income	266 842 789,74	248 670 248,30
VII. Provisions	94 252 919,75	83 560 185,51
1. Provisions for deferred income tax	20 588 327,45	28 120 657,02
2. Other provisions	73 664 592,30	55 439 528,49
VIII. Subordinated debt	–	–
IX. Share capital	294 705 890,00	329 509 820,00
X. Unpaid capital	–	–
XI. Supplementary capital	246 723 971,09	412 003 877,92
1. Sale of shares above their nominal value	135 294 188,00	300 490 344,00
2. Capital created by legal regulations	110 157 339,09	110 157 339,09
3. Capital created by the company Statute	–	–
4. Other	1 272 444,00	1 356 194,83
XII. Reserve capital	292 842 007,30	295 929 160,28
1. Revaluation reserve capital	20 772 019,62	20 688 268,79
2. General banking risk fund	59 810 000,00	59 810 000,00
3. Other	212 259 987,68	215 430 891,49
XIII. Undistributed profit/(loss) from previous years	–	–
1. Net profit	–	–
2. Net loss	–	–
XIV. Net result for the period	3 170 903,81	-89 980 123,64
1. Net profit	3 170 903,81	–
2. Net loss	–	-89 980 123,64
TOTAL LIABILITIES AND EQUITY	7 983 624 237,30	9 311 781 305,23

OFF-BALANCE ITEMS

in PLN

as at 31 December 1999 and 31 December 2000

	31.12.1999 r.	31.12.2000 r.
I. Contingent liabilities in respect to:	205 082 078,94	199 209 390,76
1. Bills of exchange and letters of credit	12 913 734,57	21 966 333,25
2. Guaranties	149 960 112,46	147 213 508,55
3. Other	42 208 231,91	30 029 548,96
II. Repurchase and resell contracts	—	98 825 270,00
III. Loans committed but not given yet	585 132 288,13	659 879 512,92

STATEMENTS OF CASH

for the periods ended 31 December 1999 and 31 December 2000

	31.12.1999	31.12.2000
A. Cash flows from operating activities	75 269 933,15	93,987 535,57
I. Net profit	3 170 903,81	-89 980 123,64
II. Adjusted for:	72 099 029,34	183 967 659,21
1. Depreciation	63 825 527,19	65 874 641,60
2. FX rate movemetns gain/loss	—	—
3. Interests and dividends received and paid	-193 089 486,76	-204 440 175,21
4. Provisions for receivables	142 973 701,75	214 344 717,11
5. Other provisions	28 739 637,55	-18 225 063,81
6. Corporate income tax on gross profit	38 569 823,18	8 867 011,25
7. Corporate income tax paid	-83 367 117,60	-19 968 437,68
8. Gain/loss on sale and liquidation of investment items	398 776,57	55 831 296,54
9. Change in debt securities	318 691 323,98	528 284 084,81
10. Change in receivables due from other financial institutions	158 360 548,37	-1 242 731 858,45
11. Change in receivables due from customers and budget sector	-271 403 140,72	40 591 732,07
12. Change in shares and other variable income securities	1 522 983,66	-6 701 988,90
13. Change in liabilities to other financial institutions	-52 563 487,36	267 397 952,91
14. Change in liabilities to customers and budget sector	146 226 413,64	887 259 977,07
15. Change in securities issued	-5 297 592,81	-808 249,33
16. Change in other liabilities	-191 175 448,22	74 687 094,13
17. Change in accruals and prepayments	4 562 039,67	-5 244 264,09
18. Change in deferred income	-30 159 330,19	-18 172 541,44
19. Other	-4 716 142,56	-442 878 269,37
III. Net cash flows from operating activities (I+/-II)	75 269 933,15	93 987 535,57
B. Cash flows from investing activities	-445 452 791,80	-411 005 546,19
I. Purchase/sale of intangible and legal assets	-7 660 500,11	-8 497 509,48
II. Purchase/sale of tangible fixed assets	-70 007 705,02	-77 810 275,26
III. Purchase/sale of shares in subsidiaries	-6 214 051,52	-65 248 086,40
IV. Purchase/sale of shares in affiliates	—	2 310 000,00
V. Sale of other shares and securities (incl. trading securities)	-558 046 261,99	-476 596 484,06
VI. Other	196 475 726,84	214 836 809,01
VII. Cash outflows from investing activities (I+/-II+/-III+/-IV+/-V+/-VI)	-445 452 791,80	-411 005 546,19

STATEMENTS OF CASH

in PLN

for the periods ended 31 December 1999 and 31 December 2000

	31.12.1999	31.12.2000
C. Cash flows from financing activities	146 251 385,94	176 604 377,81
I. Long term bank loans received/repaid	—	-10 000 000,00
II. Long term borrowings, issue/redemption of bonds or other securities	—	—
III. Change in subordinated liabilities	—	—
IV. Dividends paid and other distributions to shareholders	—	—
V. Finances lease obligations paid	—	—
VI. Proceeds from issuance of shares and additional payments from shareholders	150 000 078,00	200 000 086,00
VII. Other	-3 748 692,06	-13 395 708,19
VIII. Net cash flows from financing activities (I+/-II+/-III+/-IV+/-V+/-VI)	146 251 385,94	176 604 377,81
D. Net change in cash (A+/-B+/-C)	-223 931 472,71	-140 413 632,81
E. Cash opening balance	939 969 204,44	716 037 731,73
F. Cash closing balance (D+E)	716 037 731,73	575 624 098,92

PROFIT AND LOSS ACCOUNTS

for the years ended 31 December 1999 and 31 December 2000

	1999	2000
I. Interest income	1 017 161 547,49	1 197 257 003,89
1. From financial institutions	67 684 392,77	115 612 535,42
2. From customers and budget sector	730 710 795,06	816 615 504,62
3. From securities:	198 862 052,42	244 901 741,95
a) fixed income securities	188 333 610,47	167 766 215,47
b) variable income securities	10 528 441,95	77 135 526,48
4. Other	19 904 307,24	20 127 221,90
II. Interest expense	571 491 519,83	753 836 941,00
1. From financial institutions	37 511 928,56	56 414 419,93
2. From customers and budget sector	531 833 220,43	696 365 088,94
3. Other	2 146 370,84	1 057 432,13
III. Net interest income (I - II)	445 670 027,66	443 420 062,89
IV. Commission income	158 264 536,22	159 271 390,74
V. Commission expense	7 653 379,27	14 363 290,14
VI. Net commission income (IV - V)	150 611 156,95	144 908 100,60
VII. Income on shares and other securities	676 466,74	1 231 947,28
1. From subsidiaries	—	1 231 947,28
2. From affiliates	676 466,74	—
3. From other entities	—	—
VIII. Profit from financial operations	721 860,59	64 981 217,70
1. Securities	736 560,54	2 313 033,17
2. Other	-14 699,95	62 668 184,53
IX. Profit from foreign exchange operations	28 769 298,48	48 919 654,95
X. Profit from banking activities (III + VI + VII + VIII + IX)	626 448 810,42	703 460 983,42
XI. Other operating income	20 037 083,69	48 901 665,38
XII. Other operating expense	13 715 852,68	96 317 960,04

PROFIT AND LOSS ACCOUNTS

in PLN

for the years ended 31 December 1999 and 31 December 2000

	1999	2000
XIII. Overhead costs	348 373 940,09	434 210 769,05
1. Salaries	190 980 836,19	215 754 655,66
2. Payroll related charges	38 713 435,38	41 162 236,61
3. Other	118 679 668,52	177 293 876,78
XIV. Depreciation of tangible and intangible fixed assets	63 825 527,19	65 874 641,60
XV. Provisions and revaluation	446 176 162,98	679 805 556,56
1. Provisions for nonperforming receivables, contingent liabilities and general risk provision	442 907 061,88	678 545 556,56
2. Revaluation of financial assets	3 269 101,10	1 260 000,00
XVI. Release of provisions and decreases relating to revaluation	267 679 731,06	442 944 335,26
1. Receivables, contingent liabilities and other	267 679 731,06	438 867 260,51
2. Revaluation of financial assets	—	4 077 074,75
XVII. Net provisions and revaluation (XV - XVI)	178 496 431,92	236 861 221,30
XVIII. Profit/(loss) from operating activities (X + XI - XII - XIII - XIV + -)	42 074 142,23	-80 901 943,19
XIX. Profit/(loss) from extraordinary items	-333 415,24	-211 169,20
1. Extraordinary profits	117 521,13	36 339,42
2. Extraordinary losses	450 936,37	247 508,62
XX. Gross profit/(loss) (XVIII + - XIX)	41 740 726,99	-81 113 112,39
1. Gross profit	41 740 726,99	-81 113 112,39
2. Gross loss	—	—
XXI. Mandatory decreases	38 569 823,18	8 867 011,25
1. Corporate income tax	38 569 823,18	8 867 011,25
2. Other	—	—
XXII. Net result	3 170 903,81	-89 980 123,64
1. Net profit	3 170 903,81	—
2. Net loss	—	-89 980 123,64

NOTE TO THE FINANCIAL STATEMENTS ORIGINALLY ISSUED IN POLISH FOR THE PERIOD ENDED 31 DECEMBER 2000

I. Applied accounting rules and basis for presentation of the financial statements

I.1. Basis for preparation of the financial statements and principal accounting policies

The financial statements were prepared in accordance with:

- The Banking Law of 29 August 1997 (Journal of Laws, 1997, No. 140, Item 939);
- The Accounting Law dated 29 September 1994 (Journal of Laws No. 121, 1994, Item 591 with subsequent amendments);
- The Foreign Exchange Law dated 18 December 1998 (Journal of Laws No. 160, 1998, Item 1063);
- The Resolution No. 1/98 of the Commission for Banking Supervision ("KNB") dated 3 June 1998 on specific accounting regulations for banks and preparation of additional information (Official Journal of NBP, 1998, No. 14, Item 27);
- The Resolution No. 2/98 of the Commission for Banking Supervision ("KNB") dated 3 June 1998 on detailed rules applicable to banks preparing consolidated financial statements (Official Journal of NBP, 1998, No. 14, Item 28);
- Regulation No. 67 of the Minister of Finance on issuance of restructuring bonds dated 26 August 1993 (Ministry of Finance Official Journal No. 16, 1993, Item 71);
- The Resolution No. 13/98 of the Commission for Banking Supervision ("KNB") dated 22 December 1998 on procedures for provisioning against the risk of banking operations (Official Journal of NBP, 1998, No. 29, Item 65);
- The Resolution No. 8/99 of the Commission for Banking Supervision ("KNB") dated 22 December 1998 on procedures for provisioning against the risk of banking operations (Official Journal of NBP, 1999, No. 26, Item 43);
- The Law on the Banking Guarantee Fund dated 14 December 1994 (Journal of Laws, 1995, No. 4, Item 18) with subsequent amendments;
- The Ordinance of the Ministry of Finance of 17 January 1997 on the depreciation of tangible and intangible fixed assets (Journal of Laws, 1997, No. 6, Item 35).
- The Resolution No. 8/99 of the Commission for Banking Supervision („KNB“) dated 5 August 1998 on specific procedures for establishing the level of shareholder's funds for those banks which belong to a banking capital group in order to comply with the norms and limits defined by the act - the Banking Law, other items of the balance sheet which belong to supplementary funds of the bank and conditions and mode of their calculation and the items of the balance sheet which are deducted when arriving at the shareholders' funds (Official Journal of NBP, 1998, No. 19, Item 43);
- Regulation no 5/98 of Commission for Banking Supervision („KNB“) dated 2 December 1998 on procedures for calculating the liquidity ratio of the Bank and percentage risk weights allocated to particular asset and off-balance sheet items (Official Journal of NBP, 1998, No. 26, Item 61);

List of principal accounting policies applied by the Bank in 2000 is presented below:

a) Basis of accounting

The financial statements have been prepared under the historical cost convention, in accordance with binding accounting regulations, complementary principle, chronology of the accounting postings principle, accrual concept, costs and revenues matching principle and going concern principle in respect of grouping business operations.

The historical cost convention was modified with respect to revaluation of fixed assets, balances denominated in foreign currencies and securities.

b) Receivables due from other financial institutions

Receivables due from other financial institutions are stated at value to be received less specific provisions.

c) Receivables from customers and the budget sector, specific provision for receivables

Receivables from customers and the budget sector are stated in financial statements at the value to be received less specific provisions created for securing receivables classified as endangered. Loans financed by third parties are netted with the resources received for their financing.

Specific provisions against endangered receivables result from the assessment of the quality of the loan book. Specific provisions for receivables were established in accordance with Resolution No. 13/98 of the Commission for Banking Supervision dated 22 December 1998 and No. 8/99 dated 22 December 1999. Loans are split into five risk categories: normal, under observation, sub-standard, doubtful and lost. The Bank adjusts the base for provision by the value of collateral defined in the aforementioned resolutions. The minimal provision rates used by the Bank for calculation of specific provisions for specified risk categories are as follows:

Loan category	Provision rate pursuant to the Resolution No. 8/99 used by the Bank in 2000
Normal for retail customers	1%
Under observation	1%
Sub-standard	20%
Doubtful	50%
Lost	100%

The Bank creates a provision for general banking risk. Changes to this provision are reflected in the profit and loss statement. The provision is set up on the basis of current credit risk evaluation with respect to industries and countries in which the Bank has credit exposure.

Acting on the basis of the ordinance of the Ministry of Finance dated 08.09.1999 on the procedure of issuing T-bonds dedicated to the conversion of the liabilities of State Treasury (Journal of Laws no 74 position 834), the Bank converted a part of purchased debts of State Treasury into T-bonds according to "novation principle" as defined by article 506 of the Civil Code. As the result of the operation, we exchanged the purchased debts of State Treasury (both principle and interest due to the conversion date) into T-bonds.

d) Other receivables and liabilities

The balance sheet does not include settlements with other banks in connection with syndicated loans for this part of the funds which had been received from other banks - other participants of the syndicate.

e) Deferred interest

Accrued interest and overdue unpaid interest on non-performing receivables together with capitalised interest are recorded as liabilities under the caption "Accruals and deferred income" as suspended/deferred interest.

f) Restructuring bonds

Restructuring bonds are stated at nominal value increased by capitalised interest not paid by the State Budget up till 31 December of each year and interest accrued at the end of the period.

According to Regulation No. 67 of the Ministry of Finance dated 26 August 1993 on the issuance of restructuring bonds, the face value of the restructuring bonds is increased by the amount of capitalised (not paid) interest, based on the rediscount rate established by NBP.

g) Securities held for investment and trading purposes

The Bank classifies securities as trading or investment depending on the reason of purchase. Securities purchased for investment purposes are classified as investment; securities purchased with intention to resell are classified as trading.

Debt securities, which are to be kept to maturity and equity securities, which are to be held for more than 6 months are classified as investment. Debt securities, which are not to be kept to maturity and equity securities to be held for less than 6 months are classified as trading.

Investment debt securities are presented at purchase price adjusted for accrued interest, discount and premium and adjusted for allowances for any permanent diminution in value.

Trading debt securities are recorded at the lower of purchase price adjusted for accrued interest, discount and premium, and net sale price. Net sale price is calculated on the basis of available market information. If the adjusted purchase price is higher than the net sale price, the difference is charged to financial operations expenses.

Trading equity securities are recorded at the lower of purchase price and net sale price.

Investment equity securities are presented at purchase price adjusted for allowances for any permanent diminution in value.

h) Intangible fixed assets

Intangible fixed assets are stated at the purchase price or at cost less amortisation. Goodwill is the difference between the purchase price of a unit or its organised part and the fair market value of the assets of the unit or its organised part.

Intangible fixed assets are amortised using the straight-line method with following rates:

- | | |
|-----------------------------|-----------|
| • software and copyrights | 3 years, |
| • property ownership rights | 40 years, |
| • other intangibles | 5 years. |

i) Tangible fixed assets

Tangible fixed assets are stated at purchase price or cost of manufacture, adjusted for revaluation less depreciation taking into account revaluation effect.

All fixed assets are depreciated according to the straight-line method at the following yearly rates of depreciation:

– buildings (except for residential buildings)	2.5%
– residential buildings	1.5%
– constructions	4.0-4.5%
– boilers and energy-generating machinery	6.0%
– plant, machinery and equipment of general use	12.5%
– computer hardware	17.0-30.0%
– special sector-related plant, machinery and equipment	12.5%
– plant	20.0%
– vehicles	20.0%
– tools, apparatuses, movables and furnishings	14.0-20.0%
– leasehold improvements	2.5-50.0%

Assets with a unit value less than 3.5 thousand zloty are depreciated completely at the moment of transfer to use.

700 zloty is considered as the bottom limit for fixed assets with a low unit value, except for: works of art, other assets such as safe boxes, television sets, steel lockers, punchers, refrigerators, vacuum cleaners, shredders, etc. which are not subject to this limit.

Tangible fixed assets are shown at historical purchase price adjusted for revaluation less accumulated depreciation. Land, works of art and construction in progress are not subject to depreciation. Fixed assets are revalued in compliance with regulations defined by the Ministry of Finance. The most recent revaluation was made as on 1 January 1995.

The rates used for tax purposes are those specified in the Ordinance of the Minister of Finance on the depreciation of fixed assets and intangibles and the valuation of fixed assets dated 17 January 1997. This ordinance sets the level of depreciation deductible for tax purposes with respect to the Corporate Income Tax Law dated 15 February 1992.

j) Investment allowance and bonus

The Bank benefited from an investment allowance in the years 1997-2000 pursuant to the Corporate Income Tax Law. In the years 1998-2000 the Bank also benefited from investment allowance bonus amounting to 50% of the investment expenditure deducted in the previous tax years.

Depreciation of fixed assets under investment allowance is calculated according to general rules and is not tax deductible. Utilisation of investment tax allowance is reflected in deferred tax calculation. The net value of fixed assets subject to investment allowances increases the deferred tax liability, as the depreciation will not be tax deductible. The premium to be utilised next year decreases the deferred tax liability.

k) Assets taken over for sale

Assets taken over for debts are stated at the amount of the debt for which the assets were taken over less specific provision for the difference between the amount of debt and net realisable value of the asset.

l) Revenue and expense recognition

All significant items of revenue and expense are recorded on the accrual basis.

Accrued interest on loans in normal category not due and overdue no longer than 30 days subsequent to the maturity date was booked to income.

m) Commissions

All commissions are booked to costs or revenues when received or paid excluding commissions for granting loans, guaranties and letters of credit which are recorded on accrual basis using straight-line method within the contractual period.

n) Foreign currencies

Transactions denominated in foreign currencies are recorded in zloty at the actual exchange rate at the date of transaction. Assets, liabilities and off-balance sheet items denominated in foreign currency have been revalued to zloty at the NBP average exchange rate prevailing on the last day of the reporting period.

Any realised and unrealised FX movement's gains or losses are charged to the profit and loss account.

o) Off balance sheet commitments, provisions in respect to guaranties

For the risk-related off-balance sheet (contingent) commitments which are classified to endangered categories, we created a provision in accordance with the aforementioned criteria.

