



WBIK

WIELKOPOLSKI BANK KREDYTOWY SA

Basic Financial Data

	31 Dec. 1997	31 Dec. 1998	% Change
Gross profit	PLN 198.3m	PLN 276.3m	39.3%
Net profit	PLN 119.0m	PLN 185.3m	55.7%
Net profit per one share	PLN 1.73	PLN 2.69	—
Total loans to customers	PLN 3,098.2m	PLN 4,061.9m	31.1%
Total customers' deposits	PLN 5,556.7m	PLN 7,016.4m	26.3%
Balance sheet total	PLN 6,797.5m	PLN 8,354.1m	22.9%
Shareholders' funds	PLN 512.8m	PLN 598.6m	16.7%
Net Return on Assets (ROA) (net profit/average value of assets as at 31 Dec. 1997 and 31 Dec. 1998)	—	2.5%	—
Net Return on Equity (ROE) (net profit/average value of equity as at 31 Dec. 1997 and 31 Dec. 1998 increased by the amount of profit retained by the bank after distribution)	—	27.4%	—
Capital adequacy ratio	14.5%	14.1%	—

Letter of the Chairman of the Bank Council	4
Letter of the President of the Management Board	6
External environment	8
Macroeconomic environment	8
Situation in the banking sector	9
Organisation and management of the bank	11
The Bank Council and the Management Board of WBK SA	11
Changes in the organisational structure	12
Bank's staff	13
The bank's business operations in 1998	14
Business developments	14
WBK SA as a public company	17
Operations on the capital market	18
Operations on the international market	20
Credit policy	21
Deposit activities	22
Liquidity management	22
Activities of Gliwicki Bank Handlowy SA	23
Consolidated financial results	24
Development prospects of WBK SA	26

Consolidated financial statements

in accordance with International Accounting Standards
for the year ended 31 December 1998

Independent Auditor's Report	29
Income Statement	30
Balance Sheet	31
Cash Flow Statement	32
Group Structure	34
Notes to the Financial Statements	35



Marian Górski
Chairman of the Bank Council of WBK SA

Ladies and Gentlemen,

I am happy to report that in 1998 Wielkopolski Bank Kredytowy SA consolidated its strong position in the banking sector.

This achievement was made against the backdrop of year which was not favourable for our industry with pressures on margins resulting from declining interest rates and changes in the obligatory reserve requirement.

In 1998, WBK Group recruited new customers and earned after-tax profit of PLN 185.3 m.

As the bank had no exposure to the Russian market, it did not incur any losses arising from the economic crisis in Russia and the former republics of the Soviet Union.

The aim of the Bank Council is to maintain the broad, global nature of business carried out by Wielkopolski Bank Kredytowy SA and adjust its operations to

the current needs and anticipated business conditions in the future. Good financial performance combined with a strong capital base and satisfactory liquidity level facilitate the sustainable growth of the bank. This opinion is confirmed by the assessment of international rating agencies. Standard & Poor's graded the bank BBBpi; BankWatch confirmed the rating of BBB-, while Moody's Investor Services raised the bank's long-term deposits rating from Ba2 to Ba1. This is the highest possible rating for a Polish bank, the same as the country rating assigned to Poland.

1998 witnessed significant growth in the real value of the bank's own funds and continuation of the investment policy aimed at ensuring ongoing development. In 1998 WBK SA opened 23 new outlets.

Taking into account the strong consolidation processes in the banking sector, WBK continued its policy of equity investment in financial entities. 1998 also saw the establishment of WBK AIB Investment Fund Corporation which manages three trust funds under the "ARKA" brand and the 10% investment in Commercial Union Pension Fund Corporation BPH CU WBK SA.

As part of its continued commitment to outstanding customer service the bank enhanced and extended its product range, promoted individually-tailored solutions and further improved the standard of customer service.

During 1998 Jan Kulczyk resigned his position on the Bank Council due to other commitments. I would like to thank him for his valued contribution to the development of WBK SA.

I would like to thank the Management Board and all staff for their dedication, hard work and excellent performance.

A handwritten signature in black ink, appearing to be 'J. Kulczyk', written in a cursive style.



Jacek Kseń
President of the Management Board of WBK SA

Ladies and Gentlemen,

In 1998 WBK Group achieved the highest after-tax profit in its history. Profit after tax increased by 55.7% on 1997 with assets rising by 22.9%. Total income was higher by 25.1%, with loan growth of 31.1% and deposit growth of 26.3%. Own funds also increased by 16.7% to PLN 598.6 m at the end of 1998. In addition to the dynamic growth in loans and deposits, there was a strong rise in other income, particularly in the areas of commission and foreign exchange income. These results reflect the rewards of our commitment to customer service and our focus on efficiency and shareholder value. WBK SA also disposed of investments which were no longer seen as part of the key term strategy of the bank in Credit Lyonnais Bank Polska SA and Polsko-Amerykański Bank Hipoteczny SA in 1998.

Throughout the year, Wielkopolski Bank Kredytowy SA continued the process of implementing new management structures and procedures. These changes are aimed at enhancing the bank's customer focus and dealing pro-actively with market developments. Our customers are already enjoying improvements in the quality of our service. Our achievements have been recognised with numerous awards and honours. These include our third place ranking in the prestigious annual awards "The Bank for Businessman", produced by "Businessman Magazine".

1998 witnessed further development of our relationship with our strategic investor, AIB Group. Through this link WBK SA has increased its access to international markets and benefited significantly from knowledge transfers. We are constantly working together to meet and exceed our customers' expectations.

We have substantially expanded the array of products and services to maintain our leading position in the financial services market. In particular, I would like to stress the comprehensive preparation of the bank to process banking operations in the new euro currency. In addition, we devoted a great deal of attention to the operations of our core IT systems in the context of the year 2000.

Further dynamic development of the bank and continued enhancement of the quality of our customer service will be the priority for the Management Board and bank's staff in the days to come. I strongly believe that we are well prepared to achieve these objectives.

I would like to thank the Bank Council and all our staff for their dedication and hard work in realising WBK's objectives.

A handwritten signature in dark ink, appearing to read "Jack Winiarski". The signature is fluid and cursive, with the first name "Jack" being more prominent than the last name "Winiarski".

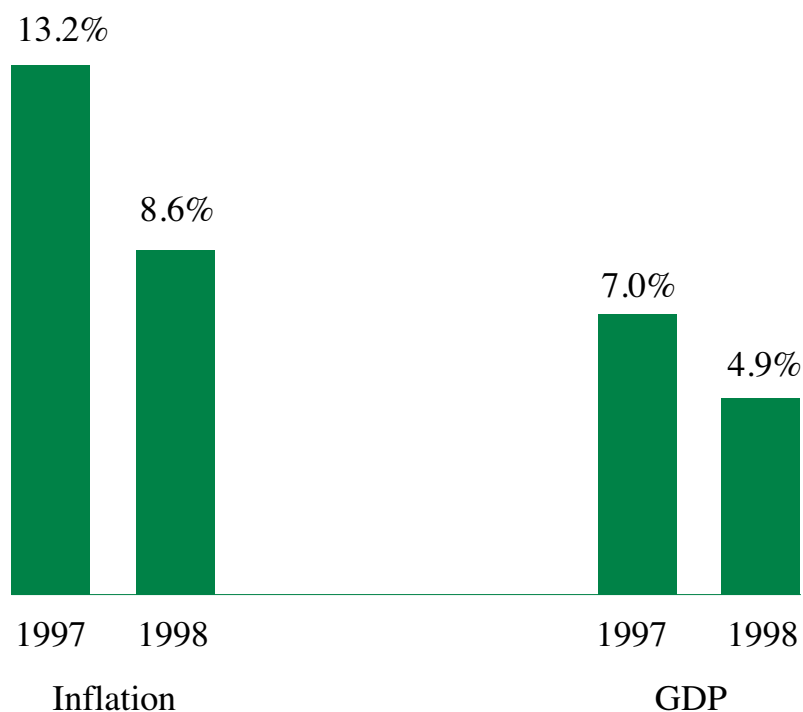
MACROECONOMIC ENVIRONMENT

Economic situation

The economic situation in Poland was broadly favourable in 1998. While lower than in 1997, Gross Domestic Product growth was strong at 4.9 %. Inflation fell from 13.2% in 1997 to 8.6% in 1998. Direct foreign capital investment was over US\$ 10 billion for 1998 bringing total investment to over US\$ 30.7 billion. This investment, combined with western knowledge is helping to modernise Polish industries and is providing a good platform for growth.

1998 saw the implementation of the Country's administrative reform and the development of the legal framework for pension, health care and education reform.

Inflation and GDP dynamics in Poland between 1997 - 1998



The Russian crisis

The Russian crisis is likely to slow down growth in Poland and throughout the Central European region but the full impact is not yet clear. The current account deficit increased in the latter part of the year primarily due to the impact of the Russian crisis on Polish exports. The year 1998 ended with a current account deficit of US\$ 6.742 billion which represented 4.5% of GDP.

Changes in the NBP interest rates

Interest rates reduced substantially in 1998. The National Bank of Poland reduced the interest rates several times within 1998. The interest on lombard and refinance loans went down from 27% to 20% and from 24.5% to 18.25%, respectively.

Lower inflation, a slowing down in monetary growth and a strong currency performance all helped facilitate reductions in interest rates. During the year, the 1-M WIBOR rate fell from 25.8% to 16.0% and the 5-year Government bond fell from 21.3% to 10.4% narrowing interest margins.

In the longer term, however, it should lead to increased lending demand and improved asset quality.

SITUATION IN THE BANKING SECTOR

Banking sector in Poland

1998 was the first year when the new Banking Law Act and Act on the National Bank of Poland were in effect.

Merger and acquisition activity continued in 1998, driven by the opening up of the Polish market to foreign banks in 1999 and the continued privatisation of state banks such as Pekao Group and BPH SA. From 1 January 1999, foreign banks from the OECD and the EU can conduct banking business in Poland without the necessity of establishing a Polish subsidiary.

Margins

Net interest margins have fallen in 1998 due to increasing competition, reducing inflation and lower nominal interest rate levels. Improved cash management in private sector companies also reduced the level of growth in high margin current accounts. In addition, changes to the obligatory reserve requirements and its method of calculation negatively impacted on banking industry margins in 1998 as compared to 1997.

Services

Banks in Poland are developing fee-based services through alliances, acquisitions or the establishment of new activities, particularly in non-traditional banking businesses such as insurance products, investment banking and pension funds management.

Competition

Banks are competing aggressively for a share of the rapidly growing personal market primarily through expanding branch networks, increasing availability of card products and improving the speed of delivery of service.

Polish banks are making substantial investments in information technology and new branches and are projecting returns from these investments over a 3 to 5 year timeframe. This investment has resulted in a growth in costs and a rising tendency in the cost income ratio.

THE BANK COUNCIL AND THE MANAGEMENT BOARD OF WBK SA



Romuald Szeliga

Aleksander Kompf

Jacek Kseń

Joanna Oświecimska

Cornelius A. O'Sullivan

Brendan Holton

The Management Board

The year 1998 witnessed changes in the composition of the Bank's Management with Cornelius A. O'Sullivan appointed to the position of First Vice-President and the appointment of Joanna Oświecimska as a member of the Management Board.

The current Management Board of WBK SA includes: Jacek Kseń - President of the Board, Cornelius A. O'Sullivan - First Vice-President of the Board, Aleksander Kompf - Vice-President of the Board, Romuald Szeliga - Vice-President of the Board, Brendan Holton - Member of the Board, Joanna Oświecimska - Member of the Board.

Bank Council

The Annual General Meeting of WBK SA accepted the resignation of Jan Kulczyk and recalled him from the position of the Bank Council's member.

Since 16 April 1998, the Bank Council has had the following members: Marian Górski - Chairman, David McCrossan - Vice-Chairman and William Andrews, Gary Kennedy, Witold Małecki, Franciszek Pospiech and Roman Rewald - Members of the Bank Council.

CHANGES IN THE ORGANISATIONAL STRUCTURE

Reorganisation of the bank's structure

The year 1998 brought significant changes in the bank's organisational structure. With a view to enhancing the capability of responding to the market and customer needs, the structure of many of the bank's organisational units has been revised and reengineered. This organisational restructuring will position the bank to respond better to the challenges of an increasingly competitive environment.

Branch banking

The support functions for the expanding branch network have been streamlined to enable speedy response to the highly competitive market. Branch Development Services is responsible for all branch planning, support and integration matters.

The combination of the Card Center and Electronic Banking Operations is to facilitate and integrate the bank's expansion in the dynamically developing market of card products and electronic banking services. The responsibilities of Branch Training and Development includes the development of appropriate training programmes, branch management standards, internal communication and customer service development.

Banking services

Support functions were also streamlined into our Banking Services area including the creation of a new function to manage the Bank's Operational Risk and Business Resumption Planning.

Credit and Risk Management now includes the Strategic Customer Relationship Department to better align our services to corporate customers.

The role and scope of the Marketing and Sales function has been strengthened. Marketing operations has always played an important role in the development and sale of our products and especially in raising a high level of awareness of the quality and strength of the WBK brand. The significantly greater emphasis on marketing operations is reflected in the appointment of the Director of Marketing and Sales, Joanna Oświecimska to the Management Board.

