

Commentary to BZ WBK performance in Q2 2001

1. Introduction

The commentary to BZ WBK quarterly report has been presented in the following order:

- **Principles behind presentation** - this part defines the principles of data presentation and factors affecting their comparability with the data for the previous periods,
- **Financial performance** - presents the Bank's results in Q2 2001,
- **Additional information** - includes additional financial information and the listing of the most important events which occurred after the publication of the previous report and may affect the future performance of the bank.

This commentary is not a direct translation of the document presented to the Polish Securities and Exchange Commission.

2. Principles behind the presentation

Legal basis

The quarterly report includes balance sheet, P&L account, and cash flow statements produced in line with the binding legal acts.

Principles governing the valuation of assets and liabilities and the determination of the financial result

Pursuant to the regulations currently in force, BZ WBK applies the following principles of assets and liabilities valuation and determination of the financial result:

1. Receivables due from financial, non-financial and public sectors are stated at the net value, i.e. nominal value increased by due and accrued interest and decreased by specific provisions raised according to the binding regulations.
2. Debt securities and equity securities are classified as investment or trading depending on the reason for their purchase.

Debt securities purchased with intention to resell are presented in the balance sheet at the purchase price adjusted for accrued interest, discount and premium, not higher than the net sale price. When the amount thus calculated exceeds the net sale price, the difference is charged to financial operations expenses. Debt securities for investment purposes are recorded at the purchase price adjusted for accrued interest, discount and premium, and net of allowances for any permanent diminution in value.

Equity securities held for trading purposes are presented in the balance sheet at the purchase price, not higher than the net sale price. When the net sale price is lower than the purchase price, the difference is charged to financial operations expenses.

Equity securities which are classified as investment are stated at the purchase price adjusted for allowances for any permanent diminution in value.

Shares and interests with unlimited marketability, unlisted and not being subject to regulated off-stock exchange trading were valued according to the purchase value less created provisions.

3. Units in trust funds are disclosed at the purchase price adjusted for allowances for any permanent diminution in value. Dividend income from investment funds which invest exclusively in government debt securities and pay dividends on a semi-annual basis are recognised in the P&L account on the accrual basis.
4. Tangible and intangible fixed assets are stated at purchase price, which comprises the amount due to the vendor and other costs directly related to the purchase, adjusted for depreciation calculated under the straight line method according to the rates defined in BZ WBK depreciation schedule for 2001. The depreciation rates take account of planned economic life and technological wear and tear. Depreciation relating to liquidated, sold or donated fixed assets and intangibles is recorded as other operating costs.
5. Goodwill represents the difference between the market value and the price paid for particular assets. In line with the Polish accounting standards, goodwill is taken to intangibles and amortised over a period of five years according to the straight line method.
6. Debt/assets swaps are disclosed at the value of the debt for which the assets were taken over. Some of the items, however, are valued in line with §28 sec.1 point 5 of Resolution no.1 of the Banking Supervision Commission, dated 3 June 1998. A specific provision is raised for the difference between the amount of the debt and the value of assets set in line with the regulations referred to above.
7. Liabilities, including funds in banking accounts, are shown in the amount due to be paid which comprises accrued interest.
8. Assets and liabilities representing balance and off balance sheet items denominated in FX are disclosed in PLN. They are translated at the average exchange rate announced by the President of the NBP for respective currencies on the last business day of the accounting period.
9. Interest income and expense are presented in the P&L account on the accrual basis, i.e. showing all the income produced over the period under review (except for interest due and accrued on problem receivables, capitalised interest and interest due in the following accounting periods and received in advance) as well as the costs incurred (due and accrued interest relating to the given reporting period), irrespective of their payment date.
10. Commissions comprising income on granting loans, advances and guarantees are booked to the profit of the accounting period when that loan or guarantee was granted, except for loans fulfilling jointly the following criteria: the minimum loan amount is PLN 1 mln and the repayment period is longer than 12 months.
11. The result on FX SWAP transactions concluded on the interbank market is disclosed in the item "Net income on financial operations". However, the result from zloty-denominated operations is shown under "Net interest income". FX SWAPs are valued to reflect the market value of the constituent forward transaction and the revaluation of the

constituent spot transaction according to the fixing rate set on 30 June 2001; the value disclosed in the P&L account is the sum of the a/m revalued amounts decreased by accrued swap points.