These provisions are stated in "Other provisions" on the balance sheet.

p) Corporate income tax and deferred tax

Corporate income tax is computed in accordance with Polish tax regulations based on gross profit adjusted for income that in accordance with tax regulations is not taxable income and for expense that in accordance with tax regulations is non-tax deductible. Additionally, for tax purposes, gross profit is adjusted for tax deductions resulting from donations, capital investments under investment allowance and investment allowance bonus, in accordance with Polish tax regulations.

Starting from 1 January 1995 a provision for deferred tax has been established. The provision is calculated using the balance sheet method based on temporary differences i.e. the differences between the tax base of an asset or liability and its carrying amount in the balance sheet. A deferred tax asset is included in accruals and prepayments only when there is assurance of its realisation in one or more subsequent periods. When calculating deferred tax liability or asset the balance of differences on the balance sheet date is taken into account. The deferred tax provision is included in the profit and loss account as "Corporate income tax".

r) Retirement and jubilee bonuses

The Bank performed an actuarial valuation of the liability with respect to jubilee (long service) and retirement bonuses as of 31 December 1999. According to the valuation, the above-mentioned liability amounts to 44,999 thousand zloty. The Bank is planning to increase this provision annually in order to recognise the amount resulting from the actuarial valuation in 3 years that is till 2001. In the financial statements, provision for Jubilee (long service) and Retirement benefits are presented in accruals and prepayments.

- s) Staff holidays costs

The Bank has not been creating provisions for unused staff holidays since 1999. Pursuant to the regulations of the Labour Code, the employees are obliged to take the unused holidays to the end of March of the following year.

I.2. Changes in the rules of accounting and valuation within the period

- a) Since 2000, bills of exchange's discounts in connection with customers belonging to the non-performing group go to the profit and loss account after repayment of the loan.
- b) In revenues and expenses from financial instruments, we set up a separate line for swap interest as also separate lines for realised and unrealised costs and revenues.
- c) In 2000, the Bank has adjusted the principles of setting up specific provisions against credit risk to comply with Resolution 8/99 KNB.
Pursuant to the Resolution (§ 6 section.3 and 4) the Bank reduced the required level of provisions against normal receivables and under observation by the amount of 25 % of the provision against the general risk.
- d) The specific provisions against FX receivables are revalued pursuant to the Resolution No. 1/98 KNB. Negative and positive results from the movements in FX rates due to revaluations of specific provisions go to the FX gains. Previously, we included this into provision's results (revenues or costs due to creation or writeback of provisions)

I. 3. Information assuring comparability of prior and current year financial statements

The financial statements of the Bank ending on 31 December 2000 have been prepared in the format pursuant to the Accounting Act and KNB Resolutions. Data regarding the prior financial year has been appropriately adjusted to 2000 format.

The adjustments cover the following items of the Balance Sheet:

- netting the internal interest on receivables from and liabilities to financial institutions;
- transferring 561.20 by way of investment's internal settlements from other assets to "constructions in progress";
- transferring a specific provision of 477,915.65 created against receivables by way of accruals and prepayments to other provisions;
- supplementary capital was presented in details pursuant to the content of the report;

in the Profit and loss Account:

- transferring the amount of 756,151.78 regarding FX revaluation of derivatives from the financial operations' result to the profit from FX operations;
- adjusting profit from FX operations by the negative and positive results from FX rates movements in relation to specific provisions, which previously were in the costs of creating provisions (5,803,555.55) and in revenues from writeback of provisions of 825,068.93;

- cost by way of charges for provisions against receivables was adjusted by 748.80, which was transferred to other costs;
- other costs were adjusted by the amount of 477,915.65, which was transferred to charges for provisions against receivables. This amount relates to the created provision against not due interest in receivables from customers and in interest income.

I.4. Information assuring comparability of prior and current year financial statements

The changes to the presentation of data in the financial statements at 31 December 2000 and 31 December 1999 did not have a material impact on particular items of the financial statements.

I.5. Information on important post-balance sheet events not included in the financial statements

On 20 December 2000, the Extraordinary General Meeting of Bank Zachodni S.A. approved the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The merger of the Banks will be carried out by transferring all assets of WBK S.A. to Bank Zachodni S.A. for the shares which BZ S.A. will issue to shareholders of WBK. Consequently, the share capital of Bank Zachodni will increase in 2001 by PLN 400,093.020 through the issue of 40,009.302 ordinary bearer shares of G series with the nominal value of PLN 10 each. Thus the share capital of Bank Zachodni S.A. will increase by PLN 400,093.020 to the total amount of PLN 729,602.840.

The share exchange ratio was approved: one share of the Merged Issue for 1.72 shares of Wielkopolski Bank Kredytowy.

In February 2001, an agreement was signed on the sale of shares of the subsidiary FORUM ZPFI S.A.

I.6. Significant events relating to previous years included in the presented financial statements

In the financial statements for 2000 we did not include the events related to prior years.

II. Explanatory notes to the financial statements

II.1. The currency structure of assets and liabilities

a) The currency structure of assets

The currency structure of assets as at 31 December 2000 is presented below.

in PLN '000

NET ASSETS	ASSETS IN POLISH ZLOTY	ASSETS IN USD	ASSETS IN DEM	ASSETS IN FOREIGN CURRENCIES	TOTAL
1. Cash and balances with Central Bank	498 551	18 063	31 513	19 107	567 234
2. Debt securities eligible for refinancing with Central Bank (NBP)	—	—	—	—	—
3. Receivables due from other financial institutions	266 097	1 168 490	18 196	114 849	1 567 632
a) Current	13 611	1 844	674	7 256	23 385
b) Term	252 486	1 166 646	17 522	107 593	1 544 247
4. Receivables due from customers and budget sector	3 543 138	516 597	240 151	155 755	4 455 641
5. Shares, investments and securities	2 062 470	0	7 917	165	2 070 552
6. Other assets	649 493	227	214	788	650 722
Total assets	7 019 749	1 703 377	297 991	290 664	9 311 781

Share %	Assets in Polish Zloty	Assets in USD	Assets in DEM	Assets in other foreign currencies	TOTAL
1. Cash and balances with Central Bank	87,9	3,2	5,5	3,4	100,0
2. Debt securities eligible for refinancing with Central Bank (NBP)	0,0	0,0	0,0	0,0	0,0
3. Receivables due from other financial institutions	17,0	74,5	1,2	7,3	100,0
a) Current	0,9	0,1	0,1	0,5	1,6
b) Term	16,1	74,4	1,1	6,8	98,4
4. Receivables due from customers and budget sector	79,5	11,6	5,4	3,5	100,0
5. Shares, investments and securities	99,6	0,0	0,4	0,0	100,0
6. Other assets	99,8	0,1	0,0	0,1	100,0
Total assets	75,4	18,3	3,2	3,1	100,0

b) The currency structure of liabilities

The currency structure of liabilities as at 31 December 2000 is presented below.

Total liabilities and equity	Liabilities in Polish Złoty	Liabilities in USD	Liabilities in DEM	Liabilities in other foregin currencies	TOTAL
1. Liabilities due to the Central Bank (NBP)	—	—	—	—	—
2. Liabilities due to other financial institutions	628 305	20 864	595	3 445	653 209
3. Liabilities due to customers and budget sector	6 216 988	563 778	360 325	77 808	7 218 899
a) Current	1 701 979	94 443	133 888	38 389	1 968 699
b) Term	4 515 009	469 335	226 437	39 419	5 250 200
4. Other liabilities and capitals	1 419 726	15 340	4 187	420	1 439 673
Total Liabilities	8 265 019	599 982	365 107	81 673	9 311 781

Share %	Liabilities in Polish Złoty	Liabilities in USD	Liabilities in DEM	Liabilities in other foregin currencies	TOTAL
1. Liabilities due to the Central Bank (NBP)	—	—	—	—	—
2. Liabilities due to other financial institutions	96,2	3,2	0,1	0,5	100,0
3. Liabilities due to customers and budget sector	86,1	7,8	5,0	1,1	100,0
a) Current	23,6	1,3	1,9	0,5	27,3
b) Term	62,5	6,5	3,1	0,6	72,7
4. Other liabilities and capitals	98,6	1,1	0,3	0,0	100,0
Total Liabilities	88,8	6,4	3,9	0,9	100,0

II.2. Amounts of deposits and loans by geographical regions (excluding inter-bank deposits)

The Bank's sources of funds in 2000 include mainly current and term deposits from customers (77,5% of total liabilities as at 31 December 2000) and own funds of the Bank (11,1% of total liabilities as at 31 December 2000).

The Bank's and external funds were used mainly to finance loans granted (47,8% of total assets as at 31 December 2000) and investments in securities (22,2% of total assets as at 31 December 2000).

The geographical structure of term and current resources from customers and budget sector and loans granted to customers and budget sector is presented below respecting the territorial division introduced in Poland on 01.01.1999.

Presented balances include net loan receivables and liabilities together with interest accrued.

PROVINCE	Liabilities due to customers and budget sector				Receivables from customers and budget sector			
	31.12.99		31.12.2000		31.12.99		31.12.2000	
	PLN	%	PLN	%	PLN	%	PLN	%
1. DOLNOŚLĄSKIE	4 320 174	68,2	4 914 831	68,1	2 195 111	47,2	2 380 591	53,4
2. KUJAWSKO-POMORSKIE	13 082	0,2	13 473	0,2	122 356	2,6	22 937	0,5
3. LUBELSKIE	3 910	0,1	4 380	0,1	87 152	1,9	73 203	1,6
4. LUBUSKIE	294 101	4,7	331 662	4,6	214 114	4,6	243 385	5,5
5. ŁÓDŹKIE	22 336	0,4	27 376	0,4	24 094	0,5	45 219	1,0
6. MAŁOPOLSKIE	25 738	0,4	30 963	0,4	140 077	3,0	113 508	2,5
7. MAZOWIECKIE	224 469	3,5	287 097	4,0	347 582	7,5	268 851	6,0
8. OPOLSKIE	786 195	12,4	836 722	11,6	445 117	9,6	395 964	8,9
9. PODKARPACKIE	16 534	0,3	24 702	0,3	57 321	1,2	56 198	1,3
10. PODLASKIE	33 171	0,5	50 275	0,7	127 604	2,7	82 596	1,9
11. POMORSKIE	26 266	0,4	20 263	0,3	90 008	1,9	87 885	2,0
12. ŚLĄSKIE	289 107	4,6	325 752	4,5	338 320	7,3	255 919	5,7
13. ŚWIĘTOKRZYSKIE	103 359	1,6	122 267	1,7	91 184	2,0	91 763	2,1
14. WARMIŃSKO-MAZURSKIE	31 596	0,5	41 043	0,6	72 990	1,6	49 385	1,1
15. WIELKOPOLSKIE	87 912	1,4	118 599	1,6	133 103	2,8	133 469	3,0
16. ZACHODNIOPOMORSKIE	53 689	0,8	69 494	0,9	168 026	3,6	154 768	3,5
Total	6 331 639	100,0	7 218 899	100,0	4 654 159	100,0	4 455 641	100,0

II.3. Credit risk concentration

a) Receivables from other financial institutions

The structure of receivables due from other financial institutions is presented below:

Description	31.12.1999		31.12.2000	
		%		%
1. Current	19 578	4,7	23 407	1,4
a) from domestic banks	300	0,1	60	0,0
b) from foreign banks	11 926	2,8	8 330	0,5
c) from other financial institutions	7 352	1,8	15 017	0,9
d) interest accrued and interest overdue unpaid	0		0	0,0
2. Term (placements and loans)	401 327	95,3	1 636 407	98,6
a) from domestic bank	140 318	33,3	318 896	19,2
b) from foreign banks	38 675	9,2	1 119 879	67,5
c) from other financial institutions	215 362	51,2	181 430	10,9
d) interest accrued and interest overdue unpaid	6 972	1,6	16 202	1,0
Gross receivables (1 + 2)	420 905	100,0	1 659 814	100,0
Specific provision for receivables	(35 764)		(92 182)	
Net receivables	385 141		1 567 632	

On 31 December 2000, the Bank held deposits in seven domestic banks and in nineteen foreign banks registered in OECD member states. The maximum value of deposits placed with one domestic bank relative to the total value of deposits in domestic banks amounted to 27,5%. The maximum value of deposits placed with one foreign bank relative to the total value of deposits in foreign banks amounted to 11,7%.

As at 31 December 2000, non-performing receivables included deposits placed with following domestic banks: (BPE „Animex Bank”, BS Szczurowa, Bank Poznania) amounted to 7.036 thousand zloty and one loan receivable amounting to PLN 4.056 thousand granted to Incombank in Russia. The above mentioned non-performing receivables due from banks are fully provided.

b) Loan portfolio concentration for individual customers

The table below presents the Bank's loan exposure by type of customer, where the total value of loan granted to one entity is equal to or more than 1 % of the total loan portfolio of the Bank.

Entity	Loan (principle)	Loan exposure *) in %	Off-balance Sheet	Total exposure	Total exposure **) in %	Risk category
Local authorities	179 518	3,5	12 001	191 519	3,2	Normal
Mine	160 000	3,1	30 000	190 000	3,2	Normal
Paper production	154 179	3,0	0	154 179	2,6	Sub-standard
Mechanical vehicles and civil engineering	116 434	2,3	6 126	122 560	2,1	Lost
Retail sale	82 786	1,6	78	82 864	1,4	Doubtful
Power station	72 757	1,4	397	73 154	1,2	Normal
Carpentry production	58 915	1,2	0	58 915	1,0	Doubtful
Financial intermediaries and production of beverages	58 747	1,2	0	58 747	1,0	Lost
Production of house hold appliances	57 773	1,1	430	58 203	1,0	Normal
Rental of the motor vehicles	50 840	1,0	23 283	74 123	1,2	Normal
Telecommunication and retail sale	49 513	1,0	0	49 513	0,8	Normal
Air and space ships production	49 318	1,0	0	49 318	0,8	Lost
Financial services	46 198	0,9	0	46 198	0,8	Normal
Total receivables due from customers and budget sectors (gross loans receivables Item IV of Balance Sheet and Off-balance sheet items)	5 099 404	22,3	859 089	5 958 493	20,3	

*) loan exposure is presented as relation of gross loan to the total gross receivables due from customers and budget sector in the Bank's portfolio.

**) the total exposure is presented as a percentage of the total gross receivables from customers and budget sector and off-balance items in the Bank's portfolio.

c) Loan portfolio concentration in selected economic sectors

Industry type	31.12.1999		31.12.2000	
		Total exposure in %		Total exposure in %
Wholesale and commission trade, excluding sale of vehicles	441 788	8,6%	519 689	10,2%
Agriculture, hunting and related services	340 105	6,6%	357 890	7,0%
Construction	269 090	5,2%	291 532	5,7%
Retail trade, excluding sale of vehicles and repair of household and personal appliances	199 061	3,9%	268 909	5,3%
Water, gas and electricity supply	136 754	2,7%	256 822	5,0%
Public administration and state defence; social security guaranteed by law	70 372	1,4%	253 875	5,0%
Food and beverages processing	152 426	3,0%	201 216	3,9%
Coal mining (hard, brown) and peat excavation	190 963	3,7%	169 538	3,3%
Financial services excluding insurance and pension funds	212 302	4,1%	149 502	2,9%
Production of machinery not classified anywhere	187 486	3,6%	141 671	2,8%
Cellulose mass, paper and paper-products production	102 047	2,0%	128 391	2,5%
Land/pipelines transport	71 368	1,4%	101 095	2,0%
Total gross loans granted to industries, where concentration of loans exceeded 2% of total gross loans granted by the Bank	2 373 762	46,2%	2 840 130	55,6%

The table above presents the Bank's loan exposure by industry type. The specification covers those industries where the Bank's loan exposure is the most significant.

The figures presented above indicate that the loan concentration with respect to individual customers and industries does not represent an increased risk.

In both cases, the Bank's credit portfolio is significantly dispersed.

II.4. Quality structure and maturity structure of receivables and maturity structure of liabilities.

a) Quality structure of receivables

Quality structure of receivables according to the Resolution of Commission for Banking Supervision („KNB”) No. 8/99 with respect to provisions for risk associated with banking activity is presented below.

Receivables due from other financial institutions.

Risk category	31.12.1999		31.12.2000	
		%		%
1. Receivables by quality	413 933	98,3	1 643 612	99,0
– Normal	286 103	68,0	1 512 907	91,1
– Sub-standard	69 353	16,5	34 197	2,1
– Doubtful	14 507	3,4	5 602	0,3
– Lost	43 970	10,4	90 906	5,5
2. Interest accrued	3 590	0,9	4 960	0,3
3. Interest overdue unpaid	3 382	0,8	11 242	0,7
I. Total gross receivables due from other financial institutions (1+2+3)	420 905	100,0	1 659 814	100,0
II. Provisions for non-performing receivables by quality	(35 764)	100,0	(92 182)	100,0
– Under observation	(268)	0,7	(564)	0,6
– Sub-standard	(9 941)	27,8	(6 691)	7,3
– Doubtful	(3 175)	8,9	(181)	0,2
– Lost	(22 380)	62,6	(84 746)	91,9
III. Total net receivables due from other financial institutions	385 141	x	1 567 632	x

Receivables due from customers and budget sector

Risk category	31.12.1999		31.12.2000	
		%		%
1. Receivables by quality	4 912 460	95,2	4 919 389	96,4
– Normal	3 637 234	70,5	3 484 543	68,3
– Sub-standard	475 226	9,2	418 522	8,2
– Doubtful	225 063	4,4	398 739	7,8
– Lost	574 937	11,1	617 585	12,1
2. Interest accrued	135 205	2,6	44 202	0,9
3. Interest overdue unpaid	111 772	2,2	135 813	2,7
I. Total gross receivables due from customers and budget sector (1+2+3)	5 159 437	100,0	5 099 404	100,0
II. Provisions for non-performing receivables	(505 278)	100,0	(643 763)	100,0
– Normal			(804)	0,1
– Under observation	(11 671)	2,3	(3 049)	0,5
– Sub-standard	(43 750)	8,7	(61 027)	9,5
– Doubtful	(82 355)	16,3	(124 562)	19,3
– Lost	(367 502)	72,7	(454 321)	70,6
Total net receivables due from customers and budget sector	4 654 159	x	4 455 641	x

b) Receivables by maturity

Receivables by maturity are presented below.

Receivables from other financial institutions.