Investment Banking

In order to leverage fully the market opportunities, the Bank's Investment Banking function was established. Its task is to co-ordinate all investment banking operations in the financial markets. Investment Banking is composed of the Central Brokerage Office and Capital Markets Department, which provides corporate finance and advisory services. In addition, the function has responsibility over managing WBK's joint ventures with AIB Group in respect of asset management (WBK AIB Asset Management Company and WBK AIB Investment Fund Corporation).

Treasury and International

WBK recognises the significant opportunities to grow treasury and international operations in the future. With this in mind, Treasury and International was set up to provide customers with comprehensive and co-ordinated services in the area of corporate treasury, corporate risk management products, international payments and trade finance.

Completion of work on establishing Regional Branches

The year 1998 saw the completion of the WBK's branch network reorganisation initiated in 1997. It aimed at forming a three-level network structure comprising the Head Office, regional branches and operational outlets. Regional branches have taken over some of the discretions allocated previously to operational branches. In line with the bank's strategy, an investment programme in new operational outlets was continued.

BANK'S STAFF

Growth in the number of outlets, expansion in the range of services and introduction of new products have not impacted significantly on the staff numbers in WBK SA. As at 31 December 1998, the number of staff was 4,361 compared to 4,289 at the end of 1997, an increase of 1.7%.

In 1998, 40% of employees held university degrees which was 2.5% higher than 1997.

The bank assists more than 500 people to continue their education in the form of evening or post-graduate studies.

BUSINESS DEVELOPMENTS

Strategic assumptions

The key objectives outlined by the strategy of WBK are the development of the branch network, especially in our core region of central western Poland with expansion into neighbouring areas and increasing the array of financial products and services offered to the bank's customers. WBK objectives also include improving the quality of its customer service and operational efficiency through streamlining processes and procedures.

The above strategic assumptions imply establishing or investing in the companies which provide services complementary to those offered by WBK. At the same time, the bank is disposing of investments in companies which no longer have long term strategic importance.

Development of the network of outlets

Twenty three new outlets were opened in 1998, the modernisation programme for the existing outlets continued and 38 new ATM's were installed. The locations of the new outlets met the requirements of WBK strategic assumptions which envisage a strong presence of the bank in the region of Wielkopolska and in the most prominent cities in other regions of Poland.

The total number of the bank's outlets at the end of 1998 was 180, including 12 regional branches, 67 operating branches and 71 sub-branches of WBK SA and 26 outlets of Gliwicki Bank Handlowy SA.

Array of products and services

The bank diversified and enriched its range of services by launching new deposit products including progressive and rentier deposits. Customers of the bank may take advantage of a direct debit service and effect transactions using a new WBK SA Maestro card. An enhanced version of „MINIBANK“ an electronic home banking product, was released. WBK SA VISA Classic card became linked to the personal account. Additionally, a number of extra options relating to the personal account were introduced offering new opportunities for our customers.

WBK reviewed the existing procedures governing the most common types of transactions with a view to improving the quality and reducing the time of customer service. Simplified and less time-consuming procedures were established, for instance, in the case of opening personal accounts. The process of streamlining other procedures is in progress and

will be put into practice during 1999.

In 1998 the dynamic growth in the card business continued. As at the end of December 1998 WBK operated 109 ATM's. The number of transactions carried out via the bank's ATM network in 1998 increased considerably and exceeded 4.9 m, which represents more than a two-fold growth from the 2.1 m recorded in 1997. The number of cards issued more than tripled, from 99,600 at the end of 1997 to 349,100 at the end of 1998.

With comprehensive preparations for the introduction of euro, the new currency was successfully implemented with respect to a broad range of products offered by WBK, both in retail and wholesale markets.

Equity investments

The year 1998 saw the establishment of WBK AIB Investment Fund Corporation which manages three ARKA funds. The company is wholly owned by WBK AIB Asset Management SA, the latter in turn is owned in 50% by WBK SA and in 50% by AIB Capital Markets plc.

The establishment of WBK Finance & Leasing SA company was another important event. with the objective of introducing leasing products to WBK Group.

1998 witnessed progress on establishing a mortgage bank which will operate pursuant to the act on mortgage banks and mortgage bonds. In advance of the mortgage bank starting operations, mortgage loans are now being offered through the existing structure of WBK's branch network.

WBK SA and BHW Holding AG signed a document „Agreement of the Company's Founders“ on co-operation in forming the bank which is to operate in line with the act on savings - construction funds. BKB Perspektywa SA was established with a view to setting the organisational and business foundations for the future bank and obtaining licenses and permits required by law. WBK SA contributed PLN 3.05m and has a 50% shareholding in the company. Announced changes to the government legislation have delayed the granting of a license and therefore the commencement of operations. Currently it is not clear when the issue will be resolved.

Beginning in April 1999, the proposed major reform of the social security system will involve a major change in the way individual pension arrangements will be provided. It is estimated that 3 million adults under the age of 30 will be obliged to seek private pension arrangements and a further 10 million have the option to do likewise. In partnership with Commercial Union and BPH, WBK will participate actively in this major new development. In 1998 WBK SA took up a 10% shareholding in a newly established company Commercial Union Powszechnie Towarzystwo Emerytalne BPH CU WBK SA for PLN 12.5 m.

WBK acquired 10% shares of the new issue of Commercial Union Polska Towarzystwo Ubezpieczeń na Życie SA at cost of PLN 6.3m. The proceeds of this new issue of shares were utilised in acquiring a 50% shareholding in Commercial Union Powszechnie Towarzystwo Emerytalne BPH CU WBK SA.

WBK took up 10% of shares of the new Series D issue of Autostrada Wielkopolska SA with a nominal value of PLN 42.5 m. The first tranche of PLN 10.6m was paid by the end of 1998, whereas the remaining amount will be paid in two equal instalments of PLN 15.9 m on 30 May 1999 and 30 May 2000.

A number of investments which no longer fitted with our long term strategy were disposed of in 1998. On 25 June 1998, WBK sold its 15% shareholding in Credit Lyonnais Bank Polska SA at the price of PLN 26.0 m. On 9 November 1998, Wielkopolski Bank Kredytowy SA sold its 49.98% shareholding in PAMBank at the price of PLN 35.9 m.

Year 2000 problem

Throughout 1998 WBK continued its preparations for the Year 2000. The work is supervised by the Steering Committee and supported by the Year 2000 Project Office - its executive body. WBK is also incorporated into AIB Group's Year 2000 process and preparations. The bank allocated appropriate funds to finance this important undertaking.

The range of actions undertaken in relation to the Year 2000 comprises not only information technology, but also business and the entire technical infrastructure of the bank.

The bank has made substantial progress in making all its key systems Y2K compliant. It is expected that all work including non-critical systems will be assessed, updated or replaced and tested by mid 1999.

As part of the Year 2000 programme we have made contact with and are monitoring those third parties whose Year 2000 compliance is critical to the bank. Where appropriate, customers' preparations for Year 2000 forms part of the bank's credit risk assessment process. Contingency plans are being currently worked on.

Information technology

The bank continued to invest in its IT systems. The dynamically developing market of financial services (strong competition, new financial instruments, innovative solutions in respect of delivery channels) requires continual adaptation of the information technology to the needs of the banking environment.

In 1998, WBK focused on modern solutions with functionality which corresponds with the financial profile and development strategy of the bank.

New releases of the branch SEZAM were implemented, covering, among others, the introduction of multi-currency accounting, internal transfer price system and euro. New products introduced included inter-bank ATM sharing arrangements, POS-acquiring and the issuance of Europay/Master Cards. The capacity of the telecommunications system was also expanded.

A significant development in the year was the establishment of the Central Data Base which now positions WBK to implement further on-line processes, internet banking, telephone banking and a range of other significant process efficiencies.

WBK SA AS A PUBLIC COMPANY

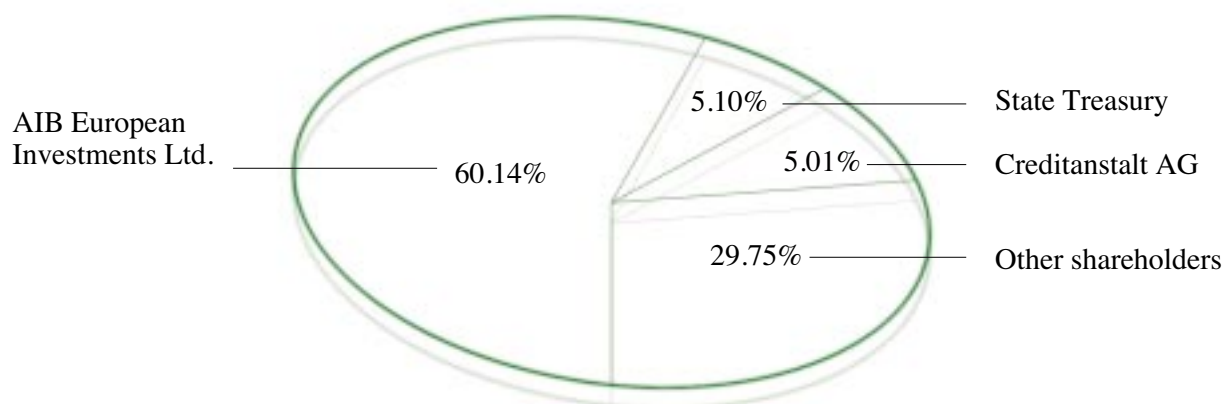
Dividend

The Annual General Shareholders' Meeting of WBK SA convened in April 1998 approved the distribution scheme proposed by the Management Board for the profit generated in 1997 (PLN 118,147,228.32), allocating 48.73% to reserve capital, 29.62% for the general risk fund, 20.97% for the shareholders' dividend and 0.68% for charitable donations. In July 1998, a dividend of PLN 0.36 per share was paid out.

Shareholding structure

During 1998 the structure of the bank's shareholding changed. AIB European Investments Ltd. remained the strategic investor of WBK SA with a 60.14% stake in the bank and the State Treasury represented 5.10% of the share capital. Since March 1998, 5.01% of the WBK SA's shares belonged to Creditanstalt AG. Other shareholders retained 29.75% of the shares.

Structure of WBK SA's shareholding (31 Dec. 1998)



Share price

WBK SA has been listed on the Warsaw Stock Exchange since 1993. In 1998 the value of the bank's shares went up faster than the Warsaw Stock Exchange Index and the rest of the banking sector. WBK SA's shares reached their highest value in 1998 (PLN 33.50) on 13 March.

OPERATIONS ON THE CAPITAL MARKET

Establishment of the Capital Markets Department

The Capital Markets Department launched its operations in April 1998. It integrates and expands the bank's activities in the area of investment banking. The establishment of a separate organisational unit will provide the bank's customers with full service of advisory services and organisation of project finance. The detailed range of activities of this newly established department includes services related to privatisation, restructuring and planning of business development, preparation and appraisal of investment projects, mergers and acquisitions as well as issue of securities including underwriting.

WBK, implementing its strategy of strengthening the co-operation with local governments, developed activities related to municipal bonds issues. Acting as an Issuing Agent, Custody and Payment Agent, the bank provided service of municipal bonds issue for a few towns in Wielkopolska (Turek, Słubice, Chodzież) and participated in the introduction of Ostrów Wielkopolski bonds to the OTC trading.

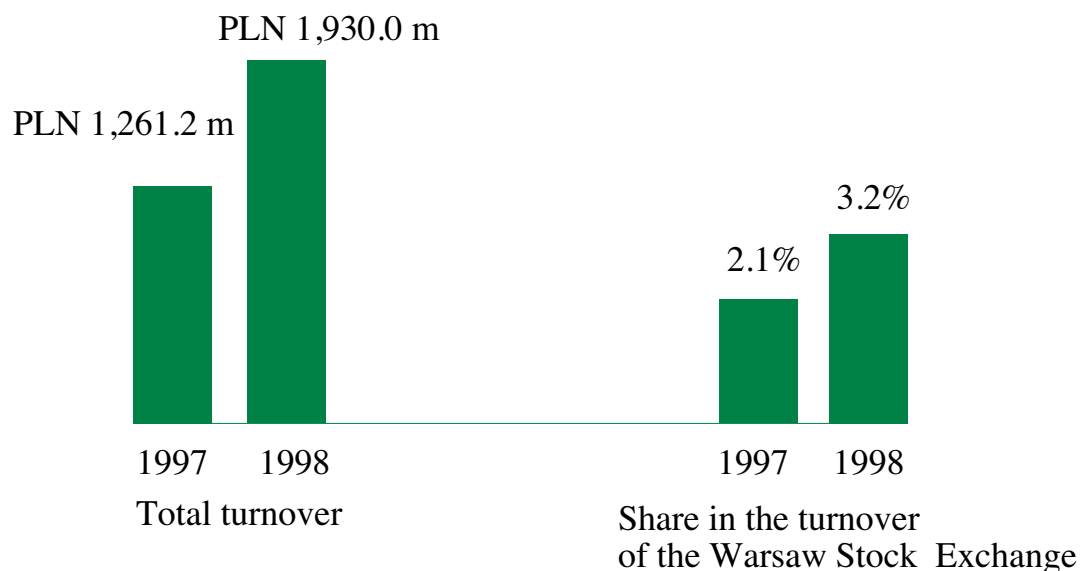
Central Brokerage Office of WBK SA

CBM WBK SA is among the leading brokerage offices in terms of Warsaw Stock Exchange trading in shares, bonds, NIF certificates and futures.