Maturity	31.12.1999		31.12.2000	
		%		%
1. A vista	19 578	4,6	23 407	1,4
2. Term	394 355	93,7	1 620 205	97,6
– up to 3 months	62 422	14,8	1 423 422	85,8
– 3 months up to 1 year	8 658	2,1	4 931	0,3
– 1 year up to 5 years	304 526	72,4	161 033	9,7
– over 5 years	18 749	4,4	30 819	1,8
3. Interest accrued	3 590	0,9	4 960	0,3
4. Interest overdue unpaid	3 382	0,8	11 242	0,7
I. Total gross receivables due from other financial institutions (1 + 2 + 3 + 4)	420 905	100,0	1 659 814	100,0
II. Provisions for non-performing receivables	(35 764)	x	(92 182)	x
III. Total net receivables due from other financial institutions (I-II)	385 141	x	1 567 632	x

Receivables from customers and budget sector

Maturity	31.12.1999		31.12.2000	
		%		%
1. Current	542 641	10,5	771 153	15,1
2. Term	4 369 819	84,7	4 148 236	81,3
– up to 3 months	648 313	12,6	592 423	11,6
– 3 months up to 1 year	870 944	16,9	687 909	13,5
– 1 year up to 5 years	1 459 846	28,3	1 253 248	24,6
– over 5 years	1 390 716	26,9	1 614 656	31,6
3. Interest accrued	135 205	2,6	44 202	0,9
4. Interest overdue unpaid	111 772	2,2	135 813	2,7
I. Total gross receivables due from customers and budget sector (1 + 2 + 3 + 4)	5 159 437	100,0	5 099 404	100,0
II. Provisions for non-performing receivables	(505 278)	x	(643 763)	x
III. Total net receivables due from customers and budget sector (I+II)	4 654 159	x	4 455 641	x

c) Liabilities by maturity

Liabilities due to other financial institutions:

Maturity	31.12.1999		31.12.2000	
		%		%
1. Current	72 763	18,0	61 452	9,4
2. Term	330 224	81,5	583 871	89,4
– up to 3 months	151 035	37,3	531 912	81,4
– 3 months up to 1 year	1 057	0,3	32	0,0
– 1 year up to 5 years	106 797	26,3	53	0,0
– over 5 years	71 335	17,6	51 874	8,0
3. Interest accrued	2 256	0,5	7 886	1,2
Total liabilities due to financial institutions	405 243	100,0	653 209	100,0

Liabilities due to customers and budget sector by maturity

Maturity	31.12.1999		31.12.2000	
		%		%
1. Current	2 155 484	34,0	1 958 528	27,1
2. Term	4 103 827	64,8	5 163 572	71,5
– up to 3 months	2 718 514	42,9	3 836 981	53,2
– 3 months up to 1 year	1 241 312	19,6	1 237 175	17,1
– 1 year up to 5 years	143 856	2,3	89 103	1,2
– over 5 years	145	0,0	313	0,0
3. Interest accrued	72 328	1,2	96 799	1,4
Total liabilities due to customers and budget sector	6 331 639	100,0	7 218 899	100,0

II.5. Data regarding securities owned

a) Debt securities

Debt securities as of the end of the particular periods are as follows:

Lp.	Type of debt securities	31.12.1999	31.12.2000
1.	Securities issued by State	1 636 866	1 874 069
	1.1. Treasury bills	575 723	129 212
	1.2. Restructuring bonds	105 290	109 195
	1.3. Treasury bonds	355 085	778 341
	Including:		
	– 1 year	0	0
	– 2 year	42 205	57 732
	– 3 year	67 550	66 670
	– 5 year	167 597	579 259
	– 10 year	77 733	74 680
	1.4. NBP Bills	99 886	357 476
	1.5. NBP bonds	477 397	475 115
	1.6. Communal bonds	23 485	24 730
2.	Securities issued by other entities:	62 317	37 495
	– bonds	16 796	0
	– other	36 980	29 578
	– bonds in foreign currencies	8 541	7 917
3.	Total gross debt securities	1 699 183	1 911 564
4.	Provisions for debt securities	(2 072)	0
5.	Total gross debt securities	1 697 111	1 911 564

The table below presents debt securities by marketability as at 31 December 2000:

	31.12.1999	31.12.2000	%
1. Securities with unlimited marketability quoted on the Stock Exchange or other regulated market - treasury bonds Including: bonds purchased due to conversion of State Treasury debt securities	355 085 0	774 935 343 353	40,6 18,0
2. Securities with unlimited marketability not quoted on the Stock Exchange or other regulated market	786 929	583 672	30,5
2.1. Treasury and NBP bills, other issuers bonds and other securities	673 098	466 560	24,4
2.2. Restructuring bonds	105 290	109 195	5,7
2.3. Bonds in foreign currencies	8 541	7 917	0,4
3. Securities with limited marketability	557 169	552 957	28,9
3.1. Treasury bills and NBP bills which cover the fund of guaranteed deposits within BFG	26 140	21 855	1,1
– money bills	999	0	0,0
– T-bills	25 141	21 855	1,1
3.2. Treasury bills which secure the exempted part of obligatory reserve, loan from BFG and deferred tax related to the purchase of BRR Rolbank	53 632	55 987	2,9
– money bills	18 974	0	0,0
– T-bills	34 658	52 582	2,7
– T-bonds	0	3 405	0,2
3.3. NBP money bonds	477 397	475 115	24,9
4. Total gross debt securities	1 699 183	1 911 564	100,0
5. Provisions for debt securities	(2 072)	0	
6. Total gross debt securities	1 697 111	1 911 564	

b) Marketability of shares and other variable income securities

Shares and other variable income securities consist only of marketable shares. Data relating to the value of shares and other securities is presented in the table below.

Marketability	31.12.1999		31.12.2000	
		%		%
1. Shares listed on the Stock Exchange and in the regulated non-stock exchange trade				
a) Purchase price	16 839	47,3	17 912	13,0
b) Provisions for diminution in value	(8 373)	x	(9 088)	x
c) Net value	8 466	40,6	8 824	7,1
2.1. Shares not listed on the Stock Exchange and not in the regulated non-stock exchange trade with unlimited marketability				
a) Purchase price	9 370	26,3	9 091	6,6
b) Provisions for diminution in value	(3 368)	x	(2 187)	x
c) Net value	6 002	28,8	6 904	5,6
2.2. Shares not listed on the Stock Exchange and not in the regulated non-stock exchange trade with limited marketability				
a) Purchase price	9 397	26,4	110 482	80,4
b) Provisions for diminution in value	(3 005)	x	(2 344)	x
c) Net value	6 392	30,6	108 138	87,3
Total variable income securities:				
a) Purchase price	35 606	100,0	137 485	100,0
b) Provisions for diminution in value	(14 746)	x	(13 619)	x
c) Net value	20 860	100,0	123 866	100,0

The figures presented in the table above reflect shares quoted on the Warsaw Stock Exchange (WSE) or other regulated market together with shares in enterprises and organizations other than subsidiaries or affiliated entities.

II.6. Information about shares in other entities

a) Shares quoted on Warsaw Stock Exchange (WGPW) and Central Table of Offers (CTO) as at 31 December 2000

Name and headquarters of the entity	Operations	Number of shares	Book value of shares	Bank share in capital of entity in %	Purchase price	NRV provision	Net Realisable Value
HUTMEN	Copper processing	70 308	872	2,5	2 383	1 511	872
TIM	Selling of electric devices	435 920	1 155	9,1	4 621	3 466	1 155
MITEX	General construction	735 000	735	3,6	735	0	10 547
FASING S.A.	Production	100 000	300	3,2	1 000	700	281
MAGNA POLONIA S.A.	Services	1 641 488	5 762	5,5	9 173	3 411	5 762
Total shares quoted on the Warsaw Stock Exchange WGPW			8 824		17 912	9 088	18 617

in PLN '000

b) Other variable income shares and securities as at 31 December 2000

Name and headquarters of the entity	Date of purchase	Number of shares	Bank share in capital in %	Bank share in capital in %	Bank share in votes on Shareholders Meeting in %	Purchase Price	NRV Provision	limitations in sales: L-limited U-unlimited
Chocianowska SM	01.07.94	10	0	*	*	0	0	L
SM Nadodrze	01.07.94	10	0	*	*	0	0	L
Międzynarodowa Szkoła Bankowości								
i Finansów Sp. z o.o.	20.02.91	43	11	3,8	3,8	11	0	L
Invest Park WSSE Sp. z o.o.	06.10.97	100	1 000	2,0	0,7	1 000	0	L
FUM Poręba Sp. z o.o.	17.08.98	1	0	0,0	0,0	2	2	U
Fabryka Nici ODRA S.A.	01.10.95	25 060	0	12,5	12,5	2 111	2 111	U
Huta Szczecin S.A.	28.03.96	9 741	0	1,6	1,6	74	74	U
Bank Powierniczo Gwarancyjny S.A.	08.10.94	2 700	0	1,8	1,6	554	554	L
Dolnośląska ARR S.A.	04.08.95	100	102	2,5	2,2	102	0	U
ARR Agroreg S.A.	25.05.91	500	100	7,8	7,8	100	0	U
ARR Arleg S.A.	08.10.94	500	48	5,2	5,2	50	2	L
Karkonoska ARR S.A.	14.06.93	800	80	2,7	2,7	80	0	L
BPT Telbank S.A.	11.08.92	21 921	5 151	3,3	3,3	5 151	0	L
Cera S.A.	08.11.96	1 100	12	2,3	2,3	117	105	L
Wrocławska ARR S.A.	30.06.97	1 000	100	0,6	0,6	100	0	L
Legnicka Specjalna Strefa Ekonomiczna S.A.	29.04.97	150	150	0,5	0,6	150	0	L
Biuro Informacji Kredytowej S.A.	02.04.98	400	220	2,6	2,6	400	180	L
Krajowa Izba Rozliczeniowa S.A.	22.11.91	625	313	5,7	5,7	313	0	L
Giełda Poznańska S.A.	05.05.96	450	45	1,6	1,0	73	28	L
Polska Giełda Finansowa S.A.	06.03.96	1 000	0	3,1	3,1	100	100	L
Walbrzyska Giełda Rolno Spożywcza S.A.	18.07.96	30	22	0,6	0,7	37	15	L
DCHRS S.A.	16.01.97	13 330	850	2,2	1,9	1 500	650	L
Gorzowski Rynek Hurtowy S.A.	12.09.97	125	0	5,7	9,9	250	250	L
Giełda Elbląska S.A.	13.11.97	1 000	100	0,8	1,1	100	0	L
Vienna Leas International S.A.		345 942	0	8,7	2,5	346	346	L
Wrocławski Park Technologiczny S.A.	07.98	1 500	36	21,2	19,9	150	114	L
ARKA Specjalistyczny Otwarty Fundusz								
Inwestycyjny Poznań	05.09.00	9 699	100 000	—	—	100 000	0	L
Violetta S.A.	14.07.95	669 537	6 702	75,6	75,6	6 702	0	U
Total			115 042			119 573	4 531	

The shares presented in the above table are not quoted either on the Stock Exchange or on the other regulated market.

in PLN '000

c) Shares in subsidiaries as at 31 December 2000

Name of entity	Marketa-bility	Location	Operations	Purchase Price of shares	Provisions for per-manent diminution in value	Book value of shares book value	Bank share in capital in %	Equity of the company *	Net profit as at 31.12.99
1. FORUM ZTFI SA	L	Wrocław	Funds management	6 200	3 400	2 800	51,0%	6 156	(3 977)
2. G.R. Niepruszewo Sp. z o.o.	L	Niepruszewo	Agriculture	6 249	—	6 249	100,0%	6 722	—
3. G.R. Cisy Sp. z o.o.	L	Cisy	Agriculture	700	700	—	100,0%	no data	
4. Len SA	U	Kamienna G.	Production	6 508	6 508	—	39,4%	(8 283)	(20 412)
5. Zachodnie Systemy Teleinformatyczne Sp. z o.o.	L	Wrocław	Services	499	—	499	100,0%	1 484	0
6. Dom Maklerski S.A.	L	Wrocław	Services	24 040	—	24 040	100,0%	28 777	—
Total			x	44 196	10 608	33 588			

*) Item includes: own capital of the company +/— accumulated profit from previous years +/— profit of current year.

in PLN '000

d) Shares in affiliated entities as at 31 December 2000

Name of entity	Mark- tability	Location	Operations	Purchase Price Of shares	Provisions for Permanent diminution In value	Book value Of shares Book value	Bank Share In capital In %	Equity of the company *	Accumulated profit/loss For the Previous years	Net profit As at 31.12.2000
1. WESTFUND Ltd.	L	Irlandia	Services - management	165	—	165	33,7%	11 318	—	90
2. Kanwig-Trading Żurawica Sp. z o.o.	L	Żurawica	Customs storehouse	670	670	0	77,0%	no data	no data	no data
3. Kanwig Agencja Celna Sp. z o.o.	L	Żurawica	Customs Agency	5	5	0	49,0%	no data	no data	no data
4. Sudety CW Sp. z o.o.	L	Szczytna Śl.	Production	3 970	2 600	1 370	48,5%	3 388	—	20
Total				4 810	3 275	1 535		—		

All declared shares in subsidiary and affiliated entities were fully contributed by Bank Zachodni as at 31 December 2000.

The Bank has not received any dividends from subsidiaries or affiliates in 2000.

II.7. Tangible fixed assets by ownership

Form of ownership	31 December 1999	31 December 2000
1. Own fixed assets net	375 741	433 065
2. Tangible fixed assets in use under leasehold or other agreement presented in balance sheet (i.e. financial lease)		
Total tangible fixed assets per balance sheet	375 741	433 065
1. Tangible fixed assets in use under leasehold or other agreement not depreciated by the Bank (i.e. operating lease)	3	–
2. Land under perpetual leasehold	4 802	10 247
3. Property received for free management and use	72	72
Total tangible fixed assets off-balance sheet	4 877	10 319

in PLN '000

II.8. Changes in the value of the property of the Bank in 2000 by categories

a) Changes in the value of tangible fixed assets by categories in 2000.

Changes in the value of tangible fixed assets by categories in 2000 are presented below.

Details	TANGIBLE FIXED ASSETS									
	Land	Buildings and constructions	Technical equipment and plant	Computer equipment	Means of transportation	Leasehold improvements	Low value assets	Construction In progress	Advances For construction in progress	Total
I. GROSS VALUE										
Opening balance	8 616	259 101	86 563	68 526	10 158	32 462	28 256	20 721	561	514 964
Increases (purchases and transfers from constructions in progress)			51	2			932	113 856		114 841
Transfers within tangible fixed assets		7 813	19 650	13 597	3 101	5 449	2 703			52 313
Decreases (liquidation, disposal)	2 986	6 668	733	2 784	709	19	18 591	62 642	175	95 307
Closing balance	5 630	260 246	105 531	79 341	12 550	37 892	13 300	71 935	386	586 811
II. ACCUMULATED DEPRECIATION										
Opening balance	0	28 805	28 108	41 959	4 493	7 646	28 212			139 223
Depreciation for the period		6 544	9 635	12 700	1 723	3 074	3 388			37 064
Other	0	0	13	192	1	0	239	0	0	445
Decreases		898	233	2 715	544	5	18 591			22 986
Closing balance	0	34 451	37 523	52 136	5 673	10 715	13 248	0	0	153 746
III. NET VALUE - opening balance	8 616	230 296	58 455	26 567	5 665	24 816	44	20 721	561	375 741
IV. NET VALUE - closing balance	5 630	225 795	68 008	27 205	6 877	27 177	52	71 935	386	433 065

b) Changes in intangible fixed assets

Changes in intangible fixed assets in 2000 are presented in the table below:

	Goodwill	Set-up costs	Licenses, patents and similar intangibles	Computer software	Perpetual leasehold	Know How	Other intangible assets	Total
I. GROSS VALUE								
Opening balance	122 221	11	1 005	22 861	980	5 346	3 127	155 551
Transfers		290		8 434				8 724
Increases		43		872			66	981
Disposals			938	11	15			964
Closing balance	122 221	344	67	32 156	965	5 346	3 193	164 292
II. ACCUMULATED AMORTISATION								
Opening balance	90 558	7	147	12 093	356	4 970	304	108 435
Amortisation	22 350	39	14	5 766	191	376	75	28 811
Transfers				202				202
Disposals			115	8	7			130
Closing balance	112 908	46	46	18 053	540	5 346	379	137 318
III. NET VALUE opening balance	31 663	4	858	10 768	624	376	2 823	47 116
IV. NET VALUE closing balance	9 313	298	21	14 103	425	0	2 814	26 974

The purchases of tangible and intangible fixed assets are made through the Construction in Progress account.

c) Changes in value of assets taken over for resale

The assets held for resale are stated at market value, corresponding with the amount receivable for which the assets were taken over less the provisions for depreciation from the date of acquisition and fixed assets with capital expenditure of BZ SA for sale.

Detail

Opening balance	4 535
Increases:	
1. Asset take-over	1 720
2. Decreases in specific provision	114
Disposals:	
1. Sale	5 432
2. Increases in specific provision	40
3. Other	81
Closing balance	816

- d) Changes in value of assets taken over for resale

Changes in value of financial assets in 2000 are presented in the below table:

Details	Shares and other variable income securities	Shares in subsidiary companies	Shares in companies	TOTAL
I. Opening balance	20 860	40 030	2 658	63 548
II. Increases:	129 366	72 115	1 170	202 651
– purchases (gross value)	113 947	70 212	0	184 159
– other (e.g. revaluation)	6 892	0	120	7 012
– release of provision for financial depreciation	8 527	1 903	1 050	11 480
III. Decreases:	26 360	78 557	2 293	107 210
– Sales	18 921	70 595	2 100	91 616
– Other (e.g. revaluation)	90	6 702	193	6 985
– Increases in provision for financial depreciation	7 349	1 260	0	8 609
IV. Closing balance	123 866	33 588	1 535	158 989

- e) Subordinated loans

As at 31 December 2000 there were no subordinated loans granted.

II.9. Accruals, prepayments and deferred cost

- a) Prepayments

Prepayments as at 31 December 2000 comprised the following items.

Items	31.12.1999		31.12.2000	
		%		%
1. Raw materials	1 866	26,1	2 243	5,0
2. Goods for resale	3	0,0	0	0,0
3. Prepayments	5 296	73,9	42 370	95,0
TOTAL	7 165	100,0	44 613	100,0

b) Accruals and deferred cost

Accruals and deferred cost as at 31 December 2000 comprised the following items:

Item	31.12.1999		31.12.2000	
		%		%
1. Deferred interest on operations with financial institutions	6 013	2,1	12 852	4,3
2. Capitalised interest on operations with non-financial entities	4 234	1,5	608	0,2
3. Accrued interest on non-performing receivables due from non-financial entities	33 964	11,8	15 869	5,3
4. Overdue interest on operations with non-financial entities	109 693	38,3	131 970	43,9
5. Deferred income	1 298	0,4	1 382	0,4
6. Income received in advance	23 672	8,3	24 834	8,2
7. Accrued expenses	19 771	6,9	51 975	17,3
8. Other deferred revenue	87 313	30,5	48 622	16,2
9. Other	656	0,2	12 533	4,2
TOTAL	286 614	100,0	300 645	100,0

Accrued expenses include a retirement and jubilee bonus provision in the amount of PLN 30,000 thousand. The provision has been set up on the basis of projected expenses up to the year 2004. The level of the provision results from the actuarial assessment and the real liabilities by way of acquiring the right to these benefits by the currently employees in the period to 2004.

II.10. Share capital

Share capital at 31.12.2000 equalled PLN 329 510 thousand and is composed of 32 950 982 registered ordinary shares with the nominal value of PLN 10 each.

	Share capital
Share capital at 31 December 1999	294 706
Increases in 2000	34 804
– capital injections by AIB (IV, XI 2000)	34 804
Decreases	–
Share capital at 31 December 2000	329 510

The share structure by the shareholders is as follows:

1. Shares owned by state Treasury:	
A series	688 027
B series	724 073
2. Shares owned by AIB:	
A series	244 073
C series	22 155 927
D series	1 470 589
E series	980 393
F series	2 500 000
3. Shares owned by other shareholders:	
A series	4 187 900

The structure of share capital, number of shares and votes on the General Assembly of Shareholders:

- 83,0% AIB European Investments Limited,
- 4,3% State Treasury represented by the State Treasury Ministry,
- 12,7% other shareholders.