CBM WBK SA grew its market share of the Exchange turnover related to the market of shares from 2.2% in 1997 up to 3.3% in 1998. On the futures market CBM WBK SA is ranked 3rd with over 9% market share.

In 1998, CBM launched two new outlets: in Tychy and Gorzów Wielkopolski. At present it operates a network of 38 Customer Service Outlets providing a full service of stock exchange transactions. The number of operated accounts increased by 14% on 1997 to 142,500.

Central Brokerage Office of WBK SA



CBM WBK SA reached over 5% share in the sales of Telekomunikacja Polska S.A. shares. Subscriptions for shares accepted by CBM represented nearly PLN 100m.

CBM WBK SA acts a specialist broker on the Warsaw Stock Exchange (WSE) for 12 securities' issuers. In 1998, CBM WBK SA performed a function of an offerer for 2 issuers -Lubelskie Zakłady Przemysłu Skórzanego SA and Inter Groclin Auto S.A. The total value of shares in offers prepared by CBM was ca PLN 27.8m.

CBM WBK SA is a shareholder and active member of the Central Table of Offers (OTC market). The trading volumes representing PLN 432.6m placed CBM among the leading brokers in the OTC market with a share of 18%.

In 1998, for the first time CBM acted as a market maker including 2 series of municipal bonds of City of Ostrów Wielkopolski for which WBK SA organised a non-public issue.

In the annual ranking of brokerage offices operating on the primary market prepared by the national daily „Rzeczpospolita“, CBM WBK SA was ranked 8th (against 32 brokerage offices).

OPERATIONS ON THE INTERNATIONAL MARKET

Russian Exposure

The bank continued to monitor economic developments in Russia and former Republics of the Soviet Union. A decision was taken early in 1998 that no interbank credit exposure should be taken towards Russia and former Republics of the Soviet Union. As a consequence, the bank did not require any provisions for any such exposures as a result of the economic crisis in Russia that took place in August.

Cross-border payments

WBK is an active participant in the SWIFT network - an international electronic payments system. This gives WBK access to make and receive payments with over 1,200 international banks. During 1998, WBK took steps to centralise and automate SWIFT payments. This resulted in increased efficiencies for WBK.

Relationship with AIB

1998 witnessed further development of WBK's relationship with AIB. The bank benefited from know-how, training courses, IT systems and experience of AIB specialists employed in the bank. The effects of this relationship contribute to a long-term development of WBK SA and AIB Group.

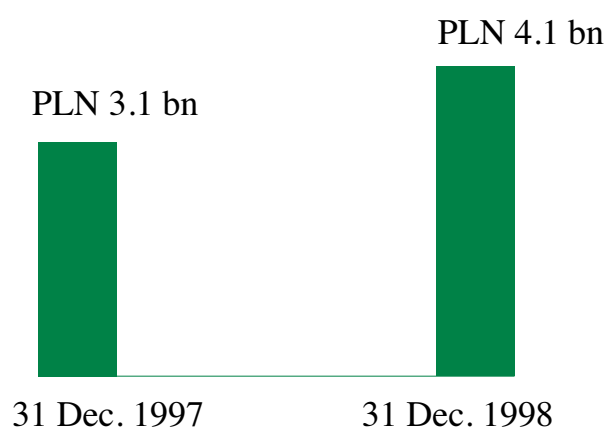
Both banks provide mutual recommendations in their contacts with customers. In particular, AIB and WBK assist the large Irish companies with their business contacts and trade in Poland. AIB is the only bank operating in Poland that has a strong branch network in Great Britain (35 branches) and Northern Ireland (over 100 branches). Opportunities inherent in the links between the two banks have been fully taken advantage of. A joint office providing services for corporate customers is being opened in London.

Structure of the loan portfolio

WBK Group's loan growth was predominately in the business sector where lending margins are very competitive. Zloty loans increased by 17.7% and foreign currency loans increased by 143.3%. Low growth in personal loans reflected conservative loan sanction criteria introduced in December 1997.

WBK Group's loan portfolio quality improved throughout 1998. The total of sub-standard, doubtful and lost loans as a percentage of gross loans reduced from 10.7% in 1997 to 8.5% in 1998.

The loan portfolio of WBK Group



Credit processes

The process of change initiated in 1997 relating to improving credit procedures and setting credit decision making processes and level of discretions at Branch, Regional Branch and Head Office was continued. Improved processes and procedures for appraising business lending applications were implemented in Branches and Regional Branches.

Technological projects for personal lending

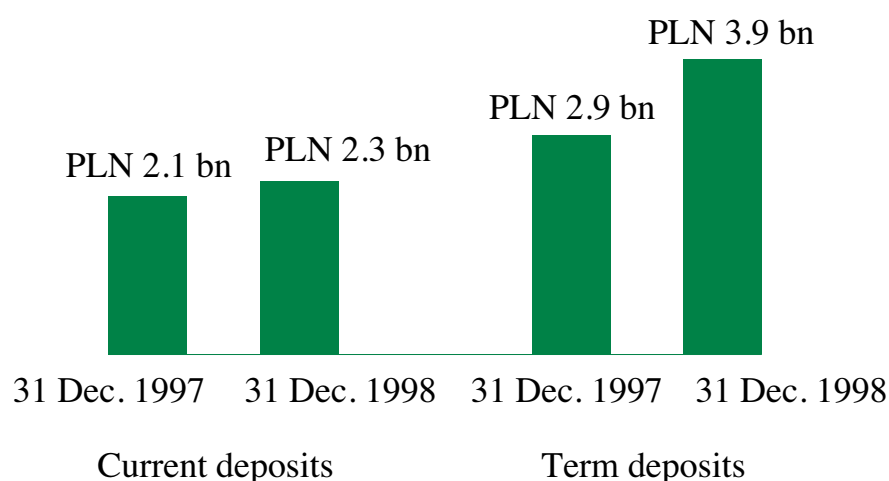
A number of projects are underway to utilise technology in the appraisal and processing of loan applications, monitoring and risk management for the personal loan sector. These tools are important in the proper credit management of this sector given the high volume levels involved and with substantial growth expected in future years. The development of credit

scoring, automatic loan application processing with access to credit bureau information and an arrears management system will help WBK to profitably grow this business into the future while maintaining proper credit standards and appropriate risk controls. The projects will be tested and piloted followed by implementation during 1999 and 2000.

DEPOSIT ACTIVITIES

WBK Group's deposits of non-financial institutions and public sector increased by 23.2%, of which term deposits increased by 32.8% (mostly, deposits up to 1 month). Current personal deposits, increased by 42.2%. In 1998, the mix of deposits changed with zloty term deposits forming 62.8% of total zloty deposits as compared to 58.3% at the end of December 1997, and the share of zloty deposits in total deposits increased from 88.4% to 90.7%.

WBK Group's deposit structure of non-financial institutions and public sector



LIQUIDITY MANAGEMENT

From a prudential perspective, WBK has an internal liquidity policy, which has been approved by the Asset and Liability Management Committee (ALCO) and the Management Board. This liquidity policy defines minimum percentages for the proportion of liquid assets to total assets in both zloty and foreign currencies. Liquid assets are assets, which are readily marketable or short term in nature e.g. government securities, short-term interbank placements etc. The Treasury and International Division is responsible for complying with the policy on a daily basis. ALCO is responsible for monitoring performance on a monthly basis.

The bank's liquidity management throughout 1998 was followed through in line with the objectives set.

Wielkopolski Bank Kredytowy SA is the strategic investor for Gliwicki Bank Handlowy SA. For this reason, the consolidated financial statements also comprise also the financial results of GBH SA.

In 1998 Gliwicki Bank Handlowy SA recorded significant growth in its net profit which amounted to PLN 7.8 m, 312% up from PLN 2.5 m in 1997. Total assets of GBH SA also increased in 1998 and reached PLN 560.3 m at the end of the year (an increase of 65.7%).

GBH SA and WBK SA continued co-operation in respect of streamlining the banking products and operations. Accounting standards and charts of accounts were adjusted. In 1998, work was continued to prepare the implementation of SEZAM IT system across GBH's branch network. The co-operation covered mostly lending and deposit activities, exchange of experience in the area of risk management and assistance with liquidity management.

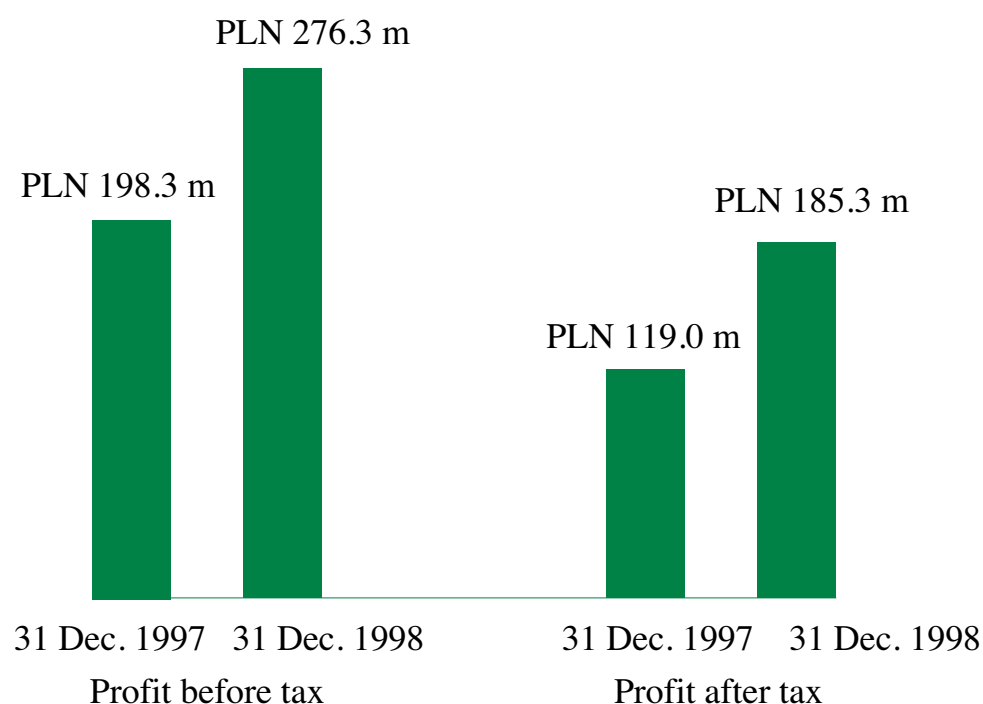
In 1998 WBK Group earned profit after tax of PLN 185.3m, up 55.7% on 1997. Strong growth in deposits of 26.3% and in loans of 31.1%, gains on the sale of equity investments in Credit Lyonnais Polska SA and PAMBank Hipoteczny SA, good performance in foreign exchange profits and gains on disposal of investment securities and lower provisions were key features in this growth.

WBK Group's good performance in 1998 is reflected in the important financial performance measures of return on assets and return on equity. Return on assets amounted to 2.5% and return on equity amounted to 27.4%.

The effective tax rate fell from 42.4% in 1997 to 32.6% in 1998. This was due, among others to the fall in the nominal tax rate from 38% to 36% in 1998.

As at 31, December 1998 the capital adequacy ratio of WBK Group calculated according to guidelines issued by the bank for International Settlements, (BIS) was 14.1%.

The financial results of WBK Group



Interest Income

WBK Group's net interest income was lower by 0.6%. Interest rate reductions and changes to the calculation of obligatory reserves had a negative impact on the interest income outturn. Lending rates fell at a faster pace than deposits as a result of strong competition both in the savings and lending market. In the declining rate environment, good positioning in the Treasury allowed to partially offset the lower deposit and credit margins with significant

gains on disposals of securities and gains arising from stronger activity of the bank on the inter-bank market.

Changes to obligatory reserve requirements reduced income by approximately PLN 14.5m when compared to net interest income in 1997.

Non interest income

Non interest income of WBK Group grew strongly with growth in banking transaction volumes, especially cash handling fees and card fees. Profits on foreign exchange increased by PLN 16.4m (38.1%) as compared to 1997. In addition, gains were realised on the disposal of shareholdings in Credit Lyonnais Polska SA of PLN 26.0m and PAMBank of PLN 35.9m.

Operating expenses

Operating expenses of WBK Group increased by 22.0%. Staff costs were higher by 18.9% which included the carry forward of higher inflation increases in the previous year. Depreciation increased by 28.9% with administration and other expenses increasing by 14.0%. The growth in costs reflects the underlying average annual inflation rate of 11.9%, the underlying growth in business activity, impact of new outlets launched in 1998 and 1997 (primarily rental and maintenance costs), and additional depreciation costs arising from substantial capital investment programs in 1997 and 1998. The increase in operating costs results also from the business growth implying higher IT system maintenance and telecommunication costs.

Provisions

Provisions of WBK Group were lower by 36.3% on 1997.

The improvement primarily results from an exceptional level of provisions raised at the end of 1997 following a loan portfolio review.

The good financial performance in 1998 adding to a strong capital base and high level of liquidity leaves WBK SA well placed to continue the development of its business and its investment programme going forward.

In 1999, further improvements in the most frequent banking operations are planned in order to achieve higher efficiency of operations and standard of customer service. The development of IT systems and the implementation of new technologies will continue. Significant development of our services is planned in electronic banking and the card business.

Other major events will include the commencement of statutory activities by WBK Finance & Leasing SA, the establishment of the mortgage bank operating under the Mortgage Banks and Mortgage Bonds Act (a prerequisite is the licence issued by the NBP) and the establishment of a savings-construction fund in collaboration with BHW Holding AG (after amendments to the Act on Savings-Constructions Funds and obtaining the NBP licence).

1999 will also witness further development in the co-operation with the Commercial Union Group in the area of insurance and pension fund activities. Additionally, WBK SA plans to continue to extend further its network of outlets and ATM's.

WIELKOPOLSKI BANK KREDYTOWY S.A.

Consolidated financial statements

in accordance with International Accounting Standards
for the year ended 31 December 1998

Independent Auditor's Report	29
Income Statement	30
Balance Sheet	31
Cash Flow Statement	32
Group Structure	34
Notes to the Financial Statements	35

Adres do korespondencji:
PricewaterhouseCoopers Sp. z o.o.
Budynek "Metalexport"
ul. Mokotowska 49
00-950 Warszawa
Polska
Telefon: +48 (22) 821 7777
Fax: +48 (22) 660 0572

Independent Auditor's Report to the Shareholders of Wielkopolski Bank Kredytowy S.A.

We have audited the consolidated financial statements of Wielkopolski Bank Kredytowy S.A. set out on pages 2 to 48*. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the truth and fairness of these 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 financial statement presentation. 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 Bank at 31 December 1998, 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

PricewaterhouseCoopers Sp. z o.o.

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

Warsaw, 22 March 1999

Income Statement for the year ended 31 December 1998

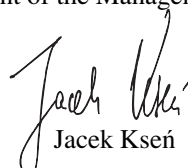
	Notes	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Interest income	2	1,280,457	1,088,889
Interest expense	2	(873,457)	(679,229)
Net interest income		407,000	409,660
Commission income	3	143,940	116,895
Commission expense		(17,263)	(6,858)
Dividends and profits on financial operations		33,371	993
Foreign exchange profits		59,483	43,076
Net profit on financial operations		626,531	563,766
Other operating income		61,252	12,413
Provisions for loans and guarantees	4	(13,123)	(50,408)
Provisions for investments	5	(7,464)	(6,259)
Operating expenses	6	(382,680)	(313,791)
Amortisation of goodwill		(8,227)	(7,454)
Profit before taxation		276,289	198,267
Taxation	7	(90,193)	(78,943)
Profit after taxation before minority interests	8	186,096	119,324
Minority interests		(802)	(316)
Net profit of the year		185,294	119,008

Balance sheet
as at 31 December 1998

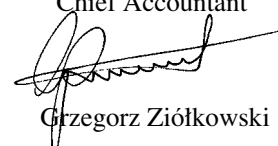
Assets	Note	31.12.98 PLN '000	31.12.97 PLN '000
Balances with the Central Bank	9	306,709	337,487
Cash and amounts due from banks	10	232,109	273,833
Debt securities	11	2,730,493	2,083,909
Placements with, and loans to financial institutions	12	938,018	934,298
Loans to customers	13	3,427,850	2,544,531
Accrued interest receivable and other assets	14	279,941	243,987
Equity investments	15	121,526	92,332
Goodwill	16	22,907	30,396
Tangible fixed assets	17	294,582	256,705
Total assets		8,354,135	6,797,478
Liabilities and funds employed			
Amounts due to financial institutions	18	793,606	506,208
Amounts due to customers and state administrative entities	19	6,226,686	5,056,404
Accruals and other liabilities	20	511,513	562,432
Subordinated liabilities	21	10,000	10,000
Provisions	22	27,404	29,705
Total liabilities		7,569,209	6,164,749
Minority interests	23	1,070	923
Share capital and reserves	24	783,856	631,806
Total liabilities and funds employed		8,354,135	6,797,478
Off-balance sheet items			
Guarantees, accepted and endorsed bills and letters of credit etc.		226,172	166,178
Liabilities arising from purchase/sale operations		1,732,584	941,164
Credit risk in respect of irrevocable lending commitments		997,901	638,433
Total off-balance sheet items		2,956,657	1,745,775

The financial statements on pages 2 to 48* were approved by the Management Board of Wielkopolski Bank Kredytowy S.A. on 22 March 1999 and signed by the following authorised representatives:

President of the Management Board


Jacek Kseń

Director of the Bank
Chief Accountant


Grzegorz Ziółkowski

Cash flow statement for the year ended 31 December 1998

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Cash flow from operating activities		
Net profit	185,294	119,008
Adjusted for:		
Depreciation of fixed assets	47,407	36,779
Minority interests	802	316
Amortisation of goodwill	8,227	7,454
Foreign exchange gains	(9)	(9)
Interest and dividends received and paid	859	(302)
Provisions for loans and guarantees	13,123	50,408
Other provisions	23,264	6,259
Corporate income tax charge for the period	90,193	78,943
Corporate income tax paid	(103,083)	(77,855)
Profit/(loss) on sale or liquidation of fixed assets and non-trading equity investments	(41,447)	(702)
Change in shares held for trading purposes	(792)	(8,293)
Change in debt securities	(646,584)	(578,236)
Change in placements with and loans to financial institutions	112,754	(232,053)
Change in amounts due from customers	(896,116)	(541,759)
Change in amounts due to financial institutions	287,398	250,627
Change in amounts due to customers	1,170,282	876,842
Change in other assets and liabilities	(100,313)	40,551
Other items	(6,814)	(1,402)
Net cash flow from operating activities	144,445	26,576
Cash flow from investing activities		
Purchase of tangible fixed assets	(89,221)	(78,787)
Sale of tangible fixed assets	4,919	1,777
Purchase of shares in non-consolidated subsidiary and associated companies	(5,596)	(8,131)
Sale of shares in non-consolidated subsidiary and associated companies	35,932	0
Purchase of other shares and securities	(47,884)	(1,364)
Sale of other shares and securities	27,888	3,555
Increase in cash and cash equivalents on consolidation of GBH S.A.	0	56,631
Other items	3,328	(5,094)
Net cash flow from investing activities	(70,634)	(31,413)

Cash flow statement
for the year ended
31 December 1998 (cont.)

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Cash flow from financing activities		
Long term loans received	0	55,000
Dividend paid	(24,774)	(30,968)
Other items	(5,042)	(3,200)
Net cash flow from financing activities	(29,816)	20,832
Net change in cash and cash equivalents	43,995	15,995
Cash and cash equivalents at the beginning of the year	1,227,766	1,211,771
Cash and cash equivalents at the end of the year (a)	1,271,761	1,227,766
Net change in cash and cash equivalents	43,995	15,995
(a) Analysis of cash and cash equivalents:		
Balances with the National Bank of Poland	306,709	337,487
Cash and amounts due from banks	232,109	273,833
Placements with and loans to other banks	732,943	616,446
	1,271,761	1,227,766

Wielkopolski Bank Kredytowy S.A. Group

Name	WBK S.A. shareholding	Status	Consolidation method	Auditor	Period for which financial statements were prepared	Period being consolidated	Share capital PLN '000	Balance sheet total PLN '000	Net profit as at 31.12.1998 PLN '000
Wielkopolski Bank Kredytowy S.A. (WBK S.A.)	–	parent	–	PricewaterhouseCoopers Sp. z o.o.	12 months 31 December 1998	1.01. - 31.12. 1998	86,020	7,988.976	181,834
Gliwicki Bank Handlowy S.A. (GBH S.A.)	92,95%	subsidiary	acquisition	PricewaterhouseCoopers Sp. z o.o.	12 months 31 December 1998	1.01. - 31.12. 1998	21,314	554.793	7,796

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

Wielkopolski Bank Kredytowy S.A. (parent company) and Gliwicki Bank Handlowy S.A. (fully consolidated subsidiary) carry out their activities exclusively in the territory of Poland. The principal business of both Banks is retail banking.

(a) Presentation of financial statements

The form and content of the Bank's statutory consolidated financial statements originally prepared in accordance with Polish accounting regulations has been changed to reflect the reporting format and rules applicable under International Accounting Standards.

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

(b) Consolidation

The subsidiary, Gliwicki Bank Handlowy S.A. is consolidated using the **acquisition method**. Other subsidiary and associated companies are not consolidated as they are insignificant in relation to the scale of the Group's activities or were not acquired with the intention of the exercise of continuous influence over their financial policies and current operations.

Acquisition method

Under the acquisition method a consolidated balance sheet is prepared by adding the respective assets and liabilities of the parent company and the subsidiaries in full, irrespective of the parent company interest. The acquisition cost and share capital of subsidiaries are eliminated on consolidation. Where a difference arises between the cost and the fair value of net assets acquired, goodwill or capital reserve on consolidation is recognised. Where the cost exceeds the fair value of the net assets acquired, goodwill arising is amortised over a period not exceeding five years. Where the cost is lower than the fair value of the interest acquired in the acquiree, negative goodwill is recognised and credited to income over a period not exceeding five years. After the addition of the respective balance sheet items, other consolidation eliminations and adjustments (note (c)) are made.

Under the acquisition method, a consolidated profit and loss statement is prepared by adding the income and expenditure of the parent company and subsidiaries. These items are added, in full, irrespective of the parent entity's interest in those subsidiaries. After the addition of the respective income and expenditure items, necessary consolidation eliminations and adjustments are made. Minority interests are shown as a deduction from the profit of the Group.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(c) Consolidation eliminations

The consolidated financial statements are prepared after elimination of the following:

- (i) share capital of subsidiaries consolidated by the acquisition method;
- (ii) cost of acquisition of subsidiaries consolidated by the acquisition method;
- (iii) intra-group receivables and payables of entities consolidated by the acquisition method;
- (iv) turnover and costs of sales relating to intra-group transactions;
- (v) any unrealised profit or loss to the Group on intra-group transactions; included in the value of consolidated assets or liabilities;
- (vi) dividends paid between Group companies.

(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 from loans classified as "normal" is recognised in the income statement and is presented in the balance sheet as "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 from loans classified other than as normal is recognised in the income statement when received. Income received in advance is shown in the balance sheet within "accruals and deferred income" and is recognised in the income statement of the period to which it relates.

(e) Interest expense

Interest payable is accrued at the end of each reporting month. Amounts payable but not yet due are included under accruals. Interest expense includes also costs of SWAP transactions.

(f) Commission income

Commissions comprise principally of amounts received in connection with the granting of loans and guarantees. These amounts are recognised when received, at the commencement of the facility. Commission income also includes brokerage fees.

(g) Dividends and result on financial operations

The profit or loss on sale of securities is calculated as the difference between their net book value at the time of sale and the net sale proceeds. The result on financial operations also includes dividends charged to the profit and loss account on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(h) Foreign exchange gains and losses

Gains and losses on foreign exchange include realised and unrealised exchange differences.

(i) Provisions and revaluations

Provisions are made principally in respect of:

- irregular loans
- inter-bank deposits
- investments
- tangible fixed assets
- off-balance sheet commitments.

Specific provisions are created in respect of the risk attached to individual transactions. Those provisions are set up for loan assets and off-balance sheet commitments, which have been assessed on an individual basis and considered as lost, doubtful or below standard (100%, 50%, 20%, provision respectively net of collateral).

In 1997 the Group created a provision for potential risk associated with loans granted to private individuals. This provision representing 3% of the gross value of such loans is shown within provisions for irregular loans in the balance sheet of the Group. This provision was unchanged in 1998.

In 1998 the Group created provision for retirement benefits in amount of 15.800 ths. zł (note32).

(j) Taxation

Corporate income tax is calculated as 36% (1997: 38%) of gross profit which is determined on the basis of accounting regulations, adjusted by the amount of non taxable income and temporarily or permanently non tax deductible costs.

A deferred tax asset may be recognised or provision made on the basis of temporary timing differences relating to the recognition of income and costs in different periods for accounting and tax purposes.

(k) Amounts due from banks, customers and local government

Amounts due from banks, customers and local government are shown net of provisions and capitalised or overdue interest which is not recognised until its cash settlement.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(l) Investments

Investments include:

- shares in other companies, including shares in private limited companies, over whose activities the Bank intends to exert long-term control;
- long-term securities including debt securities to be held until maturity;
- trading securities are shares in the portfolio of the Group (including CBM WBK S.A.) and other debt securities acquired for dealing purposes.

Investments not held for dealing purposes are held at cost less any provision for permanent diminution in value. Trading investments are shown at the lower of cost and market value.

The purchase price of some debt securities may be higher or lower than their nominal value. The resulting premiums and discounts are taken to the income statement on an accruals basis over the period between their acquisition and expected redemption date.

Government Bonds are carried at cost, which in the case of securities purchased on the secondary market includes any interest accrued prior to their purchase. Cost is subsequently decreased by the amount of accrued interest received. Accrued interest is included in "accrued interest receivable and other assets".

(m) Fixed assets

Tangible fixed assets with the exception of land and capital work in progress are shown at net book value. Fixed assets comprise assets which are owned or jointly owned by the Bank, are complete and ready for use when commissioned, have an expected useful life of more than 1 year, and are designated for use by the Group or for rental to others.

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

Land held in perpetual usufruct (long term lease from the State) is not the property of the Group and is not included in fixed assets.