II.11. Supplementary and reserve capital

The changes in supplementary and reserve capital are presented below:

Details	Supplementary capital				Revaluations reserve capital	General reserve capital	Other reserve capital	Total share- holders' funds
	Capital created by legal regula- tions	Share premium	Revalua- tion reserve	Total supple- mentary capital				
At 31 December 1999	110 157	135 294	1 273	246 724	20 772	59 810	212 260	539 566
Increases in 2000	0	165 196	84	165 280	0	0	3 171	168 451
Including:								
– distribution of profit for 1999							3 171	3 171
– revaluation fund			84	84				84
– capital injected by AIB (IV, XI 2000 r.)		165 196		165 196				165 196
Decreases					84			84
At 31 December 2000	110 157	300 490	1 357	412 004	20 688	59 810	215 431	707 933

We will finance the balance sheet loss for 2000 out of the supplementary capital.

II.12. Subordinated liabilities

As at 31 December 2000, there were no subordinated liabilities.

II.13. Information about provisions and changes in provisions during 2000

a) Provisions for receivables and other assets

The changes in provisions for receivables and other assets in 2000 are presented in the table below:

Title of provision	Opening balance	Increase	Other	Decrease	Write-offs	Other	Closing balance
1. For receivables from financial institutions	35 764	111 205	0	53 806	6	975	92 182
2. For debt securities eligible for rediscounting with central Bank							
3. For receivables from the customers and the state	505 278	537 112	983	342 238	48 125	9 247	643 763
4. For financial depreciation of debt securities	2 072	0	0	2 072	0		0
5. For financial depreciation of variable income securities	14 746	7 349	90	8 527	40		13 618
6. For financial depreciation of shares in subsidiaries	11 251	1 260	0	1 903	0		10 608
7. For financial depreciation of shares in associated entities	4 445	0	0	1 050	30	90	3 275
8. For assets taken over for resale	384	40	0	114	0		310
9. For other assets	5 990	11 016	0	3 186	477		13 343
TOTAL	579 930	667 982	1 073	412 896	48 678	10 312	777 099

b) Other provisions

The changes in other provisions in 2000 are presented in the below table:

Provision	Opening balance	Increases	Other	Decreases	Write off- other	Closing balance
1. Deferred taxation provision	20 588	7 532	0	0	0	28 120
2. For off-balance liabilities granted to:	28 393	9 748	0	30 026	0	8 115
2.1. financial institutions	14 911	947		15 750	0	108
2.2. customers and state budget	13 482	8 801	0	14 276	0	8 007
3. For general banking risk	40 537	0	0	0	0	40 537
4. For accrued expenses	4 257	112	0	23	0	4 346
5. Other	478	1 964	0	0	0	2 442
TOTAL	94 253	19 356	0	30 049	0	83 560

The levels of particular provisions at 31.12.2000 are compliant with the required levels - pursuant to regulations.

III. Contingent liabilities and pledges on the property of the Bank

III.1. Guarantees granted and other off-balance liabilities

Off-balance sheet liabilities as at 31 December 2000 comprised the following items:

Type of liability	31.12.1999	%	31.12.2000	%
1. bill of exchange endorsement	11 910	1,5%	7 688	0,8%
2. guarantees and endorsements due to the Civil Law	138 050	17,5%	139 526	14,6%
3. letters of credit	12 914	1,6%	21 966	2,3%
4. underwriting of securities issuance granted to other issuers	31 000	3,9%	12 500	1,3%
5. open credit lines	583 103	73,8%	658 319	68,7%
6. other	13 237	1,7%	117 915	12,3%
TOTAL	790 214	100,0%	957 914	100,0%

III.2. Guarantees connected with securities issue.

As at 31 December 2000, the Bank guaranteed an issue of securities to: Elbląg Powiat (local authorities) - the amount of 7,000 thousand zloty, Środa Śląska Powiat (local authorities) - the amount of 5,500 thousand zloty. The maximum Bank's commitment resulting from the guarantees amounted to PLN 10m and PLN 9m for each of the above mentioned entities. The guarantee agreements expire in 2006 (Elbląg Powiat) and in 2010 (Środa Śląska Powiat). Guaranteed securities (bonds) are of limited marketability.

III.3. Assets securing liabilities of the Bank or third parties.

In accordance with the Bank Guarantee Fund Act of 14 December 1994 and the Resolution No 25/96 of the Bank Guarantee Fund Council dated 5 December 1996, the Bank accrued in 2000 for a liability for possible obligatory contributions to the Bank Guarantee Fund (BGF) in the amount of 20,620 thousand zloty. The contributions are made within an obligatory system for securing banks monetary funds.

The value of T-bonds (with a nominal value of 24 120 thousand zloty) constituting a pledge for the guaranteed funds and being deposited on a separate NBP account equalled 21,855 thousand zloty as at 31 December 2000.

As at 31 December 2000, treasury bills and T-bonds amounting to 55,987 thousand zloty were deposited on a separate account as a pledge for the Bank's liability relating to financial instruments received from BFG, Ministry of Finance and State Treasury in order to support the restructuring of BRR Rollbank acquired by the Bank in 1996.

IV. Other information

IV.1. Write-offs of fixed assets in 2000.

In 2000, no fixed asset were written off unplanned.

IV.2. Extraordinary gains and losses

Extraordinary gains and losses comprise:

Details	31.12.1999	31.12.2000
I. Extraordinary gains:	117	36
1. Catastrophic event related to:	117	33
a) compensation for loss of fixed assets or recovery from liquidation	117	33
b) other		
2. Remaining	0,2	3
a) revenues due to liquidation of fixed assets resulting from their loss of economic usefulness:	0,2	
b) other		3
II. Extraordinary losses:	451	247
1. Catastrophic event:	158	170
a) fixed assets related	158	170
2. Other	293	77
a) due to liquidation of fixed assets resulting from their loss of economic usefulness	104	
b) spinning of a part of the entity (the Brokerage House)	186	
c) other	3	77
Result on extraordinary items	(334)	(211)

IV.3. Write-off of uncollectable receivables in 2000

Uncollectable receivables written-off comprise:

Description	The method of writing off	
	Against set-up provision	Through other operating costs
1. Credit related receivables	48 131	56
2. Deposit related receivables		21
3. Settlement related receivables		12
4. Other receivables	477	3
Total	48 608	92

IV.4. Corporate income tax

The corporate income tax reconciliation is presented below in connection with the profit and loss statement and the gross result shown on the balance sheet of the Bank. As at 31 December 2000, the provision for deferred taxation amounted to 28,120 thousand zloty and was established based on temporary differences between the taxable base and the net profit before taxation.

	2000
Gross result	(81.113)
Non-tax deductible costs	656.128
Charges for provisions against loans and guarantees	514.264
Other charges which are not tax allowable	54.841
Interest on loans and deposits accrued and not paid	30.097
Charges for provisions against financial diminution in value	8.808
Charges for provisions against Jubille and retirement benefits	13.145
Depreciation of fixed assest covered by investment allowance	9.094
Donations	669
Unrealised costs by way of derivatives	12.501
Merger costs	4.341
Payments for PFRON	714
Other costs which are not tax allowable	7.654
Revenues which are not taxable	(549.902)
Writeback of provisions against loans and guarantees which were not tax allowable	(357.527)
Write-back of specific provisions against off-balance sheet liabilities	(30.026)
Writeback of provisions against financial diminution in value which were not tax allowable expenses	(14.689)
Accured, not paid interest on restructuring bonds	(20.127)
Increase of interest classified to accured income and not received loans	71.519
Unrealised revenues on derivatives	(81.989)
Accrued not received interest on State Treasury purchased debts converted into T-bonds due to "novation"	(90.417)
Other decreases of the taxable base	(26.646)
Increases of taxable base	(19.032)
Increase of the level of revenues received in advance and related to the future accounting periods	1.162
Increase of the level of interest on securities (excluding restructuring bonds)	(31.850)
Received interest on restructuring bonds	12.880
Accrued not received interest on inter-bank deposits	(2.371)
Other increases of the taxable base	1.147
Deductions from the taxable base	(1.635)
Donations	(523)
Capital expenditure + investment bonus	(1.112)
Taxable base	4.446
Calculated income tax (30%)	1.334
Deductions from tax	(1.220)
Tax after deductions (a)	<u>114</u>

in PLN '000

	2000
Charges to the financial results by way of provisions against deferred tax (b)	7.532
Charges to the financial result by way of Corporate Income Tax	
on income from dividends (c)	1.220
CIT on income generated by the Bank outside the country (d)	1
Total obligatory charges to the financial result for 2000 (a + b + c + d)	8.867
Net result	(89.980)

As at 31 December 2000 the following expense and income items were not included in the taxation base and constituted basis for the calculation of deferred tax provision:

	Base for calculating the provision	Tax rate	Impact on deferred tax liability
Increases			
Accrued interest on the restructuring bonds charged to income in the previous years	82.453	24%	19.789
Accrued interest on other securities charged to income in 2000 and previous years	56.086	28%	15.704
Accrued interest on loans charged to income in 2000 and previous years	45.549	28%	12.754
Accrued interest on deposits with other banks charged to income in 2000	3.291	28%	921
Accrued income from foreign exchange rate differences taxable in 2000	(49)	28%	(14)
Investment allowance provision	52.121		12.755
Receivables resulting from derivatives and on-going exchange operations	81.989	28%	22.957
Provisions due to „novation”	90.417		21.167
Total Increases	411.857		106.033
Decreases			
Accrued interest on deposits charged to expenses in 2000	(104.702)	28%	(29.317)
Provisions for receivables non-tax deductible in previous years which will become tax deductible in 2000	(89.534)	28%	(25.070)
Income received in advance (taxed)	(24.834)	28%	(6.954)
Capitalised interest taxed	(1.109)	28%	(311)
Provision for jubilee and retirement bonuses and other remuneration	(39.000)	28%	(10.920)
Unrealised costs on derivatives	(12.501)		(3.500)
Deferred interest taxed in 1991	(945)	28%	(265)

			in PLN '000
	Base for calculating the provision	Tax rate	Impact on deferred tax liability
Provision for audit	(3.000)	28%	(840)
Investment allowance bonus	(382)	28%	(107)
Other items	(2.252)	28%	(629)
Total decreases	(278.259)		(77.913)
Total (provision at 31.12.2000)	133.598		28.120
Provision at 31.12.1999			(20.588)
Creation of additional provisions (obligatory charge to the financial result by way of deferred tax at 31.12.2000)			7.532

IV.5. Capital expenditures

Capital expenditures realised in 2000 and planned for 2001 are presented below:

Items	31.12.2000	Plan 2001
1. Expenditures related to modernising and building	68 232	100 259
2. Telecommunication and IT expenditures	19 371	120 731
3. Integrated banking system	17 965	111 548
4. ATMs	3 535	7 030
5. Other	2 962	—
Total	112 065	339 568

Capital expenditures realised in 2000 are included in Financial Plan for 2000 approved by Bank's Supervisory Board.

IV.6. Income and expenses of discontinued activities

In 2000 the Bank did not discontinue any of its basic activities. The Bank has no intention to discontinue any of them in the current year.

IV.7. Other non-performing receivables

As at 31 December 2000, other non-performing receivables in Bank's assets amounted to 20,324 thousand zloty. They were fully provided.

The potential financial impact relating to the repayment of the above mentioned receivables is not significant to the financial result of the Bank.

Type of receivables	Amount	in PLN '000
		Amount of established provisions
1. Resulting from shortage and damage	4 075	4 075
2. Resulting from debt securities	8 000	8 000
3. Resulting from non operating activity	1 268	1 268
4. Resulting from basic activity	6 981	6 981
Total	20 324	20 324

V. Information on employees and the statutory bodies of the Bank

As at 31 December 2000 the Management Board of Bank Zachodni consisted of:

Name	Position
Gary Kennedy	Chairman of the Supervisory Board
David McCrossan	Deputy Chairman
Michael Buckley	Board Member
Marek Grzegorzewicz	Board Member
Józef Frąckowiak	Board Member
Robert Wrzesiński	Board Member

In 2000, there were no changes to the Supervisory Board of the Bank.

As at 31 December 2000 the Management board of Bank Zachodni consisted of:

Name	Position
Aleksander Kompf	Mgmt Board President
Richard William Horgan	I Vice-President
Janusz Krawczyk	Board Member
Jacek Sieniawski	Board Member
Mateusz Morawiecki	Board Member

Throughout 2000 there were 4 changes in the composition of the Bank's Management Board:

Effective of 15 March 2000 the Supervisory Board approved the resignation of Ms. Grażyna Niewolik and Tadeusz Gluszczyk - due to his retirement - from the Management Board membership.

Effective of 4 April 2000 Mr. Peter Nugent's resignation was approved. At the same time Mr. Austin Hogan was appointed Mgmt Board member.

Effective as 9 August 2000 Mr. Aleksander Kompf was appointed Management Board President.

Effective as of 27 September 2000 resignations of Mr. Andrzej Jędrzejczak and Mr. Austin Hogan were approved. At the same time the following persons were appointed Management Board members:

Janusz Krawczyk	Board Member
Jacek Sieniawski	Board Member
Mateusz Morawiecki	Board Member

The average employment at the Bank in 2000 equalled 6,509 staff member.

a) Credits, loans and guaranties granted to employees of the Bank, members of the Management Board and the Supervisory Board as at 31 December 2000.

Credits, loans and guaranties granted to employees of the Bank, members of the Management Board and the Supervisory Board as at 31 December 2000 are presented below:

Details	Loans (principal)	Loans granted from the Social Fund
1. Employees	27 424	6 277
2. Members of the Management Board	50	0
3. Members of the Supervisory Board	0	0
Total	27 474	6 277

Members of the Bank's Management Board used funds within credit card limits for individuals in the total amount of PLN 50 thousand.

As at 31 December 2000, there were no guaranties granted to the employees, members of the Management Board and members of the Supervisory Board.

b) Remuneration of members of the Management Board and Supervisory Board

In 2000 the salaries with the yearly bonus equalled (in thousand PLN):

For Mgmt Board members	1 451
For Supervisory Board members	<u>189</u>
Total	1 640

VI. Related party transactions

As at 31 December 2000, there were no loans and guarantees granted to the members of Management and Supervisory Boards. Loans and guarantees granted to subsidiaries and affiliated entities as at 31 December 2000 amounted to 54.613 thousand zloty. The provisions set up for those receivables amounted to 11.600 thousand zloty.

Date 15 February 2001

The Management Board of the Bank

Aleksander Kompf	Management Board of President
Richard William Horgan	I Vice-President of the Management Board
Janusz Krawczyk	Management Board
Mateusz Morawiecki	Management Board
Jacek Sieniawski	Management Board
Tadeusz Figiel	Director of Bank
	Accountant General

Handwritten signatures of the Management Board members and the Director of Bank, each on a horizontal line.

CONSOLIDATED FINANCIAL STATEMENTS
in accordance with International Accounting
Standards
for the year ended 31 December 2000

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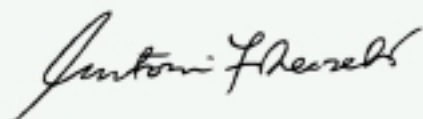
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INDEPENDENT AUDITORS' REPORTS to the Shareholders of Bank Zachodni SA

We have audited the consolidated financial statements of Bank Zachodni S.A. Group set out on pages 2 to 62. These financial statements are the responsibility of the Management Board. Our responsibility is to express an opinion on the truth and fairness of the consolidated financial statements based on our audit.

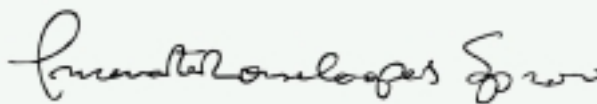
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting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

In our opinion, the consolidated financial statements present fairly, in all material aspects, the financial position of the Group at 31 December 2000, the results of its operations and changes in its cash flows for the year then ended in accordance with International Accounting Standards.



Antoni F. Reczek

Registered Auditor
President of the Board
PricewaterhouseCoopers Sp. z o.o.



PricewaterhouseCoopers Sp. z o.o.

Warsaw, 21 March 2001 roku

INCOME STATEMENT

for the year ended 31 December 2000

	Note	12 months to 31.12.2000 PLN'000	12 months to 31.12.1999 PLN'000
Interest income	3	1 271 811	1 018 122
Interest expense	3	(761 997)	(571 492)
Net interest income		509 814	446 630
Commission income	4	174 251	158 265
Commission expense		(17 249)	(7 653)
Dividend income		6 797	1 517
Net result on trading portfolio securities		2 982	(16)
Net result on investment portfolio securities		(400)	(1 063)
Foreign exchange gains		48 920	28 769
Net profit on financial operations		725 115	626 449
Other operating income		46 302	20 155
Provisions for loans and guarantees	5	(231 989)	(168 012)
Provisions for shares and other securities	6	4 943	(2 971)
Operating expenses	7	(582 913)	(422 564)
Amortisation of goodwill		(24 048)	(15 425)
Profit/(loss) before taxation		(62 590)	37 632
Taxation	8	(16 205)	(41 699)
Loss after taxation before minority interests	9	(78 795)	(4 067)
Minority interests		—	—
Net loss for the year		(78 795)	(4 067)
Loss per share (PLN)		(2.57)	(0.14)

BALANCE SHEET as at 31 December 2000

Assets	Note	As at 31.12.2000 PLN'000	As at 31.12.1999 PLN'000
Balances with the Central Bank	10	326 355	285 812
Cash in hand and current accounts with banks	11	252 084	430 226
Placements with and loans to other banks	12	1 429 538	169 216
Debt securities	13	1 845 473	1 672 463
Loans to customers and the public sector	14	4 308 734	4 476 667
Accrued interest receivables and other assets	15	292 002	184 354
Shares and other securities	16	137 486	63 548
Goodwill	17	8 033	32 081
Tangible fixed assets	18	464 639	395 434
Total assets		9 064 344	7 709 801
Liabilities and equity			
Amounts due to banks	19	302 419	201 078
Amounts due to customers and the public sector	20	7 246 996	6 461 220
Accrued interest and other liabilities	21	471 098	126 239
Provisions	22	98 037	96 729
Total liabilities		8 118 550	6 885 266
Minority interests	23	-	-
Share capital and reserves	24	1 024 589	828 602
Net loss	30	(78 795)	(4 067)
Total liabilities and equity		9 064 344	7 709 801

The financial statements on pages 2 to 62* were approved by the Management Board of Bank Zachodni SA on 21 March 2000.

The Bank's Management Board

Aleksander Kompf	Management Board of President
Richard William Horgan	I Vice-President of the Management Board
Janusz Krawczyk	Management Board
Mateusz Morawiecki	Management Board
Jacek Sieniawski	Management Board
Tadeusz Figiel	Director of Bank Accountant General

* In this Report – pages 56 - 112.