Tangible fixed assets are valued at purchase price or production cost of capital work in progress net of depreciation and taking into account any revaluations.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(n) Depreciation

Tangible and intangible fixed assets are depreciated on the basis of a depreciation plan which specified depreciation rates and annual depreciation charges.

Depreciation rates are established on the basis of the expected economic useful lives of assets and the period of economic usefulness of rights.

Depreciation rates are periodically reviewed, with any resulting changes being implemented in the year in which such verification occurred.

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

- buildings and structures 2.5% - 4.0%
- plant and machinery 6.0% - 30.0%
- vehicles 20.0%

Land and capital investments are not depreciated.

(o) Liabilities

Liabilities, comprising deposits placed by clients and other banks, are recorded at the capital amount due as at the balance sheet date.

(p) Foreign currency transactions

Assets and liabilities denominated in foreign currencies are stated at the official balance date mid rate established by the President of the Central Bank.

Realised and unrealised foreign exchange gains and losses arising between the inception of a transaction and the date of settlement or the balance sheet date, if the settlement occurs after that date, are booked to financial income or expenses and disclosed in "net gain from foreign exchange differences".

(q) Shareholders funds

Shareholders funds include capital and other reserves created in accordance with applicable regulations. Included in shareholders funds are unappropriated profits and uncovered losses from previous years.

Subsidiary company post-acquisition reserves, are added to the respective parent company capital and reserves (see below). The part of pre- and post-acquisition capital and reserves attributable to minority shareholders is shown under minority interests.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

(q) Shareholders funds (cont.)

Share capital comprises only the share capital of the parent Bank and is presented at its nominal value in accordance with the statute of the Bank and with its entry in the commercial register.

Supplementary capital is created principally from appropriations of profit and share premiums arising on the issue of shares. In accordance with the Polish Commercial Code, 8% of profit after tax must be transferred to supplementary capital each year until supplementary capital has reached the level of 1/3 of share capital.

Reserve capital can be utilised in accordance with the Bank's statute. It is principally created from appropriations of profit. Reserve capital is distributable.

Revaluation reserve arises from a net surplus on prior year revaluation of fixed assets. On disposal of fixed assets (i.e. sale, donation, liquidation or write-off) the related revaluation surplus is transferred to reserve capital. Revaluation surpluses are not distributable.

General banking risk fund. Following the introduction of a new Banking law on 1 January 1998, the general risk fund created according to previously applicable regulations was liquidated. The fund was previously constituted both from tax-deductible charges against profit and from tax paid profits. On 1 January 1998 50% of the tax-deductible portion of the fund originally created out of pre-tax profits was subjected to tax at 40%. The balance of the fund was transferred to Reserve Capital. The tax is payable in 36 monthly installments commencing with that in respect of January 1998. The outstanding liability at balance date is shown under accruals and other liabilities. The general banking risk fund is created from appropriations of profit (note 28).

Net result for the year is the profit after taxation for the year as disclosed in the profit and loss account.

(r) Cash and cash equivalents

Cash comprises bank-notes and coins and cash on current accounts at other banks.

Cash equivalents represent interbank deposits due within 3 months, which can be exchanged at any point in time into a specified amount of cash and which are subject to very low risk of change in value.

(s) Off-balance sheet items

Off-balance sheet items relating to purchase/sale transactions include purchases and sales of foreign currencies, differences on SWAP transactions, amounts payable on securities and deposits related to financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

2. Interest income and expense

	Income 12 months to 31.12.98 PLN '000	Expense 12 months to 31.12.98 PLN '000	Income 12 months to 31.12.97 PLN '000	Expense 12 months to 31.12.97 PLN '000
Financial institutions	161,734	(114,820)	152,192	(85,382)
Business entities, state-administrative entities and individuals	615,589	(756,416)	580,812	(591,601)
Treasury bills and bonds	355,924	0	342,913	0
Securities of non-financial institutions	107,351	0	694	0
Other	39,859	(2,221)	12,278	(2,246)
	<u>1,280,457</u>	<u>(873,457)</u>	<u>1,088,889</u>	<u>(679,229)</u>

In the period of 12 months to 31.12.1998 average interest earning assets amounted to PLN 6,644,657 thousand and the average interest rate to 18.2%. Average interest bearing liabilities of the Group amounted in that period to PLN 6,399,878 thousand and average interest expense paid by the Group to 13.2%.

3. Commission income

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Banking activities	123,922	103,508
Brokerage activities	20,018	13,387
	<u>143,940</u>	<u>116,895</u>

4. Provisions for loans and guarantees

Increase in specific provisions for loans	(66,528)	(66,884)
Increase in specific provisions for off-balance sheet liabilities	(321)	(8)
Increase in general provision for consumer loans	0	(10,000)
Release of specific provisions for loans	53,726	26,437
Release of specific provisions for placements with other banks	0	39
Release of specific provisions for off-balance sheet liabilities	0	8
	<u>(13,123)</u>	<u>(50,408)</u>

NOTES TO THE FINANCIAL STATEMENTS (cont.)

5. Provisions for investments

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Provisions in respect of equity investments	(8,402)	(7,019)
Release of provisions	938	760
	(7,464)	(6,259)

6. Operating expenses

Salaries	(121,333)	(102,430)
Other salary related cost	(58,848)	(49,051)
Depreciation	(47,407)	(36,779)
Administration and other expenses	(143,537)	(125,894)
Provision for retirement and anniversary bonuses	(15,800)	0
Provisions for other assets	4,245	363
- provisions created	(893)	(282)
- release of provisions	5,138	645
	(382,680)	(313,791)

7. Taxation

Corporate income tax due (a)	108,615	81,913
Deferred tax (b)	(18,422)	(2,970)
	90,193	78,943

(a) Corporate income tax due

Gross profit	276,289	198,267
IAS and consolidation adjustments to ensure comparability with financial statements prepared in accordance with Polish accounting standards	3,535	1,353

Permanently non tax-allowable costs:

Provisions for loans regarded as permanently disallowed for deferred tax purposes	31,036	22,291
Other provisions	7,366	0
Other costs	7,258	15,410
	45,660	37,701

Temporarily non tax-allowable costs:

Provisions for loans and other costs	101,983	69,555
Accrued interest payable	102,951	71,381
	204,934	140,936

NOTES TO THE FINANCIAL STATEMENTS (cont.)

7. Taxation (cont.)

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Costs not tax-allowable in previous years, now tax allowable in current year:		
Interest paid, accrued for in previous years	(71,159)	(45,301)
	(71,159)	(45,301)
Permanently non taxable income:		
Release of provisions for loans and other costs previously treated as permanently non allowable for deferred tax purposes	(49,635)	(5,173)
Income received, previously taxed when accrued	(166)	(398)
Domestic dividends	(2,427)	(1,891)
Other income	0	(90)
	(52,228)	(7,552)
Temporarily non taxable income:		
Accrued interest income	(177,423)	(168,941)
Other	(3,241)	(660)
	(180,664)	(169,601)
Provisions temporarily non tax-allowable in previous years, released in current year		
Release of provisions	(43,307)	(21,281)
	(43,307)	(21,281)
Income not taxable in previous years, now taxable in current year:		
Interest received, accrued for in previous years	151,621	104,520
Income received in advance	736	5,939
Capitalised interest	3,198	2,035
	155,555	112,494
Gross taxable income	338,615	247,016
Tax deductible items (donations)		
- donations	(678)	(658)
- damages received	(1,423)	0
Investment relief	(15,555)	(23,793)
Investment relief bonus	(11,432)	(12,990)
Tax loss of GBH S.A.	(7,819)	5,987
Taxable income	301,708	215,562
Corporate income tax due 36%/38%	108,615	81,913

NOTES TO THE FINANCIAL STATEMENTS (cont.)

7. Taxation (cont.)

Corporate income tax due - by banks:

	12 months to 31.12.98 PLN '000
WBK S.A.	104,654
GBH S.A.	3,961
	<u>108,615</u>

(b) Deferred tax

Deferred income tax is calculated using the balance sheet liability method on the basis of temporary differences for accounting and taxation purposes.

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Cumulative temporary timing differences between gross profit and taxable profit:		
Income not realised	163,177	130,355
Accrued interest in liabilities	(104,221)	(70,026)
Investment relief	66,456	73,431
Provision for loans	(59,805)	(33,093)
Other provisions	(48,043)	(35,401)
Interest accrued in assets	40,314	35,146
Capitalised interest	(8,668)	(5,471)
Income received in advance (including discount on bills of exchange, leasing)	(5,981)	(7,218)
Adjustment for the year 1995 relating to provisions treated previously as permanent differences	(4,612)	(4,612)
Tax loss of GBH S.A. to be set off against 1999 profit	(4,740)	0
Other	(690)	(596)
Total temporary differences	<u>33,187</u>	<u>82,515</u>
Deferred tax provision (34%/36%)	<u>11,283</u>	<u>29,705</u>

Deferred tax for the financial year ended 31 December 1997 arose only in WBK S.A. For reasons of prudence in the financial year ended 31 December 1997 GBH S.A. did not capitalize its deferred tax liability of PLN 3,957 thousand. Had that amount receivable been capitalised, the provision for deferred income tax of the Group as at 31 December 1997 would have equalled PLN 25,748 thousand.

In the 1998 financial year, The Management of GBH S.A. took the view that future profitability of the Bank was sufficiently assured to enable a prudent recognition of the 1998 year end deferred tax asset. This asset is shown in prepayments.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

7. Taxation (cont.)

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Movements in the provision for deferred income tax during the financial year:		
Provision for deferred income tax at the beginning of the year	29,705	33,008
Decrease of the provision for deferred income tax		
- recognised in the profit and loss account	(18,422)	(2,970)
Other decreases	0	(333)
Provision for deferred income tax at the year end	11,283	29,705

8. Profit after taxation, before minority interests

Net profit of parent company	181,834	130,147
Net profit of subsidiary company	7,797	2,529
Consolidation adjustments	(3,535)	(13,352)
	186,096	119,324

9. Balances with the Central Bank

	31.12.98 PLN '000	31.12.97 PLN '000
Current account (zloty)	306,709	131,747
Obligatory reserves	0	169,197
Reverse repurchase option receivables, short-term deposit	0	36,543
	306,709	337,487

The obligatory reserve of PLN 303,453 thousand is held on current account in the Central Bank (NBP). GBH S.A. is exempt from making an obligatory reserve until 30 December 2000. The amount of PLN 303,453 thousand therefore relates only to WBK S.A.

10. Cash and amounts due from banks

Cash – PLN	116,124	172,666
Cash – foreign currencies	64,230	73,209
Current accounts with other banks – PLN	5,015	2,718
Current accounts with other banks – foreign currencies	46,740	25,240
	232,109	273,833

NOTES TO THE FINANCIAL STATEMENTS (cont.)

11. Debt securities

	31.12.98 PLN '000	31.12.97 PLN '000
Fixed interest bonds and other securities (a)	2,255,657	1,485,113
Variable interest bonds and other securities (b)	474,836	598,796
	2,730,493	2,083,909

(a) Fixed interest bonds and other securities:

• Treasury bills (i)	254,890	673,258
• NBP bills	891,337	303,072
• Treasury bonds (ii)	1,087,400	505,283
• Other	22,030	3,500
	2,255,657	1,485,113

(i) Included in Treasury bills are securities with a total nominal value of PLN 5,383 thousand which are designated, in accordance with the Bank Guarantee Fund Act as collateral for potential future liabilities to the Guaranteed Deposit Protection Fund.

(ii) Fixed interest Treasury bonds mature in two or five years.

(iii) A liquid market exists for Treasury bonds, NBP bills and 2-year and 5-year Treasury bills

(iv) Interest rates and discounts vary depending on the type of security. During the 12-month period ended 31 December 1998 they were as follows:

	% min	% max
• Treasury bills	11.90	24.98
• NBP bills	15.65	24.15
• 2-year Treasury bonds	11.70	24.15
• 5-year Treasury bonds	10.87	23.97

As at 31 December 1998 the total market value of NBP bills, Treasury bills and Treasury bonds amounted to PLN 2,409 thousand.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

11. Debt securities (cont.)

(b) Variable interest bonds and other securities:

	31.12.98 PLN '000	31.12.97 PLN '000
• Polish government "Brady bonds" (i)	152,341	151,656
• Polish government Treasury bonds (ii)	299,718	432,840
• Other	22,777	14,300
	<u>474,836</u>	<u>598,796</u>

(i) The Polish government "Brady bonds" were issued following an agreement made on 14 September 1994 between the Republic of Poland and commercial banks associated with the so-called London Club of creditors and banks. They were issued on the basis of Decree No. 78 issued by the Minister of Finance on 26 October 1994 regarding the issue of restructuring bonds in connection with agreements with commercial banks associated with the London Club in order to reduce and reorganise Poland's external debt. These bonds are denominated in US dollars.

(ii) Polish government Treasury bonds have maturities of three and ten years.

(iii) Liquid markets exist for Treasury bonds and Brady bonds.

(iv) Interest rates vary depending on the type of security. During the 12-month period ended 31 December 1998 they were as follows:

	31.12.98 %	31.12.98 %
	min	max
• Polish government three year Treasury bonds	17.32	25.52
• Polish government ten year Treasury bonds	17.04	24.55
• Polish government "Brady bonds"	6.02	7.00

(v) The total market value of three- and ten-year bonds issued by the Polish government and Polish government "Brady bonds" as at 31 December 1998 amounted to PLN 499,020 thousand.

(c) Debt securities - gross value by currency:

	PLN '000	PLN '000
PLN	2,578,152	1,932,253
Foreign currency	152,341	151,656
	<u>2,730,493</u>	<u>2,083,909</u>

NOTES TO THE FINANCIAL STATEMENTS (cont.)

11. Debt securities (cont.)

(d) Debt securities - maturity analysis of gross value:

	31.12.98	31.12.97
	PLN '000	PLN '000
Within 1 month	920,722	228,509
Within 1 to 3 months	49,725	241,697
Within 3 months to 1 year	452,184	809,294
Within 1 to 5 years	1,009,068	484,299
After 5 years	298,794	320,110
	<u>2,730,493</u>	<u>2,083,909</u>

(e) Debt securities - marketability by gross value:

Freely marketable debt securities listed on the Warsaw Stock Exchange	1,387,118	938,123
Debt securities freely marketable in regulated, over the counter, secondary public trading	1,074,181	664,386
Unlisted freely marketable debt securities	196,100	400,541
Debt securities with limited marketability	73,094	80,859
	<u>2,730,493</u>	<u>2,083,909</u>

12. Placements with other banks and loans to other financial institutions

	31.12.98	31.12.97
	PLN '000	PLN '000
Term	939,327	916,432
Interest in suspense	37	27
Reverse repurchase option receivables	0	19,152
Gross placements with other banks and loans to other financial institutions (a), (b)	939,364	935,611
Provisions (c)	(1,309)	(1,286)
Interest in suspense	(37)	(27)
Net placements with other banks and loans to other financial institutions	<u>938,018</u>	<u>934,298</u>

Annual interest rates on placements with other banks and loans to other financial institutions during the 12-month period ended 31 December 1998 ranged from 3.38% to 30.00% for zloty placements and from 0.09% to 10.2% for foreign currency placements.

(a) Placements with other banks and loans to other financial institutions by currency:

Zloty	829,348	569,419
Foreign currencies	110,016	366,192
	<u>939,364</u>	<u>935,611</u>

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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

(b) Placements with other banks and loans to other financial institutions by maturity:

	31.12.98	31.12.97
	PLN '000	PLN '000
Within 1 month	408,945	659,363
Within 1 to 3 months	259,812	81,712
Within 3 months to 1 year	60,820	42,741
Within 1 to 5 years	200,580	115,222
After 5 years and amounts overdue	9,207	36,573
	939,364	935,611

(c) Provisions created for irregular loans
from financial institutions - changes during the year:

	12 months to 31.12.98	12 months to 31.12.97
	PLN '000	PLN '000
Provisions at the beginning of the year	1,286	0
Increases:		
- consolidation of GBH S.A.	0	861
- write-off	23	0
Transfer of provisions from other balance sheet items		
Decreases:	0	(39)
- provisions released	0	(39)
Provisions at the end of the year	1,309	1,286

Net amounts due from non-consolidated subsidiaries as at 31 December 1998 amounted to PLN 40,136 thousand.

13. Loans to customers – including state administrative entities

	31.12.98	31.12.97
	PLN '000	PLN '000
Loans	3,706,619	2,826,987
Interest due, not received	99,612	95,962
Unallocated amounts	79	51
Gross loans (a), (b), (c)	3,806,310	2,923,000
Specific provisions (d)	(247,488)	(254,237)
General provisions for retail loans	(10,000)	(10,000)
Capitalised interest	(22,266)	(18,739)
Interest in suspense	(98,706)	(95,493)
Net loans	3,427,850	2,544,531

NOTES TO THE FINANCIAL STATEMENTS (cont.)

13. Loans to customers – including state administrative entities (cont.)

Annual interest rates on loans to customers during the 12-month period ended 31 December 1998 ranged from 16.11% to 39.00% for zloty loans and from 2.14% to 14.91% for foreign currency loans.

(a) Loans to customers - by currency:

	31.12.98	31.12.97
	PLN '000	PLN '000
Zloty	3,072,063	2,621,798
Foreign currencies	734,247	301,202
	<u>3,806,310</u>	<u>2,923,000</u>

(b) Loans to customers - by maturity:

Within 1 month	725,579	570,117
Within 1 to 3 months	497,546	260,978
Within 3 months to 1 year	992,661	863,113
Within 1 to 5 years	782,593	658,636
After 5 years	379,291	158,349
Amounts overdue	428,640	411,807
	<u>3,806,310</u>	<u>2,923,000</u>

(c) Loans to customers - by credit risk category:

Regular	3,362,013	2,495,058
Below standard	65,815	50,209
Doubtful	34,311	39,083
Lost	244,131	242,637
Interest due, not received; unallocated amounts due from clients, other amounts due	100,040	96,013
	<u>3,806,310</u>	<u>2,923,000</u>

NOTES TO THE FINANCIAL STATEMENTS (cont.)

13. Loans to customers – including state administrative entities (cont.)

(d) Specific provisions created for loans to customers - changes during the year:

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Provisions at the beginning of the year	254,237	200,278
Increases:		
• consolidation of GBH SA	0	15,730
• acquired on purchase of Komunalny Bank Spółdzielczy	0	1,647
• write-off	66,505	69,414
• foreign exchange differences	1,192	1,371
Decreases:		
• repayment of debtors and conversion to shares	(53,726)	(28,967)
• transfer to the assets	(7)	(464)
Utilization of provisions	(20,713)	(4,772)
Provisions at the end of the year	247,488	254,237

(e) Value of loans granted by the Group
and guaranteed by the State Treasury or other banks:

	31.12.98 PLN '000	31.12.97 PLN '000
Polish government	0	0
Foreign governments	0	0
Polish banks	48	46
Foreign banks	752	528
	800	574

14. Accrued interest receivable and other assets

Accrued interest receivable	191,185	151,519
Other assets	91,174	99,129
Total gross	282,359	250,648
Provisions (a)	(2,418)	(6,661)
Total net	279,941	243,987

NOTES TO THE FINANCIAL STATEMENTS (cont.)

14. Accrued interest receivable and other assets (cont.)

(a) Provisions - changes during the year

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Provisions at the beginning of the year	6,661	0
Increases:		
• consolidation of GBH SA	0	7,994
• provisions created	893	303
• transfer to loans	7	0
Release of provisions	(5,138)	(645)
Utilization of provisions	(5)	(991)
Provisions at the end of the year	2,418	6,661

15. Equity investments

	31.12.98 PLN '000	31.12.97 PLN '000
Held as financial fixed assets:		
Shares in subsidiaries (a), (b), (c)	11,364	7,782
Shares in associates (d), (e), (f)	10,283	19,624
Unit trust units (g)	7,500	0
Other shares (h)	99,942	65,969
Total gross value	129,089	93,375
Held for trading purposes:		
Shares held by the Central Brokerage Office (i)	1,302	9,393
NIF share certificates	0	6
Other shares (j)	9,768	879
Total gross value	11,070	10,278
Total gross value of equity investments	140,159	103,653
Provisions (k)	(18,633)	(11,321)
Total net value of equity investments	121,526	92,332

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(a) Shares in subsidiaries as at 31 December 1998 - additional information:

No.	Company	Registered office	Activity	Type of equity relationship	Consolidation method applied	Control acquired	Shares at cost PLN 000	Write-downs PLN 000	Balance sheet value of shares PLN 000	Ownership interest (in %)	Percentage of votes at AGM
1	Bankowa Agencja Ochrony AGEMA Sp. z o.o.	Poznań	Property security services.	subsidiary	not subject to consolidation	Mar 1997	3,010	0	3,010	100.00	100.00
2	WBK Finanse & Leasing S.A.	Poznań	Fixed asset lease services, hire purchase sale of goods.	subsidiary	not subject to consolidation	Oct 1998	2,512	0	2,512	99.99	99.99
3	WBK Nieruchomości S.A.	Poznań	Construction of the WBK S.A operation and service centre and its management on commissioning.	subsidiary	not subject to consolidation	Jul 1998	28	0	28	99.80	99.80
4	Lubuska Wytwórnia Win Sp. z o.o.	Zielona Góra	Wine production, bottling and distribution.	subsidiary	not subject to consolidation	Nov 1997	4,462	4,462	0	81.69	81.69
5	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU S.A.	Poznań	Insurance product distribution.	subsidiary	not subject to consolidation	Jun 1993	218	0	218	60.00	60.00
6	PB Polsoft Sp. z o.o.	Poznań	IT services.	subsidiary	not subject to consolidation	Dec 1996	102	0	102	51.00	51.00
7	AGROTECHMA Sp. z o.o.	Kędzierzyn - Koźle	Food processing.	subsidiary	not subject to consolidation	Aug 1993	2	2	0	68.00	68.00
8	Polprojekt Zakład Asekuracji, Konwojowania i Ochrony Mienia Sp. z o. o.	Gliwice	Production, services, domestic and foreign trade, real estate trading, factoring.	subsidiary	not subject to consolidation	Mar 1998	1,030	0	1,030	98.30	98.30
Gross value of shares in subsidiaries							11,364				

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(b) Investments in subsidiaries non-consolidated as at 31 December 1998 - additional information:

No.	Company	Share capital	Called-up share capital unpaid (negative amount)	Supple- mentary capital	Other capital	Retained earnings/ loss brought forward	Net profit / loss	Creditors	Debtors	Total assets	Sales	Shares unpaid by Group	Dividends received or receivable / share in last year's profits
		PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000		
1	Bankowa Agencja Ochrony AGEMA Sp. z o.o.	3,000	2	0	154	0	154	585	889	3,835	13,473	0	0
2	WBK Finanse & Leasing S.A.	5,000	(2,500)	0	0	0	0	0	0	0	0	2,500	0
3	WBK Nieruchomości S.A.	100	(75)	0	(3)	0	(3)	10	14	32	13	75	0
4	Lubuska Wytwórnia Win Sp. z o.o.	5,462	0	9,217	(16,789)	(9,947)	(6,842)	4,266	349	4,002	10,272	0	0
5	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU S.A.	350	0	323	947	0	941	47	348	1,712	2,906	0	282
6	PB Polsoft Sp. z o.o.	200	0	462	1,001	0	1,001	1,550	2,126	3,295	8,544	0	189
7	AGROTECHMA Sp. z o.o.	5	0	0	(1,044)	(1,381)	337	1,658	844	972	66	0	0
8	Polprojekt Zakład Asekuracji, Konwojowania i Ochrony Mienia Sp. z o.o.	610	0	660	(311)	(8)	(317)	504	591	1,600	5,815	0	0

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(c) Shares in subsidiaries – changes during the financial year:

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Gross value at the beginning of the year	7,782	25,454
Elimination of shares in GBH S.A. on consolidation of GBH S.A.	0	(25,147)
Decrease	(1,392)	0
Increase	4,974	7,475
Gross value at the end of the year	11,364	7,782

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(d) Shares in associates as at 31 December 1998 – additional information:

No.	Company	Registered office	Activity	Type of equity relationship	Consolidation method applied	Date of starting to exert a significant influence	Shares at cost PLN 000	Write-downs in total PLN 000	Balance sheet value of shares PLN 000	Ownership interest (in %)	Percentage of votes at AGM
1	PBK Perspektywa S.A.	Poznań	Preparing the formation of savings and building society which is to start operating after obtaining licence from NBP	associate	not subject to consolidation	Feb 1998	3,054	3,054	0	50.00	50.00
2	WBK AIB Asset Management S.A.	Poznań	Advisory services relating to public trading in securities	associate	not subject to consolidation	Jun 1997	5,505	0	5,505	50.00	50.00
3	Auto Leasing S.A.	Poznań	Leasing, trading in and manufactured goods, advisory agency services	associate	not subject to consolidation	May 1996	600	0	600	33.33	33.33
4	AIB WBK Fund Management Sp. z o.o.	Warsaw	Managing NIF VI	associate	not subject to consolidation	Sept 1995	716	0	716	29.00	29.00
5	Euroad-Leasing Sp. z o.o.	Warsaw	Manufacturing, trading, providing services, and constructing.	associate	not subject to consolidation	Mar 1996	400	0	400	37.50	35.80
6	NOTA Sp. z o.o.(in bankruptcy)	Gliwice	Publishing, technical advisory services, advertising, photographic services, production of packaging.	associate	not subject to consolidation	Feb 1993	8	8	0	25.00	25.00
Gross value of shares in associates							<u>10,283</u>				

15. Equity investments (cont.)

(e) Shares in associates as at 31 December 1998 – additional information:

No. Company	Share capital	Called-up share capital unpaid (negative amount)	Supplementary capital	Other capital	Retained earnings/ loss brought forward	Net profit / loss	Creditors, including:	long term	Debtors, including:	long term	Total assets	Sales	Shares unpaid by Group	Dividends received or receivable / share in last year's profits
					PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	
1 PBK Perspektywa	100	0	8,000	(8,269)	0	(8,269)	2,409	0	2,642	0	3,285	184	0	0
2 WBK AIB Asset Management S.A.	11,000	0	0	(1,373)	(618)	(755)	61	0	134	0	9,793	1,314	0	0
3 Auto Leasing S.A.	1,800	0	109	2,107	0	2,107	66,408	64,441	5,156	16	71,094	28,657	0	0
4 AIB WBK Fund Management Sp. z o.o.	2,469	0	0	3,839	1,461	2,378	552	0	2,610	0	7,832	10,606	0	0
5 Euroad-Leasing Sp. z o.o.*	1,065	0	0	(35)	0	(35)	106	0	35	0	1,136	57	0	0
6 NOTA Sp. z o.o. (in bankruptcy)**	32	0	20	(97)	(80)	(45)	100	0	35	0	70	no data	0	0

as at:

* 30.06.1998

** 09.05.1997

NOTES TO THE FINANCIAL STATEMENTS (cont.)