CASH FLOW STATEMENT

for the year ended 31 December 2000

	12 months to 31.12.2000 PLN'000	12 months to 31.12.1999 PLN'000
Cash flow from operating activities		
Net loss	(78 795)	(4 067)
Adjusted for:	1 574 819	(991 037)
Depreciation	45 131	40 838
Minority interests	-	-
Amortisation of goodwill	24 048	-
Foreign exchange gains/(losses)	-	-
Interest and dividends received and paid	(204 444)	(193 089)
Provisions for loans and guarantees	195 023	142 627
Other provisions	(11 732)	38 973
Taxation charge for the period	16 205	41 699
Corporate income tax paid	(21 966)	(83 367)
Net profit on the sale or liquidation of fixed assets and non-trading securities	55 812	399
Change in shares held for trading purposes	156 213	235 520
Change in debt securities	530 589	(608 092)
Change in amounts due from banks	6	(327)
Change in amounts due from customers and the public sector	(46 532)	(457 494)
Change in amounts due to banks	120 774	(95 401)
Change in amounts due to customers and the public sector	785 776	213 824
Change in other assets and liabilities	350 078	(227 052)
Other items	(420 162)	(40 095)
Net cash flow from operating activities	1 496 024	(995 104)
Cash flow from investing activities		
Purchase of tangible fixed assets	(118 094)	(81 062)
Sale of tangible fixed assets	20 351	2 165
Purchase of shares in non-consolidated subsidiaries and associated companies	(70 209)	(6 214)
Sale of shares in non-consolidated subsidiaries and associated companies	7 331	10
Sale/(Purchase) of other shares and securities (including trading securities)	(476 685)	(558 057)
Other items	208 138	211 263
Net cash flow from investing activities	(429 168)	(431 895)

CASH FLOW STATEMENT

for the year ended 31 December 2000

	12 months to 31.12.2000 PLN'000	12 months to 31.12.1999 PLN'000
Cash flow from financing activities		
Dividend paid	-	-
Other items	176 658	146 251
Net cash flow from financing activities	176 658	146 251
Net change in cash and cash equivalents	1 243 514	(1 280 748)
 Cash and cash equivalents at the beginning of the year	 1 151 603	 2 432 351
Cash and cash equivalents at the end of the year (a)	2 395 117	1 151 603
Net change in cash and cash equivalents	1 243 514	(1 280 748)
 (a) Cash and cash equivalents:		
Balance with the Central Bank	326 355	285 812
Cash and current amounts due from banks	252 084	430 226
Placements with, and loans to other banks	1 429 537	169 216
Debt securities with period to maturity within 3 months	387 141	266 349
	2 395 117	1 151 603

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Reserve capital	General risk reserve	Retained earnings	Net profit/(loss) for the year	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 1 January 1999	280 000	—	21 266	307 661	59 810	13 123	(3 258)	678 602
Distribution of 1998 profit								
a) Reserve capital	—	—	—	15 535	—	—	(15 535)	—
b) Net profit for the year	—	—	—	—	—	(18 793)	18 793	—
Transfer to reserve capital	—	—	(494)	494	—	—	—	—
Net profit/(loss) for 1999	—	—	—	—	—	—	(4 067)	(4 067)
Increase in share capital issued	14 706	135 294	—	—	—	—	—	150 000
As at 31 December 1999	294 706	135 294	20 772	323 690	59 810	(5 670)	(4 067)	824 535
	Share capital	Share premium	Revaluation reserve	Reserve capital	General risk reserve	Retained earnings	Net profit/(loss) for the year	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
As at 1 January 2000	294 706	135 294	20 772	323 690	59 810	(5 670)	(4 067)	824 535
Distribution of 1999 profit								
a) Reserve capital	—	—	—	3 225	—	—	(3 171)	54
b) Net profit/(loss) for the year	—	—	—	—	—	(7 238)	7 238	—
Transfer to reserve capital	—	—	(84)	84	—	—	—	—
Net profit for 2000	—	—	—	—	—	—	(78 795)	(78 795)
Increase in share capital issued	34 804	165 196	—	—	—	—	—	200 000
As at 31 December 2000	329 510	300 490	20 688	326 999	59 810	(12 908)	(78 795)	945 794

STRUCTURE OF BANK ZACHODNI SA GROUP

Name	Registered office	Interest held by BZ SA	Status	Consolidation method	Auditor	Reporting period	Share capital	Total assets	Net profit as at 31.12.2000	Average number of employees
							PLN '000	PLN '000	PLN '000	
Bank Zachodni SA	Wroclaw	—	parent company	—	PricewaterhouseCoopers Sp. z o.o.	12 months to 31.12. 2000	329 510	9 073 881	(83 637)	6 509
Dom Maklerski Banku Zachodniego SA	Wroclaw	100%	subsidiary	acquisition accounting	PricewaterhouseCoopers Sp. z o.o.	12 months to 31.12. 2000	22 000	257 211	4 842	198

NOTES TO THE FINANCIAL STATEMENTS

1. General information about the Bank Zachodni SA Group

Bank Zachodni SA (the parent company) and Dom Maklerski BZ SA (subsidiary, consolidated using the acquisition accounting method) carry out their business activities only in the territory of Poland.

The principal activity of Bank Zachodni SA is retail banking. Dom Maklerski BZ SA is engaged in the provision of brokerage services.

The parent company of the Group is AIB European Investments Limited which holds 83% of the share capital of BZ SA. AIB European Investments Limited is a wholly owned subsidiary of Allied Irish Banks p.l.c. Both AIB European Investments Limited and Allied Irish Banks p.l.c. have their registered offices in Dublin, Republic of Ireland.

On 20 December 2000 Resolution of an Extraordinary General Meeting of shareholders approved the proposed merger of Wielkopolski Bank Kredytowy SA (WBK SA) and Bank Zachodni SA. The merger will take place through the transfer of the assets and liabilities of WBK SA to BZ SA in exchange of new shares of BZ SA, which will be issued to the shareholders of WBK SA. The merger is planned to take place in May 2001.

2. Principal accounting policies

(a) Presentation of the financial statements

The consolidated financial statements of the Group present financial information in accordance with the reporting format applicable under International Accounting Standards (IAS).

The financial statements have been prepared under the historical cost convention, except for tangible fixed assets which are subject to periodic revaluation. The latest revaluation of tangible fixed assets was carried out as at 1 January 1995.

The Bank's financial statements for the prior year, shown as comparatives in the current year's financial statements, were audited by another registered auditor, who issued an unqualified opinion on those statements on 11 February 2000. These 1999 financial statements were prepared in different format, thus in order to facilitate comparability, they were adjusted in line with the format in which financial statements for the year ended 31 December 2000 are presented.

Furthermore, in order to increase comparability of financial data, the Bank aligned, the 1999 presentation of "Placements with and loans to other banks" and "Amounts due to banks" with the 2000 presentation, by excluding in data for 1999 interbranch interest of PLN 20 thousand.

(b) Consolidation

The subsidiary Dom Maklerski Bank Zachodni SA was consolidated using the acquisition accounting method. Other subsidiary and associated companies were not consolidated as they are insignificant in relation to the scale of activities of the Group or they were not acquired with the intention of exercising permanent influence over their financial policies and current operations.

NOTES TO THE FINANCIAL STATEMENTS

(b) Consolidation (cont.)

Acquisition accounting method

All intercompany transactions, balances and unrealised surplus and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. Separate disclosure is made of minority interest.

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated on the balance sheet date at the official mid rate for that date established by the President of the National Bank of Poland.

Realised and unrealised foreign exchange gains and losses arising between the date of inception of a transaction and the date of settlement or balance date where this precedes the settlement date, are treated as financial income or expenses and shown within the "foreign exchange result".

(d) Interest income

Interest income comprises interest received or receivable from interbank deposits, customer loans, debt securities and SWAP transactions. Accrued interest income including unpaid interest on loans classified as "normal" is recognised in the income statement and is included in the balance sheet within "accrued interest receivable and other assets". Interest due but not received is eliminated from income and included within "suspended interest" at the moment when the receivable becomes overdue or is reclassified from "normal" to "irregular". Interest on non-performing loans is recognised in the income statement when received. Income received in advance is shown in the balance sheet within "accrued costs and deferred income" and recognised in the income statement of the period to which it relates.

(e) Interest expense

Interest expense is charged to the income statement on an accrual basis. Interest expense also includes amounts arising on SWAP transactions.

(f) Commission income

Commissions mainly comprise amounts (other than interest) received in connection with the granting of loans and guarantees. Commissions exceeding PLN 3 500 are taken to the income statement on accruals basis, amounts not exceeding PLN 3 500 are taken to the income statement in whole when they are received.

(g) Dividends and result on sale securities

The result on sale of securities is calculated as the difference between the net book value of securities at the time of sale and the net sale proceeds. It also includes dividends, recognised in the income statement when received.

NOTES TO THE FINANCIAL STATEMENTS

(h) Provisions

Provisions general or specific are created in respect of normal loans, watch category loans, irregular loans, interbank placements, financial investments, tangible fixed assets and off-balance sheet commitments.

Specific provisions are set up in respect of the risk associated with individual transactions where the receivable or other exposure has been assessed on an individual basis and classified as lost, doubtful, sub-standard or watch (100%, 50%, 20%, and 1.5% respectively).

The Group sets up a general provision to cover losses that are believed to be present in the loan portfolio at the balance date, but which have not been specifically identified.

(i) Taxation

Corporate income tax is calculated at 30% (1999: 34%) of profit before tax which is determined on the basis of accounting regulations and adjusted for non-taxable income and non-deductible costs.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is calculated based on the tax rates that are expected to apply to the periods in future when a tax asset is realised or a tax liability is settled.

(j) Amounts due from banks, customers and the public sector

Amounts due from banks, customers and the public sector are stated net of provisions and capitalised and overdue interest.

(k) Debt securities and shares

Debt securities and shares include:

- long-term securities, including debt securities to be held until redemption by the issuer;
- shares in other companies, including shares in limited liability and joint stock companies which were purchased with the intention of exercising long-term control over the activities of those companies;

Debt securities and shares held for investment purposes are stated at cost net of provisions for permanent diminution in value. Debt securities and shares held for trading purposes are shown at the lower of cost and market value.

The purchase price of debt securities may be higher or lower than their nominal value. The resulting discount/premium is credited/charged to the income statement on an accruals basis over the period between their acquisition and expected redemption date.

The purchase price of government bonds purchased on the secondary market includes interest accrued in the period prior to their purchase. Such bonds are shown at cost adjusted for any purchase discount or premium. The carrying cost is reduced by the amount of pre-acquisition interest received subsequent to acquisition.

NOTES TO THE FINANCIAL STATEMENTS

(k) Debt securities and shares (cont.)

The NBP bonds purchased by the Bank in exchange for a no-interest bearing obligatory deposit bear interest equal to the inflation rate. The bonds are valued at cost plus accrued interest.

Since these bonds have replaced the obligatory deposit system and cannot be sold, they are included in the investment portfolio.

Accrued interest on securities is included within "accrued interest and other assets".

(l) Sale and repurchase agreements

Securities sold under sale and repurchase agreements ("repos") are retained in the financial statements and the counterparty liability is included in deposits from banks or customers as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as placements with, and loans to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of the repo or reverse repo agreements.

(m) Tangible fixed assets

Tangible fixed assets with the exception of land and capital work in progress, are shown net of depreciation. Tangible fixed assets comprise assets which are owned or jointly owned by the Group, are complete and ready for use when commissioned, have an expected useful life over one year and are designated for use by the Group or for rental to third parties.

Tangible fixed assets are periodically revalued in accordance with the provisions of the law.

Land held in perpetual usufruct (long term leasehold) is also included in tangible fixed assets.

Tangible fixed assets are shown at purchase price or construction cost less accumulated depreciation and taking into account the results of any revaluation performed.

(n) Depreciation

Tangible fixed assets are depreciated based on a depreciation schedule which specifies depreciation rates and annual depreciation charges.

Depreciation rates are established on the basis of the expected economic useful lives of the respective assets.

Depreciation rates are periodically reviewed, with any resulting changes implemented in the year in which the review was performed.

The following annual depreciation rates are applied to the main categories of tangible fixed assets:

• buildings and structures	1.5% - 4.5%
• plant and machinery	6.0% - 30.0%
• vehicles	20.0%

Land and capital work in progress are not depreciated.

NOTES TO THE FINANCIAL STATEMENTS

(o) Liabilities

Liabilities, including inter-bank deposits and placements, are recorded at the amount of principal due as at the balance date.

(p) Provisions for long service awards and one-off retirement payments to employees

The Group creates a provision for long service awards and one-off retirement payments to employees. The provision is determined taking into account life-time employment history and years of employment with the Group. The amount of provision was not updated in 2000.

(q) Equity

Equity comprises capital and reserves created in accordance with applicable regulations and the articles of association of consolidated Group companies. Equity also includes retained earnings and prior year losses brought forward.

With the exception of share capital, the share of the equity of consolidated subsidiary companies attributable to the parent company is added to the respective components of equity of the parent company (see below). Only that part of the equity of consolidated subsidiary companies that arose after acquisition by the parent company is added to the respective components of parent company equity.

Share capital represents the share capital of the parent company and is carried at its nominal value in accordance with the articles of association of the Bank and the entry in the commercial register.

Supplementary capital is principally created from appropriations of profit and share premiums arising on the issue of shares. In accordance with the Polish Commercial Code, at least 8% of net profit must be transferred to supplementary capital each year until supplementary capital reaches the level of 1/3 of share capital. The minimum balance is not distributable.

Reserve capital is utilised in accordance with the Bank articles of association. It is principally created from appropriations of profit and in certain circumstances is distributable.

Revaluation reserve represents the accumulated net surplus on revaluation of fixed assets in prior years. Revaluation reserve realised on disposal (i.e. sale, donation, scrapping or write-off) of the related fixed assets is transferred to reserve capital. Unrealised revaluation reserve is not distributable.

General risk reserve is created from appropriations of profit to cover unidentified banking risks.

Net result for the year is the profit/loss for the year after taxation disclosed in the income statement.

(r) Cash and cash equivalents

Cash comprises cash on hand and cash on current accounts with other banks.

Cash equivalents represent interbank deposits and debt securities with an initial maturity date within 3 months which can be exchanged into cash at any time and which bear a very low risk of change in value.

NOTES TO THE FINANCIAL STATEMENTS

(s) Off-balance sheet items

Off-balance sheet items relating to purchase/sale transactions include the purchase and sale of foreign currencies, differences on SWAP and forward transactions, amounts payable with respect to securities as well as deposits related to financial instruments. Off-balance sheet items also include guarantees, letters of credit and unutilised lending facilities.

(t) Derivative transactions

Unrealised losses or profits on valuation are taken to the income statement using the mark to market method of accounting.

All derivative instruments are assumed to be held for trading, unless there is a clear evidence of a specific hedging relations at the date of the derivative transaction.

Bank Zachodni SA also uses certain off-balance sheet transactions such as currency swaps for liquidity management purposes. Income and expenses from so-called swap points associated with such instruments are recognised in the income statement on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

3. Interest income and expense

	Income	Expense	Income	Expense
	12 months to 31.12.00 PLN '000	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000	12 months to 31.12.99 PLN '000
Financial institutions	190 154	(61 528)	68 645	(37 512)
Business entities, state-financed (budget) entities and individuals	816 622	(699 400)	730 711	(531 833)
Treasury bills and bonds	118 480	–	78 218	–
Securities of non-financial institutions	6 014	(12)	11 227	–
Other	140 541	(1 057)	129 321	(2 147)
	1 271 811	(761 997)	1 018 122	(571 492)

In the 12 months to 31.12.2000 average interest earning assets amounted to PLN 7 863 009 thousand, and the average interest rate was 15.2%. The average interest bearing liabilities of the Group amounted to PLN 7 105 389 thousand, and average interest rate paid the Group was 10.5%.

4. Commission income – gross

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Banking activities	159 123	151 318
Brokerage activities	15 128	6 947
	174 251	158 265

5. Provisions for loans and guarantees – net charge

Provisions for loans	(647 798)	(399 454)
Provisions for off-balance sheet liabilities	(9 748)	(27 211)
Release of general provision	–	1 278
Release of provisions for loans	395 524	255 909
Release of provisions for off-balance sheet liabilities	30 027	1 793
Release of provisions for placements with other banks	6	(327)
	(231 989)	(168 012)

6. Provisions for shares and other securities

Provisions created	(8 609)	(9 672)
Provisions released	13 552	6 701
	4 943	(2 971)

NOTES TO THE FINANCIAL STATEMENTS

7. Operating expenses

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Salaries and wages	221 061	190 981
Other employment costs	42 325	38 713
Depreciation	45 131	40 838
Advertising and promotional expenses	12 548	8 251
Administrative and other costs	251 873	136 237
Accrual for long-service awards and one-off retirement payments	165	–
Other:	9 810	7 544
– provisions created	13 132	9 132
– provisions released	(3 322)	(1 588)
	582 913	422 564

The average number of employees in the Group was 6 707 in 2000 (6 911 in 1999).

8. Taxation

Corporate income tax – current charge (a)	3 331	41 554
Deferred income tax (b)	12 874	145
	16 205	41 699

(a) Corporate income tax – current charge

Gross profit under Polish Accounting Regulations	(62 590)	37 632
IAS adjustments	(11 447)	4 109
Permanently non tax – allowable costs:		
Provisions for loans regarded as permanently disallowable for tax purposes	164 172	22 595
Other costs	431 526	309 971
	595 698	332 556
Temporarily non tax – allowable costs:		
Provisions for loans and other costs	31 090	82 941
Accrued interest payable	107 171	74 605
	138 261	157 546
Carried forward	659 922	531 853

NOTES TO THE FINANCIAL STATEMENTS

8. Taxation (cont.)

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Brought forward	659 922	531 853
Costs disallowed in previous years, allowed in the current year:		
Interest paid, accrued for in previous years	(74 605)	(99 365)
	(74 605)	(99 365)
Permanently non-taxable income:		
Release of provisions for loans and other costs previously treated as permanently disallowed for tax purposes	(413 367)	(263 686)
Income received, previously taxed when accrued	(82)	(85)
Domestic dividends	(6 716)	(1 517)
Other income	(21 964)	19 557
	(442 129)	(245 731)
Temporarily non-taxable income:		
Accrued interest income	(37 288)	(105 325)
Other	(213 874)	—
	(251 162)	(105 325)
Provisions temporarily disallowed in previous years, released in the current year:		
Provisions released	10 824	13 201
	10 824	13 201
Income temporarily not taxable in previous years, taxable in the current year:		
Interest received, accrued in previous years	105 325	72 076
Income received in advance	1 162	(4 967)
Capitalised interest	3 406	1 501
	109 893	68 610
Gross taxable income	12 743	163 243
Tax deductible items		
Donations made	(528)	(479)
Damages	—	—
Investment relief claimed	(556)	(16 276)
Investment relief premium claimed	(556)	(17 487)
Other	—	6
Taxable income	11 103	129 007
Corporate income tax charge 30%/34%	3 331	43 862
Deductions	—	(1 721)
Corporate income tax due	—	42 141
Other differences (tax refund, tax on dividends)	—	(587)
Corporate income tax	3 331	41 554

NOTES TO THE FINANCIAL STATEMENTS

8. Taxation (cont.)

Corporate income tax charge

– by consolidated Group company:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
BZ SA	13 971	41 699
DM Bank Zachodni SA	2 234	–
	16 205	41 699

(b) Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Cumulative temporary differences between the tax bases of assets and liabilities		
Unrealised income	172 357	1 360
Accrued interest payable	(107 171)	(74 605)
Investment relief	52 121	59 904
Loan provisions	(89 534)	(70 610)
Other provisions	(75 579)	(66 668)
Accrued interest receivables	190 861	217 514
Capitalised interest	(1 109)	(4 515)
Income received in advance	(24 834)	(23 672)
Other	(17 360)	(11 618)
Total temporary differences	99 752	27 090
Deferred tax provision (28%/30%)	18 645	5 771

Movements in deferred tax provisions during the current year:

Deferred tax provision at the beginning of the year	5 771	5 626
Deferred tax credit for the year	(12 858)	5 481
Deferred tax charge for the year	25 732	(5 336)
Deferred tax provisions at the end of the year	18 645	5 771

NOTES TO THE FINANCIAL STATEMENTS

9. Result after tax

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Net loss of the parent company	(83 637)	(4 067)
Net profit of the subsidiary (DM BZ SA)	4 842	—
	(78 795)	(4 067)

Profit/(loss) per share

Loss for the year (in PLN thousand)	(78 795)	(4 067)
Weighted average number of ordinary shares in issue (in thousand)	30 639	28 310
Loss per share	(2.57)	(0.14)

Diluted profit/(loss) per share has not been calculated as Bank Zachodni SA has no potential dilutive ordinary shares.