Consolidated financial statements in accordance with International Accounting Standards
WIELKOPOLSKI BANK KREDYTOWY S.A.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(f) Shares in associates – changes during the financial year:

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Gross value at the beginning of the year	19,624	13,701
Increase	3,055	5,923
Decrease	(12,396)	0
Gross value at the end of the year	10,283	19,624

(g) The market value of participation units as at 31 December 1998 amounted to PLN '000 7,181 thousand (the net value as at 31.12.1998 amounts to PLN '000 6,817 thousand).

(h) Other shares as at 31 December 1998:

Company	Registered office	Activity	Balance sheet value of shares PLN '000	Interest %	Value of unpaid shares 31 December 1998 PLN '000
Huta Lucchini Warszawa Sp. z o.o.	Warsaw	metallurgy	20,000	19.72	0
Bank Przemysłowo-Handlowy S.A. (i)	Kraków	banking services	21,006	2.32	0
Commercial Union Powszechnie Towarzystwo Emerytalne BPH, CU, WBK S.A.	Warsaw	Forming and managing open ended pension funds	12,513	10.00	0
Autostrada Wielkopolska S.A.	Poznań	Constructing motorways	14,149	9.98	0
Magna Polonia S.A.	Warszawa	Securities dealing	7,219	5.10	0
Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A.	Warszawa	Insurance	2,119	10.00	0
Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A.	Warszawa	Life insurance	8,046	10.00	0
Other			14,890	-	0
Gross balance sheet value of shares			99,942		

(i) The market value of shares in Bank Przemysłowo-Handlowy S.A. as at 31.12.1998 amounted to PLN 56,628 thousand.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(i) Shares held by the Central Brokerage Office:

	to 31.12.98 PLN '000	to 31.12.97 PLN '000
BFK S.A.	66	1,134
Mostostal Gdańsk S.A.	66	717
Izolacja S.A.	48	1,304
KGHM S.A.	45	2,560
ZM Koło S.A.	38	0
ZPJ Wistil S.A.	45	0
Mostostal Kraków S.A.	48	0
LZPS S.A.	60	0
Inter Groclin Auto S.A.	52	0
Magna Polonia NFI S.A.	368	1,043
PBK S.A.	55	0
Centrostal Gdańsk S.A.	277	0
Izolacja Jarocin S.A.	34	0
Pekabex S.A.	68	0
Gdańskie Przedsiębiorstwo Robót Drogowych S.A.	32	336
Powszechny Bank Kredytowy S.A.	0	2,299
	1,302	9,393

As at 31.12.1998, the market value of the shares held by the Central Brokerage Office amounted to PLN 1,372 thousand.

(j) Other non-consolidated shares held for trading purposes:

Lubelskie Zakłady Przemysłu Skórzanego S.A.	700	0
Gospodarczy Bank Południowo-Zachodni S.A.	700	700
Wielkopolska Fabryka Mebli S.A.	43	0
HOWELL S.A.	419	0
Odlewnie Polskie S.A.	0	179
Inter Groclin Auto S.A.	7,906	0
	9,768	879

NOTES TO THE FINANCIAL STATEMENTS (cont.)

15. Equity investments (cont.)

(k) Provisions for shares – changes during the year:

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Balance at the beginning of the year	11,321	23,842
Increase on consolidation of GBH S.A.	0	1,220
Provisions created	8,402	7,019
Elimination of provisions for shares in GBH S.A. on consolidation of GBH S.A.	0	(20,000)
Provisions released	(938)	(760)
Utilisation of provisions	(152)	0
Balance at the end of the year	18,633	11,321

16. Goodwill

	31.12.98 PLN '000	31.12.97 PLN '000
Gross goodwill	40,959	40,221
Amortisation	(18,052)	(9,825)
	22,907	30,396

	12 months to 31.12.98 PLN '000	12 months 31.12.97 PLN '000
Change in goodwill		
Gross value at the beginning of the year (i)	40,221	19,515
Goodwill on consolidating GBH S.A.	0	16,763
Addition due to purchasing KBS Zielona Góra	0	3,943
Addition due to purchasing additional shares in GBH S.A.	738	0
Gross goodwill at the end of the year	40,959	40,221
Accumulated amortisation at the beginning of the year	9,825	975
Adjustment to opening balance	0	1,396
Amortisation charge for the year, relating to KBS Zielona Góra	789	198
Amortisation charge for the year, relating to BBB S.A.	3,903	3,903
Amortisation charge for the year, relating to GBH S.A.	3,535	3,353
Accumulated amortisation at the end of the year	18,052	9,825
Net goodwill	22,907	30,396

NOTES TO THE FINANCIAL STATEMENTS (cont.)

16. Goodwill (cont.)

- (i) Gross value at the beginning of the 1997 financial year is goodwill in the amount of 19,515 relating to the purchase of the net assets of Bydgoski Bank Budownictwa S.A. in Bydgoszcz (BBB S.A.).

On 1 September 1997, WBK S.A. and KBS Zielona Góra concluded an agreement for the sale of the banking business of KBS Zielona Góra to WBK S.A. for PLN 6,600 thousand. As a result of that transaction, goodwill of PLN 3,943 thousand was recorded.

17. Tangible fixed assets

	Land, buildings and structures	Plant and machinery	Vehicles	Construction in progress	Total
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Gross value					
Balance as at 1 January 1998	144,151	172,527	7,285	36,299	360,262
Increases	130	21,203	22	78,075	99,430
Decreases	(2,902)	(4,347)	(2,156)	(9,594)	(18,999)
Transfers	30,843	46,249	928	(78,020)	0
Balance as at 31 December 1998	172,222	235,632	6,079	26,760	440,693
Accumulated depreciation					0
Balance as at 1 January 1998	19,939	79,865	3,753	0	103,557
Increases	8,395	37,741	1,271	0	47,407
Decreases	(312)	(2,985)	(1,556)	0	(4,853)
Balance as at 31 December 1998	28,022	114,621	3,468	0	146,111
Net book value					
Balance as at 31 December 1997	124,212	92,662	3,532	36,299	256,705
Balance as at 31 December 1998	144,200	121,011	2,611	26,760	294,582

NOTES TO THE FINANCIAL STATEMENTS (cont.)

18. Amounts due to other financial institutions

	31.12.98 PLN '000	31.12.97 PLN '000
Current	43,949	28,378
Term	749,657	401,390
Repurchase option liabilities	0	76,440
	<u>793,606</u>	<u>506,208</u>

(a) Term amounts due to other financial institutions – by maturity:

Within 1 month	484,040	414,229
Within 1 to 3 months	7,500	27,455
Within 3 months to 1 year	61,825	891
Within 1 to 5 years	226,866	35,908
Over 5 years	13,375	27,725
	<u>793,606</u>	<u>506,208</u>

(b) Amounts due to other financial institutions – by currency:

Zloty	444,493	389,378
Foreign currencies	349,113	116,830
	<u>793,606</u>	<u>506,208</u>

Amounts due to subsidiaries and associates as at 31 December 1998 amounted to PLN 4,324 thousand.

Annual interest rates on interbank deposits during the 12 months to 31 December 1998 ranged from 28.8% for PLN deposits to 8.72% for foreign currency deposits.

19. Amounts due to clients and the state administrative entities

Deposits (a), (b)	6,222,920	5,050,540
Other	3,766	5,864
	<u>6,226,686</u>	<u>5,056,404</u>

Interest rates on deposits from clients and the public sector during the 12 months to 31 December 1998 were as follows:

- current deposits – up to 14 % for PLN deposits and up to 8 % for foreign currency deposits, and
- term deposits – from 4 % to 25 % for PLN deposits and up to 9 % for foreign currency deposits.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

19. Amounts due to clients and state administrative entities (cont.)

(a) Deposits – by currency:

	31.12.98 PLN ‘000	31.12.97 PLN ‘000
Zloty	5,645,281	4,466,036
Foreign currencies	577,639	584,504
	<u>6,222,920</u>	<u>5,050,540</u>

(b) Deposits – by maturity:

Within 1 month	4,267,738	3,204,241
Within 1 to 3 months	1,246,337	1,014,164
Within 3 months to 1 year	656,566	764,156
Within 1 to 5 years	52,210	67,893
Over 5 years	69	86
	<u>6,222,920</u>	<u>5,050,540</u>

20. Interest accrued and other liabilities

Interest accrued	107,779	90,483
Interbank balances	274,044	332,005
Other	129,690	139,944
	<u>511,513</u>	<u>562,432</u>

21. Subordinated liabilities

Subordinated liabilities	<u>10,000</u>	<u>10,000</u>
--------------------------	---------------	---------------

In accordance with a ruling by the National Bank of Poland, the loan obtained from Ford Credit Europe plc in the amount of PLN 10,000 is regarded as a subordinated liability. The loan was received on 10 July 1996 for a period of 6 years and carries an interest rate of 1% p.a. The loan represents a contribution of Ford Credit Europe plc to the restructuring of the Polish banking system and was granted to WBK S.A. in connection with its acquisition of the net assets of Bydgoski Bank Budownictwa S.A. in 1996.

22. Provisions

Deferred tax provision (a)	11,283	29,705
Provision for off-balance sheet liabilities (b)	321	0
Provision for long service bonuses and retirement payments (Note 32)	15,800	0
	<u>27,404</u>	<u>29,705</u>

NOTES TO THE FINANCIAL STATEMENTS (cont.)

22. Provisions (cont.)

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
(a) Deferred tax provision – changes during the year:		
Opening balance	29,705	33,008
Changes during the year	(18,422)	(3,303)
Closing balance	11,283	29,705
(b) Provision for off-balance sheet liabilities – changes during the year		
Opening balance	0	0
Charge to the income statement	321	8
Provisions released	0	(8)
Closing balance	321	0

23. Minority interests

	31.12.98 PLN '000	31.12.97 PLN '000
Minority shareholders' interest in net assets of GBH S.A. (PLN 15,190 thousand x 7.05%)	1,070	923

24. Share capital and reserves

Share capital (25)	86,020	86,020
Share premium account	30,690	30,690
Revaluation reserve (26)	51,427	51,427
Other undistributed reserves (27)	395,425	274,336
General risk reserve (28)	35,000	70,325
Group's profit after tax (29)	185,294	119,008
	783,856	631,806

NOTES TO THE FINANCIAL STATEMENTS (cont.)

25. Share capital

	31.12.98 PLN '000	31.12.97 PLN '000
Share capital issued and paid up	<u>86,020</u>	<u>86,020</u>

The Bank's share capital as at 31 December 1998 consisted of 68,816,000 shares of PLN 1.25 per value each.

As at 31 December 1998, the Bank's shareholders with over 5% of votes were as follows:

AIB European Investments Ltd	60.14%
State Treasury	5.10%
Creditanstalt AG	5.01%

26. Revaluation reserve – changes during the year

	12 months to 31.12.98 PLN '000	12 months to 31.12.97 PLN '000
Opening balance	51,427	51,511
Transfer to reserves	<u>0</u>	<u>(84)</u>
Closing balance	<u>51,427</u>	<u>51,427</u>

27. Other undistributed reserves – changes during the year

Opening balance	274,336	152,195
Distribution of profit for previous year	46,434	107,642
Transfer from general risk reserve	74,655	0
Consolidation adjustment	0	14,477
Transfer from revaluation reserve	0	84
Other changes	<u>0</u>	<u>(62)</u>
	<u>395,425</u>	<u>274,336</u>

28. General risk reserve – changes during the year

Opening balance	70,325	41,593
Distribution of profit for previous year	47,000	28,732
Transfer to reserves	(74,655)	0
Transfer to amounts due to public sector	<u>(7,670)</u>	<u>0</u>
Closing balance	<u>35,000</u>	<u>70,325</u>

Movements on the General Risk Reserve are described in note q.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

29. Group profit after tax

Appropriation of the net profit of the WBK Group for the 12 months to 31 December 1997 and the net proposed appropriation for the 12 months to 31 December 1998:

	31.12.98	31.12.97
	PLN '000	PLN '000
General risk reserve	55,000	47,000
Other reserves	90,922	46,434
Dividend	36,472	24,774
Other	2,900	800
	<u>185,294</u>	<u>119,008</u>

30. Remuneration of the Bank Council and the Management Board of Wielkopolski Bank Kredytowy S.A.

	12 months	12 months
	to 31.12.98	to 31.12.97
	PLN '000	PLN '000
Bank Council	177	174
Management Board	1,655	1,491
	<u>1,832</u>	<u>1,665</u>

A member of the Bank Council received remuneration of PLN 42 thousand from an associated company in respect of his participation in Supervisory Board of this company.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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

	31.12.1998	31.12.1997
	PLN '000	PLN '000
Management Board	102	145
Bank Council	19	214
Related parties – loans and guarantees (i)	59,434	92,481
Employees	15,265	13,553
Shareholders	3,000	1,661
	<u>77,820</u>	<u>108,054</u>

- (i) The balance represents loans and guarantees to related parties other than those covered in these consolidated financial statements. Loans and guarantees to the Bank Council, the Management Board and related parties were granted on an arm's length basis.