10. Balances with the Central Bank

	As at 31.12.00 PLN '000	As at 31.12.00 PLN '000
PLN denominated current account	326 355	285 812

Banks are obliged to calculate and maintain obligatory deposits with the Central Bank. In 1999 the obligatory deposits rate was reduced. At the same time, banks were required to purchase and hold until redemption, bonds issued by the National Bank of Poland (NBP).

The obligatory deposit of PLN 295 162 thousand is held on the current account with NBP. The gross book value of NBP bonds held by BZ SA as at 31 December 2000 in connection with the above mentioned change in obligatory deposit requirements was PLN 466 877 thousand (Note 13).

11. Cash in hand and current accounts with banks

	As at 31.12.00 PLN '000	As at 31.12.00 PLN '000
Cash – PLN	172 196	333 815
Cash – foreign currencies	68 682	84 198
Current accounts with other banks – PLN	2 876	287
Current accounts with other banks – foreign currencies	8 330	11 926
	252 084	430 226

NOTES TO THE FINANCIAL STATEMENTS

(a) Cash in hand and current accounts with banks – by territory

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Poland	175 072	334 102
Other European countries	57 318	57 400
USA	18 701	37 581
Other countries	993	1 143
	252 084	430 226

12. Placements with, and loans to other banks

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Placements with other banks (a), (b), (c)	1 329 665	168 344
Loans to other banks	12 273	12 058
Receivables from repo transactions	98 780	–
Gross placements with, and loans to other banks	1 440 718	180 402
Provisions (d)	(11 092)	(11 098)
Discount on purchased debt	(88)	(88)
Net placements with, and loans to other banks	1 429 538	169 216

Annual interest rates achieved on placements with, and loans to other banks during the 12-month period ended 31 December 2000 ranged from 5.5% - 28% for PLN denominated amounts and 0.8% - 7.2% for foreign currency amounts.

The overall increase of activity on interbank market is related to the increase of interest rates by the National Bank of Poland.

(a) Gross placements with, and loans to other banks – by currency:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
PLN	206 570	134 706
Foreign currencies	1 234 148	45 696
	1 440 718	180 402

NOTES TO THE FINANCIAL STATEMENTS

12. Placements with and loans to other banks (cont.)

(b) Gross placements with, and loans to other banks – by maturity:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Within 1 month	1 423 412	55 936
Between 1 and 3 months	–	–
Between 3 months and 1 year	–	–
Between 1 and 5 years	6 127	113 282
More than 5 years, including overdue	11 179	11 184
	1 440 718	180 402

(c) Gross placements with, and loans to other banks – by country:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Great Britain	334 168	16 766
Poland	319 651	141 072
Austria	207 160	–
Sweden	145 012	–
USA	142 838	4 610
Italy	124 357	–
Germany	62 148	10 556
Spain	41 432	–
Denmark	41 432	–
France	17 189	2 595
Russia	5 331	4 803
	1 440 718	180 402

(d) Provisions for irregular amounts due from other banks – movements during the year:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	11 098	10 771
Provisions created	684	707
Provisions released	(690)	(380)
Balance at the end of the year	11 092	11 098

NOTES TO THE FINANCIAL STATEMENTS

13. Debt securities

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Trading portfolio bonds and other securities (a)	181 139	409 643
Investment portfolio bonds and other securities (b)	1 197 457	798 015
NBP bonds (c)	466 877	466 877
Total gross bonds and other securities	1 845 473	1 674 535
Provisions	–	(2 072)
Total net bonds and other securities	1 845 473	1 672 463

(a) Trading portfolio bonds and other securities:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
– fixed interest:	165 024	361 336
• Treasury bills (ii)	47 901	287 204
• Treasury bonds (i), (ii)	74 386	20 355
• municipal bonds (iii)	13 159	16 797
• other bonds	29 578	36 980
– variable interest:	16 115	48 307
• municipal bonds (iii)	11 117	21 800
• Treasury bonds (iv)	4 998	26 507
Trading portfolio bonds and other securities:	181 139	409 643

- (i) Fixed interest Treasury bonds have initial maturities of 2 and 5 years.
- (ii) A liquid market exists for fixed interest Treasury bills and 5-year Treasury bonds.
- (iii) Municipal bonds have low liquidity. No interbank market exists for these bonds.
- (iv) Variable interest Treasury bonds are far less liquid than fixed interest Treasury bonds (volumes traded on stock exchange are much lower). Volumes traded on the interbank market depend on client demand.

NOTES TO THE FINANCIAL STATEMENTS

13. Debt securities (cont.)

(b) Bonds and other securities – investment portfolio:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
– fixed interest:	961 684	574 569
• NBP bills (v)	357 476	99 886
• Treasury bills (i), (v)	81 311	288 518
• Treasury bonds (ii), (v)	522 583	185 696
• Other - municipal bonds	314	469
– variable interest:	235 773	223 446
• Treasury bonds (iii)	127 535	116 362
• Treasury restructuring bonds (iv)	100 332	98 542
• other	7 906	8 542
Total gross investment portfolio bonds and other securities	1 197 457	798 015
Provisions	–	(2 072)
Total net investment portfolio bonds and other securities	1 197 457	795 943

- (i) Treasury bills include securities with a carrying value of PLN 21 855 thousand (nominal value of PLN 24 120 thousand), pledged as collateral in accordance with the terms of the Bank Guarantee Fund Act, as collateral for potential future liabilities to the Guarantee Deposit Protection Fund.
- (ii) Fixed interest Treasury bonds have initial maturities of 2,5 and 10 years.
- (iii) Variable interest Treasury bonds have initial maturities of 3 and 10 years.
- (iv) The Bank has 144 506 “A” series bonds with the final redemption date of 31 July 2008. The bonds carry interest rate calculated in relation to the NBP rediscounting rate. No liquid market exists for these bonds.
- (v) A liquid market exists for fixed and variable interest Treasury bonds, Treasury bills and NBP bills.

- (c) The NBP bonds which the Bank purchased in place of the non-interest bearing obligatory deposit bear an interest rate equal to the annual inflation rate measured from 1 August to 31 July. These bonds may not be transferred, therefore there is no market by reference to which their value can be determined. In view of the legal requirement for Polish banks to purchase these bonds and hold them to maturity and taking account of the creditworthiness of the issuer, these bonds are carried at cost plus accrued interest in amount of PLN 8 238 thousand included in Other assets balance.

NOTES TO THE FINANCIAL STATEMENTS

13. Debt securities (cont.)

(d) The returns (interest and discount) varies depending on the type of security and during 12 months to 31 December 2000 were as follows:

	2000		1999	
	min %	max %	min %	max %
• Treasury bills – 52 weeks	13.78	15.66	10.25	14.07
• Treasury bills – 13 weeks	15.15	17.03	11.67	15.52
• NBP bills	16.39	18.82	12.97	16.40
• 2-year Treasury bonds	13.00	13.00	13.00	13.00
• 5-year Treasury bonds	8.50	14.00	8.50	14.00
• 10-year fixed interest Treasury bonds	6.00	6.00	6.00	6.00
• 3-year Treasury bonds	13.26	17.93	12.98	17.08
• 10-year Treasury bonds	12.91	19.43	12.91	23.93
• bonds issued by foreign banks	3.65	5.07	2.88	3.93
• NBP bonds	7.00	11.67	8.29	8.94

(e) The total market value of the Group's investment and trading debt securities as at 31 December 2000 was PLN 1 846 469 thousand.

(f) Gross debt securities – by currency:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
PLN	1 837 567	1 655 992
Foreign currencies	7 906	8 543
	1 845 473	1 674 535

(g) Gross debt securities – by maturity:

Within 1 month	546 759	529 601
Between 1 and 3 months	24 205	18 840
Between 3 months and 1 year	71 523	266 270
Between 1 and 5 years	767 503	392 947
More than 5 years	435 483	466 877
	1 845 473	1 674 535

NOTES TO THE FINANCIAL STATEMENTS

13. Debt securities (cont.)

(h) Gross debt securities – by liquidity:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Debt securities with unlimited transferability listed on the Warsaw Stock Exchange	717 518	348 919
Debt securities with unlimited transferability traded on the OTC market	–	–
Debt securities with unlimited transferability not listed on the Warsaw Stock Exchange and traded on the OTC market	560 746	760 196
Debt securities with limited transferability	567 209	565 420
	1 845 473	1 674 535

14. Loans to customers and the public sector

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Overdrafts	807 791	553 055
Charge card balances	1 948	86
Term loans	4 394 667	4 646 938
Other	76 059	85 488
Gross loans (a), (b), (c), (d)	5 280 465	5 285 567
Specific provisions (e)	(724 968)	(529 945)
General provision	(40 537)	(40 537)
Capitalised interest	(608)	(4 234)
Suspended interest	(158 749)	(148 255)
Discount on purchased debt	(46 869)	(85 929)
Net loans	4 308 734	4 476 667

Annual interest rates on loans to customers and the public sector during the 12 months to 31 December 2000 ranged from 15.5% - 33.4% for PLN loans and 4.1% - 12.8% for foreign currency loans.

(a) Gross loans to customers and the public sector – by currency:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
PLN	4 129 256	4 156 952
Foreign currencies	1 151 209	1 128 615
	5 280 465	5 285 567

NOTES TO THE FINANCIAL STATEMENTS

14. Loans to customers and the public sector (cont.)

(b) Gross loans to customers and the public sector – by maturity:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Within 1 month	543 146	231 336
Between 1 and 3 months	389 539	545 863
Between 3 months and 1 year	1 151 844	1 131 965
Between 1 and 5 years	1 411 420	1 877 638
More than 5 years	1 099 808	1 078 185
Overdue	684 708	420 580
	5 280 465	5 285 567

(c) Gross loans to customers and the public sector – by credit risk category:

Normal	1 156 466	1 292 693
Watch	2 359 270	2 403 578
Substandard	452 690	544 091
Doubtful	404 340	239 503
Loss	689 823	602 914
Interest due not received, unallocated amounts and other	217 876	202 788
	5 280 465	5 285 567

(d) Gross loans to customers and the public sector – by type of entity:

Public sector	257 354	350 640
Enterprises	3 757 237	3 861 638
Agricultural sector	187 517	184 675
Retail loans	860 481	685 826
Interest due not received, unallocated amounts and other	217 876	202 788
	5 280 465	5 285 567

(e) Specific provisions – movements during the year:

	12 months to 31.12.00 PLN '000	12 months to 31.12.00 PLN '000
Balance at the beginning of the year	529 945	387 318
Increase:	649 258	405 258
• provisions for loans created	647 798	399 454
• other	1 460	5 804
Decrease:	(405 746)	(256 765)
• release	(395 524)	(255 909)
• foreign exchange gains and losses	(10 222)	(856)
Utilisation of provisions	(48 489)	(5 866)
Balance at the end of the year	724 968	529 945

NOTES TO THE FINANCIAL STATEMENTS

14. Loans to customers and the public sector (cont.)

(f) Value of loans granted by the Group and guaranteed by the Polish or foreign governments or other banks:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Polish government	83 321	185 891
Foreign governments	—	—
Polish banks	4 661	6 205
Foreign banks	4 348	933
	92 330	193 029

Net amounts due from non-consolidated subsidiaries as at 31 December 2000 amounted to PLN 6 978 thousand.

15. Accrued interest receivables and other assets

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Accrued interest receivables	97 716	126 810
Assets held for sale	1 126	4 919
Repaid costs	44 936	7 165
Sundry	161 877	51 834
Total gross	305 655	190 728
Provisions (a)	(13 653)	(6 374)
Total net	292 002	184 354

(a) Provisions – movements during the year

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Specific provisions at the beginning of the year	6 374	4 496
Provisions created	11 056	4 461
Provisions released	(3 300)	(1 588)
Utilisation of provisions	(477)	(92)
Other	—	(903)
Provisions at the end of the year	13 653	6 374

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Investment portfolio:		
Shares in subsidiary companies (a), (b), (c)	20 155	51 281
Shares in associated companies (d), (e), (f)	4 810	7 103
Other shares (g)	30 815	29 606
Total gross value	55 780	87 990
Trading portfolio:		
Shares held by Dom Maklerski Bank Zachodni SA (h)	2 505	—
Investment fund participation units (i)	100 000	6 000
Other shares (j)	6 702	—
Total gross value	109 207	6 000
Total gross shares and other securities	164 987	93 990
Provisions (k)	(27 501)	(30 442)
Total net shares and other securities	137 486	63 548

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(a) Shares in non-consolidated subsidiary companies as at 31 December 2000 – additional information:

Company	Registered office	Activity	Status	Date of acquisition of control	Shares at costs	Provisions	Book value	Percentage of share capital held and voting rights
					PLN '000	PLN '000	PLN '000	%
FORUM ZTFI SA	Wrocław	fund assets management	direct	July 1996	6 200	3 400	2 800	51.0
G.R. Niepruszewo Sp. z o.o.	Niepruszewo	agriculture	direct	May 1996	6 248	—	6 248	100.0
G.R. Cisy Sp. z o.o. in liquidation	Cisy	agriculture	direct	May 1996	700	700	—	100.0
Len SA	Kamienna Góra	manufacturing	direct	December 1998	6 508	6 508	—	39.4*
Zachodnie Systemy Teleinformatyczne Sp. z o.o.	Wrocław	services	direct	February 1999	499	—	499	100.0
Gross value of shares in non-consolidated subsidiary companies					20 155			

* percentage of voting rights at AGM of Len SA – 50.1%.

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(b) Shares and other securities in non-consolidated subsidiary companies as at 31 December 2000 – additional information:

Company	Share capital (fully paid)	Equity, including: Supplementary capital	Other reserves	Unappropriated profits/(uncovered losses) brought forward	Net profit(loss) for the year	Total assets	Dividends received or receivable for the prior year
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
FORUM ZTFI SA	12 000	—	(6 123)	(3 977)	(2 146)	6 300	—
G.R. Niepruszewo Sp. z o.o.	6 249	—	477	—	54	10 804	—
G.R. Cisy Sp. z o.o. in liquidation	700	no data	no data	no data	no data	no data	—
Len SA	9 722	131	(18 284)	(20 412)	(2 074)	18 486	—
Zachodnie Systemy Teleinformatyczne Sp. z o.o.	499	344	648	—	648	1 856	—

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
(c) Shares in non-consolidated subsidiary companies – movements during the year:		
Balance at the beginning of the year	51 281	25 642
Disposals:	(101 337)	–
• Sale	(70 595)	–
• Other	(30 742)	–
Additions:	70 211	25 639
• Purchase	70 211	25 559
• Other	–	80
Balance at the end of the year	20 155	51 281

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(d) Shares and other securities in non-consolidated associated companies as at 31 December 2000 – additional information:

Company	Registered office	Activity	Status	Date of acquisition of control	Shares at cost	Provisions	Book value	Percentage of share capital held and voting rights
					PLN '000	PLN '000	PLN '000	%
SUDETY C.W. Sp. z o.o.	Szczytna Śląska	manufacturing	direct	February 1994	3 970	2 600	1 370	48.5
WESTFUND Ltd.	Ireland	services – management	direct	July 1995	165	–	165	33.7
Kanwig-Trading Żurawica Sp. z o.o. in liquidation	Żurawica	running customs warehouse	direct	May 1996	670	670	–	77.0*
Kanwig Agencja Celna Sp. z o.o. in liquidation	Żurawica	running customs agency	direct	May 1996	5	5	–	49.0
Gross value of shares in non-consolidated associated companies					4 810			

* percentage of voting rights at AGM in Kanwig-Trading Żurawica Sp. z o.o. – 45.6%

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(e) Shares and other securities in associated companies as at 31 December 2000 – additional information:

Company	Share capital (fully paid)	Supplementary capital	Equity, including Other reserves	Unappropriated profits/(uncovered losses) brought forward	Net profit/ (loss) for the year	Total assets	Dividends received or receivable for the prior year
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
SUDETY C.W. Sp. z o.o.	8 192	55	(4 855)	25	(4 880)	11 374	—
WESTFUND Ltd.	634	—	9 833	—	—	11 486	—
Kanwig-Trading Żurawica Sp. z o.o. in liquidation	870	no data	no data	no data	no data	no data	—
Kanwig Agencja Celna Sp. z o.o. in liquidation	10	no data	no data	no data	no data	no data	—

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(f) Shares in non-consolidated associated companies – movements during the year:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	7 103	7 100
Additions:	–	3
• Purchase	–	–
• Other	–	3
Disposals:	(2 293)	–
• Sale	(2 100)	–
• Other	(193)	–
Balance at the end of the year	4 810	7 103

(g) Other shares – investment portfolio:

Company	Registered office	Activity	Gross book value of shares PLN '000	Interest held %	Shares not paid up at 31.12.2000 PLN '000
Chocianowska SM	Chocianów	services	–	no data	–
SM Nadodrze	Głogów	services	–	no data	–
Międzynarodowa Szkoła Bankowości i Finansów Sp. z o.o.	Katowice	services	11	3.8	–
Invest Park WSSE Sp. z o.o.	Wałbrzych	management of Special Economic Zone	1 000	2	–
FUM Poręba Sp. z o.o.	Poręba	manufacturing	2	0.0	–
Fabryka Nici ODRA SA	Nowa Sól	manufacturing	2 111	12.5	–
Huta Szczecin SA	Szczecin	manufacturing	74	1.6	–
Bank Powiemcz					
Gwarancyjny SA	Warszawa	banking	554	1.8	–
Dolnośląska ARR SA	Wałbrzych	services	102	2.5	–
ARR Agroreg SA	Nowa Ruda	services	100	7.8	–
ARR Arleg SA	Legnica	services	50	5.2	–
Karkonoska ARR SA	Jelenia Góra	services	80	2.7	–
BPT Telbank SA	Warszawa	services	5 151	3.3	–
Cera SA	Warszawa	services	117	2.3	–
Wrocławska ARR SA	Wrocław	services	100	0.6	–
Legnicka Specjalna Strefa Ekonomiczna SA	Legnica	services	150	0.5	–
Biuro Informacji Kredytowej SA	Warszawa	services	400	2.6	–
Krajowa Izba Rozliczeniowa SA	Warszawa	services	313	5.7	–
Giełda Poznańska SA	Poznań	services	73	1.6	–
Polska Giełda Finansowa SA	Warszawa	services	100	3.1	–
Wałbrzyska Giełda Rolno Spożywcza SA	Wałbrzych	services	37	0.6	–
DCHRS SA	Wrocław	services	1 500	2.2	–

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(g) Other shares – investment portfolio (cont.):

Company	Registered office	Activity	Gross book value of shares PLN '000	Interest held %	Shares not paid up at 31.12.2000 PLN '000
Gorzowski Rynek Hurtowy SA	Gorzów Wlkp.	services	250	5.7	—
Giełda Elbląska	Elbląg	services	100	0.8	—
Vienna Leas International SA	Gliwice	services	346	8.7	—
Wrocławski Park Technologiczny SA	Wrocław	services	150	21.2	—
FASING SA	Katowice	manufacturing	1 000	3.2	—
MAGNA POLONIA SA	Warszawa	services	9 173	5.5	—
Giełda Papierów Wartościowych SA	Warszawa	financial activity	8	0.02	—
Centralna Tabela Ofert SA	Warszawa	financial activity	24	0.4	—
Hutmen SA	Wrocław	copper processing	2 383	2.5	—
TIM SA	Wrocław	sale of electrical equipment	4 621	9.1	—
MITEX SA	Wrocław	general construction	735	3.6	—
Gross value of shares			30 815		

(h) As at 31.12.2000 the market value of shares held by Dom Maklerski BZ SA amounted to PLN 2 588 thousand.

(i) The book value of mutual fund units as 31 December 2000 amounted to PLN 100 000 thousand and the market value was PLN 97 352 thousand.

(j) Other shares – trading portfolio:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Huta Szkła Kryształowego VIOLETTA SA	6 702	—
	6 702	—

The market value of the trading shares in non-consolidated entities at 31 December 2000 was PLN 11 903 thousand.

NOTES TO THE FINANCIAL STATEMENTS

16. Shares and other securities (cont.)

(k) Specific provisions for shares – movements during the year:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	30 442	29 425
Increases:	8 699	7 662
• Provisions created	8 609	7 599
• Other	90	63
Decreases:	(11 570)	(6 645)
• Provisions released	(11 480)	(6 603)
• Other	(90)	(42)
Provisions utilised	(70)	–
Balance the end of the year	27 501	30 442

17. Goodwill

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Goodwill (a)	111 750	111 750
Amortisation	(103 717)	(79 669)
	8 033	32 081

(a) Change in goodwill during the year:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Gross balance at the beginning of the year (i)	111 750	111 750
Increase	–	–
Decrease	–	–
Gross balance at the end of the year	111 750	111 750
Amortisation at the beginning of the year	(79 669)	(64 882)
Change in the period	(24 048)	(14 787)
Amortisation at the end of the year	(103 717)	(79 669)
Net book value	8 033	32 081

(i) Calculation of goodwill on acquisition of Rolbank:

Goodwill before amortisation consists of:

Net liabilities of Rolbank at the date of acquisition	49 334
Fair value of financial assistances at the date of acquisition	62 416
	111 750

NOTES TO THE FINANCIAL STATEMENTS

17. Goodwill (cont.)

(i) Calculation of goodwill on acquisition of Rolbank (cont.):

In 1996 the Bank purchased assets and liabilities of Rolbank and in connection with the transaction obtained certain state subsidies described below. Goodwill on acquisition of assets and liabilities of Rolbank was calculated as follows:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Assets		
Cash and balances with banks		13 129
Loans		37 182
Fixed assets		23 127
Other assets		9 308
		82 746
Liabilities		
Customer deposits		132 049
Loans from other banks		31 798
Other liabilities		30 475
		194 322
Net liabilities		111 576
Direct costs		174
Deferred costs representing the excess of nominal over current value of financial instruments received in connection with the transaction		(62 416)
Adjusted net assets		49 334
Amount paid for shares		—
Goodwill as at the date of acquisition of Rolbank		49 334

In connection with the transaction, the Bank obtained from the Bank Guarantee Fund (BFG), National Bank of Poland (NBP) and the State Treasury financial assistance (mainly credit facilities and deferral of payment of liabilities to the State Treasury) at interest rates lower than prevailing market rates. In addition, terms and conditions of certain client deposits of Rolbank were modified; changes included mainly extension of their maturity and reducing interest rates below market rates.

The excess of the nominal over current value of these instruments as at transaction date and as at 31 December 2000 is presented below:

	Acquisition date PLN '000	31.12.00 PLN '000
Difference between nominal and current value of interest due to NBP	683	21
Difference between nominal and current value of modified deposits	16 594	—
Loans from BFG	28 970	3 900
Deferral of payment of income tax liability	10 444	—
Reduction in obligatory deposits with the NBP	5 725	—
Total	62 416	3 921

NOTES TO THE FINANCIAL STATEMENTS

18. Tangible fixed assets

	Land and buildings	Plant and machinery	Vehicles	Capital work in progress	Other	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Gross value						
As at 31 December 1999	273 499	177 950	10 158	20 721	70 207	552 535
Increases	5 673	6 522	82	113 856	1 304	127 437
Decreases	(9 669)	(3 782)	(709)	(1 605)	(19 556)	(35 321)
Transfers	7 813	41 681	3 101	(61 037)	8 442	—
As at 31 December 2000	277 316	222 371	12 632	71 935	60 397	644 651
Accumulated depreciation						
As at 31 December 1999	29 161	82 160	4 493	—	41 287	157 101
Increases	6 784	29 421	1 739	—	7 041	44 985
Other	16	732	7	—	403	1 158
Decreases	(905)	(3 063)	(544)	—	(18 720)	(23 232)
As at 31 December 2000	35 056	109 250	5 695	—	30 011	180 012
Net book value:						
As at 31 December 1999	244 338	95 790	5 665	20 721	28 920	395 434
As at 31 December 2000	242 260	113 121	6 937	71 935	30 386	464 639

As at 31 December 2000 net leasehold improvements amounted to PLN 27 177 thousand (gross value 37 892 thousand, accumulated depreciation – PLN 10 715 thousand).

19. Amounts due to banks

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Current	3 711	4 066
Term, including	199 200	197 012
Repo transactions	99 508	—
	302 419	201 078

(a) Amounts due to banks – by maturity:

Within 1 month	282 103	93 937
Between 1 and 3 months	20 304	304
Between 3 months and 1 year	12	261
Between 1 and 3 years	—	106 576
More than 5 years	—	—
	302 419	201 078

NOTES TO THE FINANCIAL STATEMENTS

19. Amounts due to banks (cont.)

(b) Amounts due to banks – by currency:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
PLN	298 728	85 776
Foreign currencies	3 691	115 302
	302 419	201 078

The annual interest expense on interbank deposits during the 12 months to 31 December 2000 ranged from 1.0% to 23.5% for PLN deposits and from 2.8% to 6.9% for foreign currency denominated deposits.

20. Amounts due to customers and the public sector

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Deposits (a), (b)	7 142 149	6 377 252
Other	104 847	83 968
	7 246 996	6 461 220

The annual interest expense on current deposits to customers and the public sector during the 12 months to 31 December 2000 ranged from 5.0% to 9.5% for PLN and from 0.5% to 2.5% and foreign currency denominated deposits respectively, and on term deposits – from 3.5% to 24.9% and from 0.6% to 5.7% for PLN and foreign currency denominated deposits, respectively.

(a) Deposits – by maturity:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Within 1 month	3 913 914	3 449 233
Between 1 and 3 months	1 849 700	1 470 355
Between 3 months and 1 year	1 237 195	1 242 108
Between 1 and 5 years	89 155	144 077
More than 5 years	52 185	71 479
	7 142 149	6 377 252

(b) Deposits – by currency:

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
PLN	6 167 549	5 477 912
Foreign currencies	974 600	899 340
	7 142 149	6 377 252

As at 31 December 2000, amounts due to non-consolidated subsidiaries and associated companies amounted to PLN 986 thousand.

NOTES TO THE FINANCIAL STATEMENTS

21. Accrued interest and other liabilities

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Accrued interest	102 584	75 882
Interbank clearing accounts	78 178	3 891
Accrued costs and deferred income	63 276	29 956
Liabilities of Dom Maklerski BZ SA arising on transactions in securities carried out on behalf of clients	205 295	–
Other	21 765	16 510
	471 098	126 239

The interbank clearing accounts balance as at December 31, 2000 was cleared at the beginning of January 2001.

22. Provisions

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Deferred tax provision (a)	18 645	5 771
Provision for off-balance sheet liabilities (b)	8 114	28 393
Provision for long-service awards and one-off retirement payments (Note 33)	45 164	44 999
Other	26 114	17 566
	98 037	96 729

(a) Deferred tax provision

– movements during the year:

Balance at the beginning of the year	5 771	5 626
Deferred tax charge / (credit) for the year	12 874	145
Balance at the end of the year	18 645	5 771

Deferred tax liabilities related to the following items:

Income receivable	107 008	81 276
Costs to be paid	(57 458)	(50 838)
Provisions	(25 069)	(21 183)
Other differences	(5 836)	(3 484)
	18 645	5 771

(b) Provision for off-balance sheet liabilities

– movements during the year:

Balance at the beginning of the year	28 393	2 975
Provisions created	9 748	27 211
Provisions released	(30 027)	(1 793)
Balance at the end of the year	8 114	28 393

NOTES TO THE FINANCIAL STATEMENTS

23. Minority interests

There are none since Bank Zachodni SA is the sole shareholder of the consolidated company.

24. Equity

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Share capital (Note 25)	329 510	294 706
Share premium – non-distributable (Note 26)	300 490	135 294
Revaluation reserve – non-distributable (Note 27)	20 688	20 772
Reserve capital (Note 28)	326 999	323 690
General risk reserve – non-distributable	59 810	59 810
Retained earnings (Note 29)	(12 908)	(5 670)
	1 024 589	828 602
Net profit / (loss) for the year (Note 30)	(78 795)	(4 067)
	945 794	824 535

25. Share capital

Share capital, issued and fully paid up	329 510	294 706
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The share capital of the Bank at 31 December 2000 consisted of 32 950 982 ordinary registered shares with a nominal value of PLN 10 per share.

As at 31 December 2000, the shareholders were as follows:

AIB European Investments Ltd	83.0%
Polish State Treasury	4.3%
Other	12.7%
	100.0%

(a) Changes in share capital in the year:

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	294 706	280 000
New share capital issued	34 804	14 706
Balance at the end of the year	329 510	294 706

NOTES TO THE FINANCIAL STATEMENTS

26. Share premium

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	135 294	–
Increase	165 196	135 294
Balance at the end of the year	300 490	135 294

27. Revaluation reserve

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	20 772	21 266
Transfer to reserve capital	(84)	(494)
Balance at the end of the year	20 688	20 772

28. Reserve capital – movements during the year

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	323 690	307 661
Appropriation of prior year profits	3 171	15 535
Consolidation adjustments	54	–
Transfer from revaluation fund	84	494
Balance at the end of the year	326 999	323 690

29. Retained earnings

	12 months to 31.12.00 r. PLN '000	12 months to 31.12.99 r. PLN '000
Balance at the beginning of the year	(5 670)	13 123
Appropriation of prior year profits / (coverage of losses)	(7 238)	(18 793)
Balance at the end of the year	(12 908)	(5 670)

NOTES TO THE FINANCIAL STATEMENTS

30. Net profit/ (loss) for the year

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Balance at the beginning of the year	(4 067)	(3 258)
Appropriation of prior year profits	(3 171)	(15 535)
Net profit/ (loss) for the year	(78 795)	(4 067)
Transfer of losses arising in prior years to retained earnings of the Group	7 238	18 793
Balance at the end of the year	(78 795)	(4 067)

31. Remuneration of the Bank Council and the Management Board of Bank Zachodni SA Group

	12 months to 31.12.00 PLN '000	12 months to 31.12.99 PLN '000
Bank Council	266	196
Management Board	1 729	1 713
	1 995	1 909

32. Loans to the Bank Council, the Management Board and non-consolidated related parties

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Management Board	50	5
Bank Council	—	—
Related parties – loans and guarantees	54 613	87 770
Employees	33 701	5 522
Shareholders	—	—
	88 364	93 297

This represents loans and guarantees to non-consolidated related parties. Loans and guarantees to the Bank Council, the Management Board and related parties were granted on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS

33. Retirement benefits and long-service awards

There are no contractual or other legally binding agreements with employees regarding continuing retirement benefits. Continuing retirement benefits are paid out of the State Social Security System which requires employees and employers to contribute to the funding of benefits during an employee's working life. The Group's obligations in this respect are on the basis of defined contributions which represent a fixed percentage of employee remuneration. These amounts are settled with the State Social Insurance body (ZUS) on a monthly basis and treated as period costs.

The Group has arrangements with employees in respect of retirement payments and long-service awards. The amount of these benefits vary depending on life-time employment history and years of employment with the Group. The Group has a provision of PLN 45 164 thousand in respect of its estimated liability in respect payments and long-service awards (Note 22).

34. Contingent liabilities

Investment relieves

In the period 1997 - 2000 Bank Zachodni SA utilised basic investment tax reliefs and additional investment relief premiums totalling PLN 101 189 thousand.

In certain circumstances of breach of taxation regulation reliefs may be reclaimed by the taxation authorities. As at the date of approval of the financial statements for the year ended 31 December 2000 the Management Board of Bank zachodni SA did not believe that any significant liabilities would arise as a result of taking advantage of investment relief.

Assets pledged as collateral

Treasury bills held by the Group as collateral for liabilities with respect to the State Guaranteed Deposits Protection Fund under the Banking Guarantee Fund amounted to PLN 21 855 thousand as at 31 December 2000.

NBP bonds amounting to PLN 475 115 thousand (including interest) held by Bank Zachodni SA in its portfolio as at 31 December 2000, were issued based on Resolution No. 36/28/PPK/1999 of the Management Board of the National Bank of Poland of 25 June 1999, concerning the National Bank of Poland issuing bonds for banks before maturity.

Moreover, treasury bills and bonds with a carrying value of PLN 55 987 thousand are held as a collateral for liabilities with respect to the financial instruments intended to support the restructuring of BRR Rolbank SA (purchased by the Bank in 1996) received from BGF and the State Budget.

35. Contingent liabilities extended

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Guarantees and accepted bills of exchange, cheques and letters of credit	169 179	162 874
Other	30 030	42 208
	199 209	205 082

NOTES TO THE FINANCIAL STATEMENTS

35. Contingen liabilities extended (cont.)

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customers as required. Guarantees and letters of credit which irrevocably oblige the Group to make a payment when a customer is not in a position to fulfil their obligation to third parties, bear the same credit risk as loans. Documentary and trade letters of credit which constitute a written obligation of the Group on behalf of a client, and authorise a third party to draw a specified sum of money from the Group, provided that certain conditions are met, have collateral in the from of underlying trade goods to which they pertain and as a result bear much lower risk.

36. Liabilities arising from purchase/sale transactions

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Currency transactions	1 643 132	220 213
Financial instrument transactions	804 066	174 729
	2 447 198	394 942

37. Derivative transactions

	As at 31.12.00 PLN '000 Nominal	As at 31.12.00 PLN '000 Fair value	As at 31.12.00 PLN '000 Fair value
		Assets	Liabilities
Forward exchange contracts	74 675	3 930	(142)
Currency swap	1 448 369	65 049	(3 047)
Interest swap	310 000	—	37 974
Forward rate agreement	150 000	439	(631)
	1 983 044	69 418	34 154

The above tables present contractual or nominal amounts as well as the fair values of derivative financial instruments of the Group as at balance sheet date.

Derivative financial instruments which pertain to currency exchange rates and interest rates allow the Group and its clients to transfer, modify or reduce exchange and interest rate risks.

NOTES TO THE FINANCIAL STATEMENTS

37. Derivative transactions (cont.)

The Group utilises the following derivative instruments:

- **Currency Forwards** represent commitments to purchase foreign and domestic currency. Forward rate agreements are individually negotiated interest rate agreements that call for cash settlement at a future date for the difference between a contracted rate interest and current market rate, based on a national principal amount. The Group's risk is limited to the potential cost of replacing contracts in the marketplace if counterparties fail to perform their obligations.
- **Currency and interest rate swaps** are commitments to exchange currencies or interest rates or combinations thereof. The Group's credit risk represents the potential cost of replacing the swap contracts if counterparties fail to perform their obligation.

38. Credit risk in respect of irrevocable lending commitments

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
To subsidiary companies	2 210	274
To associated companies	—	—
Other	657 670	584 858
	659 880	585 132

39. Capital expenditure commitments

	Planned for 2001 PLN '000	Actually incurred in 2000 PLN '000
Construction projects, equipment and other	100 259	68 232
Computer hardware and software	122 355	21 706
Integrated banking system	111 548	17 965
ATM network	7 030	3 535
Other	—	2 962
	341 192	114 400

Total capital expenditure incurred by Bank Zachodni SA in 2000 amounted to PLN 112 065 thousand.

The Group signed agreements amounting to some PLN 62 925 thousand in respect of capital expenditure planned for 2001 (this amount excludes agreements signed in connection with purchase of new integrated banking system).

NOTES TO THE FINANCIAL STATEMENTS

40. Dividend per share

There were no liabilities resulting from dividend either in 1999 or 2000.

41. Business information

Segmental information

Year ended 31.12.2000	Banking	Brokerage	Total
Net profit on financial operations	703 461	21 654	725 115
Operating expenses, including:	570 945	11 968	582 913
– depreciation	43 525	1 606	45 131
– provisions created	13 132	–	13 132
Ptofit/(loss) before taxation	(69 666)	7 076	(62 590)
Taxation	13 971	2 234	16 205
Profit/(loss) net	(83 637)	4 842	(78 795)
Segment assets	9 049 827	14 517	9 064 344
Segment liabilities	8 831 185	233 159	9 064 344

The Group's activities are organised into two main business segments:

- Banking – maintenance of current and savings accounts, accepting term depositis from individuals, offering investment products, credit and debt cards, consumer and mortgage loans.
- Brokerage – offering securities admitted to public trading, purchase and sale of securities on behalf of clients, custody of securities, proprietary trading in securities and management of client portfolios.