32. Retirement benefits and long service bonuses

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

The group has contractual arrangements with employees in respect of one-off retirement bonuses and certain employment anniversary bonuses. The amount of such bonuses is variously dependant on life-time employment history and years of employment with the Group. The Group has made an estimate of the liability in respect of such bonuses and it is management's intention that this provision of PLN 15,800 thousand (note 22) will be verified actuarially in the subsequent financial year.

33. Contingent liabilities

- (a) WBK S.A. has taken advantage of basic investment relief and supplementary investment relief totalling 170,422 thousand zloty during years 1994-1998. A condition for entitlement to this investment relief is compliance with all tax regulations. Non compliance with tax regulations which would be immaterial from a financial point of view could potentially lead to the loss of the investment relief. The Bank would then be required to repay the taxes saved as a result of investment relief. Furthermore the Group would lose all supplementary investment relief and would be required to pay penalty interest for the period from the date the original tax payment would have been made to the date of actual payment.

As at the date of approval of the financial statements for the year ended 31 December 1998 the Management Board of WBK S.A. does not believe any significant liabilities will arise as a result of taking advantage of investment relief.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

33. Contingent liabilities (cont.)

(b) In accordance with the Act dated 14 December 1994 on the Bank Guarantee Fund (BFG) (Law Journal of 1995 No. 4 item 18), banks are obliged to participate in the costs of compensating holders of guaranteed deposits in banks that have been declared bankrupt.

The participation of individual banks in the cost of compensating depositors is determined by the Management Board of BFG. As at December 1998, in accordance with the Act on Bank Guarantee Fund, the Group set aside an amount equal to 0.10% (1999: 0.24%) of total client deposits held by the Bank as at 20 December. These amounts represent the maximum potential involvement of the Bank in the cost of compensating depositors in bankrupt banks. However, in the event of exhausting available funds, the Act envisages the possibility of increasing the contribution rate to 0.8%.

34. Off-balance sheet items

	31.12.98 PLN '000	31.12.97 PLN '000
Accepted bills of exchange, cheques and letters of credit, etc.	25,994	13,976
Guarantees	200,078	149,682
Other	100	2,520
	<u>226,172</u>	<u>166,178</u>

35. Irrevocable lending commitments

To subsidiary entities	0	266
To associated entities	8,089	12,615
Other	989,812	625,552
	<u>997,901</u>	<u>638,433</u>

36. Capital commitments

	Plan for year 1999 PLN '000	Plan for year 1998 PLN '000
In respect of		
Buildings and equipment	34,941	84,946
Computer hardware and software	102,215	70,885
Expenditure on property security	6,511	5,171
Other	2,120	536
	<u>145,787</u>	<u>161,538</u>

The total capital expenditure of the Group for the year 1998 was PLN 89,375 thousand.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

37. Concentration of assets

In setting maximum concentration limits the Group conforms with the provisions of the Banking Law which limits the maximum permissible concentration of loans, guarantees, bonds and securities (except for shares) and other receivables in relation to one customer or group of related customers to 25% of the own funds of the Bank. In 1998 concentration ratios were not exceeded.

(a) Concentration of loans to particular customers

The value of loans granted to 10 largest customers and their share in the loan portfolios of the Group banks:

No.	Portfolio exposure	Industry	Exposure
	%		PLN '000
1	3.0	Business organisation	120,000
2	2.7	Telecommunication	109,087
3	2.3	Refining industry	92,000
4	2.1	Woodworking and paper industry	83,655
5	1.6	Telecommunication	66,072
6	1.6	Food and oil production	64,012
7	1.4	Food production	57,963
8	1.4	Woodworking and paper industry	56,325
9	1.2	Automobile industry	50,102
10	1.2	Finance	49,846
Total	18.5		749,062

(b) Concentration of loans to groups

The value of loans granted to 5 largest groups and their share in the loan portfolio of the Group banks:

No.	Portfolio exposure	Industry	Exposure
	%		PLN '000
1	1.7	Food production	67,425
2	1.3	Food production, trade	56,325
3	1.3	Financial, construction industry	51,623
4	0.9	Trade, services, agriculture	36,614
5	0.9	Trade	36,000
Total	6.1		247,987

NOTES TO THE FINANCIAL STATEMENTS (cont.)

37. Concentration of assets (cont.)

(c) Concentration of loans to particular industry sectors

	WBK S.A.	GBH S.A.
	%	%
Trade	18.3	33.1
Food production	14.2	1.2
Trade and manufacture of machines and equipment	7.0	12.0
Finance	0.0	15.8
Agriculture	5.8	0.0
Energy	6.7	0.0
Clothing industry	2.3	0.0
Services	12.9	0.0
Construction industry	9.0	0.0
Woodworking and paper industry	3.9	0.0
Mineral industry	6.0	4.0
Chemical industry	2.1	0.0
Consumer loans	1.7	17.5
Other	10.1	16.4
	100.0	100.0

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

	31.12.98	31.12.97
	PLN '000	PLN '000
Cash and securities issued by the National Bank of Poland	1,109,163	640,559
Polish governments "Brady bonds"	152,341	151,656
Debt securities issued by the Polish government	1,730,892	1,611,381
Amounts due from Central and local governments	75,104	78,791
	3,067,500	2,482,387

The above assets represent 36.7% (1997: 36.5%) of the total assets of the Group as at 31 December 1998.

39. Assets and liabilities – maturity analysis

The principal assets and liabilities of the Group are analysed by their maturity date at 31 December 1998 as follows:

	Within 1 month	Within 1 to 3 months	Total within 3 months	Within 3 months to 1 year	Within 1 to 5 years	After 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	306,709	0	306,709	0	0	0	0	306,709
Cash and current amounts due from banks	232,109	0	232,109	0	0	0	0	232,109
Placements with other banks and loans to financial institutions	408,945	259,812	668,757	60,820	200,580	3,452	5,755	939,364
Loans to customers and the State Treasury	725,579	497,546	1,223,125	992,661	782,593	379,291	428,640	3,806,310
Debt securities *	2,657,399	0	2,657,399	0	73,094	0	0	2,730,493
Other shares and securities quoted on the Warsaw Stock Exchange S.A.	1,302	0	1,302	0	0	0	0	1,302
	4,332,043	757,358	5,089,401	1,053,481	1,056,267	382,743	434,395	8,016,287
Liabilities:								
Amounts due to financial institutions	484,040	7,500	491,540	61,825	226,866	13,375	0	793,606
Amounts due to customers and the State Treasury	4,267,738	1,246,337	5,514,075	656,566	52,210	69	0	6,222,920
Subordinated liabilities	0	0	0	0	10,000	0	0	10,000
	4,751,778	1,253,837	6,005,615	718,391	289,076	13,444	0	7,026,526
Liquidity ratio	0.91 (Liquidity I)		0.85 (Liquidity II)					

* The total of debt securities, with the exception of the secured Treasury bills set aside in respect of the BFG (amounted to PLN 73.094 thousand) was included in assets maturing within 1 month, since Treasury bills, commercial bills and Treasury bonds are easily marketable at prices close not significantly different to their book values.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

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

The principal assets and liabilities of the Group are analysed by their maturity date at 31 December 1998 as follows:

	Within 1 month	Within 1 to 3 months	Total within 3 months	Within 3 months to 1 year	Within 1 to 5 years	After 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	337,487	0	337,487	0	0	0	0	337,487
Cash and current amounts due from banks	273,833	0	273,833	0	0	0	0	273,833
Placements with other banks and loans to financial institutions	659,363	81,712	741,075	42,741	115,222	35,260	1,313	935,611
Loans to customers and the State Treasury	570,117	260,978	831,095	863,113	658,636	158,349	411,807	2,923,000
Debt securities	2,003,050	0	2,003,050	0	80,859	0	0	2,083,909
Other shares and securities quoted on the Warsaw Stock Exchange S.A.	9,393	0	9,393	0	0	0	0	9,393
	3,853,243	342,690	4,195,933	905,854	854,717	193,609	413,120	6,563,233
Liabilities:								
Amounts due to financial institutions	414,229	27,455	441,684	891	35,908	27,725	0	506,208
Amounts due to customers and the State Treasury	3,204,241	1,014,164	4,218,405	764,156	67,893	86	0	5,050,540
Subordinated liabilities	0	0	0	0	0	10,000	0	10,000
	3,618,470	1,041,619	4,660,089	765,047	103,801	37,811	0	5,566,748
Liquidity ratio	1.06 (Liquidity I)		0.9 (Liquidity II)					

NOTES TO THE FINANCIAL STATEMENTS (cont.)

40. Assets and liabilities denominated in foreign currencies

	31.12.98 PLN '000	31.12.97 PLN '000
Assets:		
Cash and amounts due from banks	110,970	98,449
Debt securities	152,341	151,656
Placements with, and loans to financial institutions	110,016	366,192
Loans to customers	726,352	286,783
Shares	148	139
Other assets	6,915	13,921
	1,106,637	917,140
Liabilities:		
Amounts due to financial institutions	349,113	116,830
Amounts due to customers	577,639	584,504
Other payables to clients and state administrative entities	1,453	0
Other liabilities	39,257	62,008
	967,462	763,342

On 31 December 1998 the Group banks had the following foreign exchange positions:

	WBK S.A. %	GBH S.A. %
Maximum position	3.64	4.46
Global position	1.78	(0.32)

The maximum position is calculated as the ratio of the sum of long and short positions in individual currencies to the net assets of the Bank. The global position is calculated as the ratio of the difference between all long and short positions to net assets.

NOTES TO THE FINANCIAL STATEMENTS (cont.)

40. Assets and liabilities denominated in foreign currencies (cont.)

(a) Structure of WBK Group assets and liabilities by currency:

Balance sheet items

	31.12.98 PLN '000	31.12.98 PLN '000	31.12.98 PLN '000
	Assets	Liabilities	Net position
PLN	7,247,393	7,386,673	
Foreign currency:	1,106,742	967,462	138,962
-convertible	1,106,424	967,462	
-non-convertible	318	0	0
including:			
USD	370,275	535,743	(165,468)
DEM	623,952	324,175	299,777
Other	112,197	107,544	4,653
Total balance sheet items	8,354,135	8,354,135	

Off-balance sheet items

PLN			
Foreign currency	747,165	875,490	(128,325)
Including:			
USD	588,239	416,146	172,093
DEM	142,328	434,655	(292,327)
Other	16,598	24,689	(8,091)
Total off-balance sheet items	747,165	875,490	
Total net items			10,637

Analysis of total net position:

Long position	17,136
Short position	(6,499)
	10,637

NOTES TO THE FINANCIAL STATEMENTS (cont.)

40. Assets and liabilities denominated in foreign currencies (cont.)

(a) The long position comprises mainly assets in the following currencies:

	31.12.98
	PLN '000
USD – Dollar, United States of America	7,478
DEM – German Mark, Germany	7,449
XEU – ECU, European Union	1,149
Other	1,060
	<u>17,136</u>

(b) The short position comprises liabilities in the following currencies:

FRF – French Franc, France	1,385
GBP – British Pound, Great Britain	1,620
ITL – Italian Lira, Italy	1,070
USD – Dollar, United States of America	853
Other	1,571
	<u>6,499</u>

A long or short position is calculated as the difference between total (balance sheet and off-balance sheet) assets and liabilities. A surplus of assets over liabilities gives a long position while a deficit of assets results in a short position.

41. Geographical distribution of assets and liabilities

(a) Assets	31.12.98	31.12.97
	PLN '000	PLN '000
Poland	8,323,338	6,490,473
Other countries	30,797	307,005
	<u>8,354,135</u>	<u>6,797,478</u>
 (b) Liabilities		
Poland	8,164,800	6,724,130
Other countries	189,335	73,348
	<u>8,354,135</u>	<u>6,797,478</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont.)

42. Capital adequacy ratio

As at 31 December 1998 the capital adequacy ratio of WBK S.A. calculated according to guidelines issued by the Bank for International Settlements, (BIS) was 14.13 % (1997: 14.5%).

43. Interest rate risk

Controllable short-term interest rate risk is managed by the Group through the incorporation of clauses in deposit and lending agreements which enables interest rates to be adjusted in accordance with market rates and the decisions of the Management Boards of the Group banks. The Management Boards of the Group banks monitor market interest rate trends with a view to reacting quickly to structural interest rate changes.

Matching of the level and maturity of assets, liabilities and off-balance sheet items, which are sensitive to interest rate fluctuations is closely monitored by WBK S.A.'s ALCO Committee.

44. Foreign exchange rates

The following exchange rates applied at 31 December 1998:

- USD	PLN 350.40 per 100 dollars
- British Pound	PLN 580.61 per 100 pounds
- German Mark	PLN 209.15 per 100 marks

45. Inflation

The 1998 consumer price index was 8.6% (1997: 13.2%).

In the opinion of the Management Board the conditions set out in the International Accounting Standard 29 (Financial Reporting in Hyperinflationary Economies) which require the adjustment of the historic cost financial statements to take cognisance of the effects of inflation no longer apply in Poland. These financial statements have not been adjusted for the effects of inflation which would not in any case, have been material.

46. Post balance sheet events

There are no post balance date events which could have had a material effect on the financial statements.