NOTES TO THE FINANCIAL STATEMENTS

42. Concentration of assets

(a) Concentration of assets to individual clients

The value of loans granted to the 10 largest customers and their share in the loan portfolio of the Group at 31 December 2000 are as follows:

No.	Percentage of portfolio %	Industry	Exposure PLN '000
1	3.2	Mining	190 000
2	2.4	Public administration	138 097
3	1.3	Finance	74 122
4	1.3	Trade	73 630
5	1.2	Energy sector	73 154
6	1.2	Automotive sector	72 842
7	1.2	Telecommunication	71 000
8	1.2	Finance	68 251
9	1.1	Energy sector	65 295
10	1.0	Furniture manufacturing	58 915
Total	15.1		885 306

The value of loans granted to the 10 largest customers and their share in the loan portfolio of the Group at 31 December 1999 are as follows:

No.	Percentage of portfolio %	Industry	Exposure PLN '000
1	2.8	Mining	165 000
2	1.6	Airplane construction	93 671
3	1.4	Energy sector	83 466
4	1.3	Automotive sector	77 718
5	1.3	Trade	73 721
6	1.2	Trade	69 560
7	1.2	House appliances manufacturing	69 256
8	1.1	Paper industry	66 543
9	1.1	Public administration	66 503
10	1.1	Construction	66 373
Total	14.1		831 811

(b) Concentration of assets groups

The value of loans granted to the 5 largest groups and their share in the loan portfolio of the Group at 31 December 2000 are as follows:

No.	Percentage of portfolio %	Industry	Exposure PLN '000
1	4.05	Public administration	205 054
2	3.15	Paper production, trade	159 541
3	2.30	Automotive sector	116 433
4	1.64	Trade	82 864
5	1.41	Finance	71 512
Total	12.55		635 404

NOTES TO THE FINANCIAL STATEMENTS

42. Concentration of assets (cont.)

(b) Concentration of assets to groups (cont.)

The value loans granted to the 5 largest groups and their share in the loan portfolio of the Group at 31 December 1999 are as follows:

No.	Percentage of portfolio %	Industry	Exposure PLN '000
1	2.83	Paper production, trade	164 439
2	2.15	Finance	124 958
3	2.06	Automotive sector	119 983
4	1.99	Public administration	115 881
5	1.43	Trade	82 966
Total	10.46		608 227

(c) Concentration of assets to particular industry sectors:

Sector	Portfolio exposure in 2000 %/	Portfolio exposure in 1999 %/*
Wholesale and consignment trade, excluding trade in vehicles and motorcycles	10.28	9.50
Agriculture and related services	7.07	7.10
Construction	5.76	5.80
Retail trade, excluding trade in vehicles and motorcycles and repairs of personal and domestic appliances	5.32	4.30
Utilities	5.08	2.90
Public administration, national defence and statutory social security	5.02	1.10
Production of food and beverages	3.98	3.30
Mining	3.35	4.10
Financial services, excluding insurance and pension funds	2.96	4.60
Production of machinery not classified elsewhere	2.80	4.00
Production of pulp and paper	2.54	1.70
Land transport and piping	2.00	1.50
Production of other non-metal goods	1.95	2.00
Real estate services	1.93	1.70
Metallurgy	1.77	2.70
Production of chemicals, chemical products and synthetic fibres	1.74	2.20
Production of timber, cork and related materials, and goods made thereof, excluding furniture	1.72	3.50
Production of textiles	1.66	2.10
Production of vehicles and trailers	1.64	1.80
Sale, servicing and repair of vehicles, retail sale of fuels	1.61	1.20
Production of other transportation equipment	1.55	3.50
Post and telecommunication	1.20	0.90
Production of electrical machinery and equipment not classified elsewhere	1.16	4.00
Rental of machinery and equipment, personal and domestic appliances	1.15	0.20
	75.24	75.70
Other sectors	24.76	24.30
Total	100.00	100.00

* comparative data do not include purchased debt balances

NOTES TO THE FINANCIAL STATEMENTS

43. Concentration of receivables from the Polish and other governments and the National Bank of Poland

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
Balances with, and securities issued by the National Bank of Poland	449 210	305 611
Debt securities issued by the Polish government	824 353	566 763
Amounts due from the State budget and municipal authorities	45 674	33 214
	1 319 237	905 588

The above assets represent 14.6% (1999: 11.7%) of total assets of the Group as at 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

44. Assets and liabilities – maturity analysis

The principal assets and liabilities of the Group analysed by their maturity date as at 31 December 2000 are as follows:

	Within 1 month	Between 1 and 3 months	Total within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Irregular assets	Total
	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Assets:								
Balances with the Central Bank	326 355	–	326 355	–	–	–	–	326 355
Cash in hand and current accounts with banks	252 084	–	252 084	–	–	–	–	252 084
Placements with, and loans to other banks	1 423 412	–	1 423 412	–	6 127	–	11 179	1 440 718
Loans to customers and the public sector	543 146	389 539	932 685	1 151 844	1 411 420	1 099 808	684 708	5 280 465
Debt securities (i)	546 759	24 205	570 964	71 523	767 503	435 483	–	1 845 473
Other shares and securities quoted on the Warsaw Stock Exchange	–	–	–	–	16 911	–	–	16 911
	3 091 756	413 744	3 505 500	1 223 367	2 201 961	1 535 291	695 887	9 162 006
Liabilities:								
Amounts due to banks	282 103	20 304	302 407	12	–	–	–	302 419
Amounts due to customers and the public sector	3 913 914	1 849 700	5 763 614	1 237 195	89 155	52 185	–	7 142 149
	4 196 017	1 870 004	6 066 021	1 237 207	89 155	52 185	–	7 444 568
Net liquidity gap	(1 104 261)	(1 456 260)	(2 560 521)	(13 840)	2 112 806	1 483 106	695 887	1 717 438
Liquidity ratio	0.74		0.58					

- (i) Trading debt securities at the end of the year are included in assets maturing within 1 month. Treasury bills and bonds held in connection with the reduction in obligatory deposit and as collateral for financing obtained from the Guaranteed Deposits Protection Fund relating to acquisition of Rolbank amounting to PLN 77 842 thousand were classified as assets maturing from 1 to 5 year. Treasury bills held as obligatory deposits amounting to PLN 466 877 thousand and restructuring bonds amounting to PLN 100 332 thousand were classified in accordance with the maturity dates of individual securities.

NOTES TO THE FINANCIAL STATEMENTS

44. Assets and liabilities – maturity analysis (cont.)

The principal assets and liabilities of the Group analysed by their maturity date as at 31 December 2000 are as follows:

	Within 1 month	Between 1 and 3 months	Total within 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Irregular assets	Total
Assets:	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Balance with the Central Bank	285 812	—	285 812	—	—	—	—	285 812
Cash in hand and current accounts with banks	430 226	—	430 226	—	—	—	—	430 226
Placements with, and loans to other banks	55 936	—	55 936	—	113 282	—	11 184	180 402
Loans to customers and the public sector	231 336	545 863	777 199	1 131 965	1 877 638	1 078 185	420 580	5 285 567
Debt securities (i)	529 601	18 840	548 441	266 270	392 947	466 877	—	1 674 535
Other shares and securities quoted on the Warsaw Stock Exchange	—	—	—	—	15 839	—	—	15 839
	1 532 911	564 703	2 097 614	1 398 235	2 399 706	1 545 062	431 764	7 872 381
Liabilities:								
Amounts due to banks	93 937	304	94 241	261	106 576	—	—	201 078
Amounts due to customers and the public sector	3 449 233	1 470 355	4 919 588	1 242 108	144 077	71 479	—	6 377 252
	3 543 170	1 470 659	5 013 829	1 242 369	250 653	71 479	—	6 578 330
Net liquidity gap	(2 010 259)	(905 956)	(2 916 215)	155 866	2 149 053	1 473 583	431 764	1 294 051
Liquidity ratio	0.43		0.42					

- (i) Trading debt securities at the end of the year are included in assets maturing within 1 month. Treasury bills and bonds held in connection with the reduction in obligatory deposit and as collateral for financing obtained from the Guaranteed Deposits Protection Fund relating to acquisition of Rolbank amounting to PLN 79 772 thousand were classified as assets maturing from 1 to 5 year. Treasury bills held as obligatory deposits amounting to PLN 466 877 thousand and restructuring bonds amounting to PLN 98 542 thousand were classified in accordance with the maturity dates of individual securities.

NOTES TO THE FINANCIAL STATEMENTS

44. Assets and liabilities – maturity analysis (cont.)

The above tables present the maturities of Group assets and liabilities by the remaining maturity as at the balance sheet date.

The matching and controlled mismatching of maturities of assets and liabilities is of fundamental importance to the management of the Group. It is unusual for banks to be fully matched since transaction types vary and often have maturity dates. A mismatched position potentially increases profitability but can also increase the risk of losses.

The maturities of assets and liabilities as well as the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are key factors that influence Group liquidity and its exposure to interest rate and exchange rate fluctuations.

45. Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations of market interest rates on its financial position. The following tables illustrate the Group's exposure to interest rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the maturity dates.

Controllable short-term interest rate risk is managed by the Group through the incorporation of clauses in deposits and lending agreements which enables interest rates to be adjusted in accordance with market rates and the decision of the Management Boards of the Group companies.

The Management Board of Bank Zachodni SA monitors market interest rate trends with a view to reacting quickly to structural interest rate changes.

The matching of the level and maturity of assets, liabilities and off-balance sheet items, which are sensitive to interest rate fluctuations is monitored by the ALCO Committee of Bank Zachodni SA.

NOTES TO THE FINANCIAL STATEMENTS

46. Interest rate risk

The assets and liabilities of the Group categorised by the earlier of contractual repricing or maturity dates as at 31 December 2000 were as follows:

	Within 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest bearing assets	Total
Assets:	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Balances with the Central Bank	—	—	—	—	—	326 355	326 355
Cash in hand and current amounts with banks	5 881	—	—	—	—	246 203	252 084
Placements with, and loans to other banks	1 434 900	3 676	—	—	—	(9 038)	1 429 538
Loans to customers and the public sector	4 100 544	175 386	318 694	408 784	7 525	(702 199)	4 308 734
Debt securities	1 043 140	110 689	139 684	530 117	—	21 843	1 845 473
Other	—	—	—	—	—	902 160	902 160
	6 584 465	289 751	458 378	938 901	7 525	785 324	9 064 344
Liabilities:							
Amounts due to banks	280 863	20 315	—	—	—	1 241	302 419
Amounts due to customers and the public sector	3 707 873	2 560 065	621 185	49 157	—	308 716	7 246 996
Other	798	798	—	—	—	1 513 333	1 514 929
	3 989 534	2 581 178	621 185	49 157	—	1 823 290	9 064 344
Interest sensitivity gap	2 594 931	(2 291 427)	(162 807)	889 744	7 525	(1 037 966)	—

NOTES TO THE FINANCIAL STATEMENTS

46. Interest rate risk (cont.)

The assets and liabilities of the Group categorised by the earlier of contractual repricing or maturity dates as at 31 December 2000 were as follows:

	Within 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Non-interest earning assets	Total
Assets:	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000
Balance of the Central Bank	—	—	—	—	—	285 812	285 812
Cash in hand and current amounts with banks	8 174	—	—	—	—	422 052	430 226
Placement with, and loans to other banks	68 170	110 735	—	—	—	(9 689)	169 216
Loans to customers and the public sector	769 953	3 193 738	437 566	574 655	13 454	(512 699)	4 476 667
Debt securities	841 969	209 506	517 938	99 858	—	3 192	1 672 463
Other	—	—	—	—	—	675 417	675 417
	1 688 266	3 513 979	955 504	674 513	13 454	864 085	7 709 801
Liabilities:							
Amounts due to banks	118 084	261	81 830	—	—	903	201 078
Amounts due to customers and the public sector	3 194 457	2 284 953	602 334	60 962	10 000	308 514	6 461 220
Other	595	1 191	595	—	—	1 045 122	1 047 503
	3 313 136	2 286 405	684 759	60 962	10 000	1 354 539	7 709 801
Interest sensitivity gap	(1 624 870)	1 227 574	270 745	613 551	3 454	(490 454)	—

NOTES TO THE FINANCIAL STATEMENTS

47. Foreign exchange risk

Concentration of assets, liabilities and off-balance sheet items

The Group had the following significant foreign exchange positions:

As at 31 December 2000	USD PLN '000	DEM PLN '000	PLN PLN '000	Other PLN '000	Total PLN '000
Assets					
Cash and balance with central banks	18 063	31 513	498 551	19 106	567 234
Debt securities eligible for rediscounting by the Central Bank	—	—	—	—	—
Amounts due from banks and other financial institutions	1 165 054	595	202 410	72 685	1 440 744
Trading securities	—	—	190 314	—	190 314
Loans to customers and the public sector	416 229	253 343	3 468 928	170 234	4 308 734
Investment securities	—	7 906	1 783 204	—	1 791 110
Shares in associated companies	—	—	1 370	165	1 535
Tangible fixed assets	—	—	472 672	—	472 672
Other assets	3 832	438	286 607	1 125	292 002
Total assets	1 603 178	293 795	6 904 056	263 315	9 064 344
Liabilities					
Amounts due to banks and other financial institutions	2 127	—	298 728	1 564	302 419
Amounts due to customers	577 576	360 723	6 241 059	67 638	7 246 996
Liabilities arising from securities issued	—	—	1 642	—	1 642
Other liabilities, including tax liabilities	3 520	2 090	560 753	1 130	567 493
Total liabilities	583 223	362 813	7 102 182	70 332	8 118 550
Net balance sheet position	1 019 955	(69 018)	(198 126)	192 983	945 794

Concentration of assets, liabilities and off-balance sheet items

The Group had the following significant foreign exchange positions:

As at 31 December 1999	USD PLN '000	DEM PLN '000	PLN PLN '000	Other PLN '000	Total PLN '000
Assets					
Cash and balance with central banks	36 696	29 500	619 627	18 002	703 825
Debt securities eligible for rediscounting by the Central Bank	—	—	—	—	—
Amounts due from banks and other financial institutions	6 150	1 626	134 323	39 330	181 429
Trading securities	—	—	409 643	—	409 643
Loans to customers and the public sector	634 821	306 478	3 507 474	27 894	4 476 667
Investment securities	—	8 543	1 315 167	—	1 323 710
Shares in associated companies	—	—	2 480	178	2 658
Tangible fixed assets	—	—	427 515	—	427 515
Other assets	3 181	25	179 972	1 176	184 354
Total assets	680 848	346 172	6 596 201	86 580	7 709 801

NOTES TO THE FINANCIAL STATEMENTS

47. Foreign exchange risk (cont.)

Concentration of assets, liabilities and off-balance sheet items (cont.)

The Group had the following significant foreign exchange positions:

	USD PLN '000	DEM PLN '000	PLN PLN '000	Other PLN '000	Total PLN '000
Liabilities					
Amounts due to banks and other financial institutions	11 093	—	85 776	104 209	201 078
Amounts due to customers	500 912	361 192	5 552 061	47 055	6 461 220
Liabilities arising from securities issued	—	—	2 450	—	2 450
Other liabilities, including tax liabilities	8 880	3 418	207 757	463	220 518
Total liabilities	520 885	364 610	5 848 044	154 727	6 885 266
Net balance sheet position	159 963	(18 438)	(748 157)	(65 147)	824 535

As at 31 December 2000 the global exchange position of the Group was 2.73%.

The global position is calculated as the sum of negative (short) or a sum of positive (long) positions for individual currencies, depending on which of these sums is higher in terms of absolute value.

48. Assets and liabilities denominated in foreign currencies

Currency structure of Bank Zachodni SA Group

Balance sheet items

	As at 31.12.00 PLN '000 Assets	As at 31.12.00 PLN '000 Liabilities	As at 31.12.00 PLN '000 Net position
PLN	6 904 056	8 047 976	—
Foreign currencies			
— convertible	2 160 288	1 016 368	1 143 920
— not convertible			
including:			
USD	1 603 178	583 223	1 019 955
DEM	293 795	362 813	(69 018)
EURO	238 456	40 512	197 944
Other	24 859	29 820	(4 961)
Total balance sheet items	9 064 344	9 064 344	
Net balance sheet exchange position			1 143 920
Off-balance sheet items			
PLN	2 587 132	488 808	—
Foreign currencies	183 115	47 232	135 883
including:			
USD	123 985	47 232	76 753
DEM	24 839	—	24 839
EURO	21 693	—	21 693
Other	12 598	—	12 598
Total off-balance sheet items	2 770 247	536 040	
Net off-balance sheet exchange position			135 883
Total net exchange position			1 008 037

NOTES TO THE FINANCIAL STATEMENTS

49. Geographical distribution of assets and liabilities

	As at 31.12.00 PLN '000	As at 31.12.99 PLN '000
(a) Assets		
Poland	7 865 764	7 646 588
Other countries:	1 198 580	63 213
• USA	1 134 449	13 257
• European Union countries	38 769	27 130
• Great Britain	22 061	18 037
• Czech Republic	1 359	217
• Switzerland	221	2 989
• Other	1 721	1 583
	9 064 344	7 709 801
(b) Liabilities		
Poland	9 030 612	7 660 629
Other countries:	33 732	49 172
• USA	22 357	25 044
• European Union countries	10 114	23 128
• Great Britain	604	298
• Czech Republic	56	31
• Switzerland	54	341
• Other	547	330
	9 064 344	7 709 801

In the opinion of the Management Board of Bank Zachodni SA, the Group has no operations overseas, except for nostro accounts or deposits held in correspondent banks within the scope of normal banking practice and which generated less than 10% of the Group's total income.

The "Other countries" balance relating to assets comprises current and term accounts at foreign banks. The "Other countries" balance relating to liabilities comprises funds deposited with the Group by non-residents.

50. Capital adequacy ratio

As at 31 December 2000 the capital adequacy ratio of the parent company calculated according to guidelines issued by the Bank for International Settlements (BIS) was 11.61%.

51. Foreign exchange rates

As at 31 December 2000, the following exchange rates applied:

– USD	PLN 414.32 per 100 dollars
– GBP	PLN 619.03 per 100 pounds sterling
– DEM	PLN 197.07 per 100 marks

52. Hyperinflation

The inflation rate in 2000 was 8.5% (1999: 9.8%).

International Accounting Standard 29 (Financial Reporting in Hyperinflationary Economies) requires the adjustment of historic cost financial statements to take cognisance of the effects of hyperinflation. In the opinion of the Management Board, the conditions set out in the standard for hyperinflationary economies no longer apply in Poland. These financial statements have not been adjusted for the effects of inflation as this effect would not be material.

NOTES TO THE FINANCIAL STATEMENTS

53. Post balance date events

There were no significant post balance date events that would have impact on the financial statements as at and for the year ended 31 December 2000.

On 20 December 2000 Resolution of an Extraordinary General Meeting of shareholders approved the proposed merger of Wielkopolskie Bank Kredytowy SA (WBK SA) and Bank Zachodni SA. The merger will take place through the transfer of the assets and liabilities of WBK SA to BZ SA, in exchange of new shares of BZ SA, which will be issued to the shareholders of WBK SA. The merger is planned to take place in May 2001.

54. Reconciliation of the Group net profit/loss and net assets under IAS and Polish Accounting Regulations (PAR)

	Net profit/(loss) for the year ended 31.12.2000 PLN '000	Net assets as at 31.12.2000 PLN '000
According to PAR:	(85 138)	952 359
• Difference in deferred tax provision	(5 104)	9 714
• Difference in provision for long-service awards and one-off retirement payments	13 145	(14 999)
• Difference in amortisation of intangible assets	(1 698)	(1 280)
According to IAS	(78 795)	945 794