12. Specific provisions for receivables classified as regular in respect of personal consumer loans (except for housing loans), and for receivables classified as “watch” and “problem” as well as for off balance sheet liabilities are created in line with Resolution of the Banking Supervision Commission no. 8/99, dated 22 December 1999.
13. The provision for general risk is charged to costs of the current year in order to cover risks related to banking operations pursuant to art.130 of the Banking Law, dated 29 August 1997.
14. The provision for corporate income tax is created for temporary timing tax differences related to the recognition of income and cost in different periods in line with the Accounting Act and binding tax regulations. With regard to specific provisions for lost loans, the principle of case-by-case assessment of their potential for being realised for tax purposes was adopted. Anticipations to this effect are the condition of creating deferred tax provisions.
15. The obligatory taxation charge on profit represents corporate income tax calculated based on the profit before taxation adjusted for income tax as shown in CIT declaration and for deferred tax provisions.
16. The costs related to the merger of WBK and BZ are presented in the accounting records of BZ WBK according to their historical value and are charged in full to costs.

Investment allowance

In the second quarter of 2001, prior to the merger with WBK SA, BZ benefited from an investment allowance with respect to corporate income tax due as of April and May 2001 in the following amounts:

- April - PLN 837.2 k,
- May - PLN 4,968.5 k.

In June 2001 BZ did not utilise an investment allowance due to a tax loss arrived at in the corporate income tax calculations. Additionally, in April and May the bank deducted an allowance premium of PLN 277.9 k from the taxable base.

Comparability with figures of the previous periods

The report for the second quarter of 2001 is the first to have been published on BZ WBK – the entity which emerged as a result of the merger of BZ and WBK.

Comparative data of both banks were presented in a uniform format in compliance with the binding regulations, accounting principles and deferred tax provision calculation rules. The comparable financial data for the year 2000 which are stated in the report for the second quarter were produced by summing up respective items from the individual financial statements of BZ and WBK. Adjustments were made to eliminate mutual balances as well as

costs and revenues resulting from transactions conducted between both banks in the previous year.

In May 2000 Credit Quality Control Department along with Problem Loan Department assessed the quality of the loan portfolio in all the BZ branches following a specially designed procedure. The review was completed in December 2000 and in November and December provisions for problem receivables were created.

In order to ensure comparability of data from the first half of 2000 and the second quarter of 2000, a portion of provisions created in the second half of 2000 for problem receivables was transferred in the amount of PLN 150.3 mln. The amount was determined based on the review of last year provisions for problem receivables carried out from the point of view of time at which they should have been raised. Additionally, transfers were made with respect to provisions for costs to be incurred, including jubilee and retirement benefits which – pursuant to the regulations – had been required in the first half of the last year.

The process of restating the financial statement as at the end of June 2000 to ensure data comparability is presented in the table below:

PLN mln	BZ	WBK	BZ WBK
Pre-tax profit	98.1	115.6	213.7
- transfer of provisions created in 2h to 1h 2000	(150.3)		
- creation of the required reward provision for jubilee and retirement benefits	(8.9)		
- provisions raised	(1.5)		
Pre-tax profit /loss	(62.6)	115.6	53.0
Income tax	(21.3)	(19.8)	(41.1)
After tax profit/loss	(83.9)	95.8	11.9

Principles of PLN conversion into EURO

Selected financial data for 2Q 2001 were converted according to the following rules:

Selected balance sheet data and the book value per share - according to the EURO average rate translated into PLN and announced by the NBP as at the balance sheet day - 3.3783.

Selected P&L account data for the first six months of 2001 - according to the exchange rate calculated as an arithmetic mean of exchange rates on the days ending the particular months – 3.5806 (January – 3.8015, February –3.7535, March – 3.6170, April – 3.5364, May – 3.3969, June – 3.3783).

3. Financial performance

In the first half of the year BZWBK generated profit after tax of PLN 140.6 mln, including PLN 97.1 mln as at the end of the second quarter of 2001. The bank's performance reflects influence of a slower GDP growth and lower business activity but also the positive impact of tax policy harmonisation after the merger.

Income

The bank's revenues for the first half of 2001 amounted to PLN 739 mln and were PLN 13 mln lower than in the previous year. Interest income and income on SWAP transactions (PLN 205 mln) totalled PLN 499 mln (1h 2000: PLN 514 mln). The main source of non-interest income is f/x profits, loan arrangement fees, current account maintenance fees and card transaction fees.

Operating costs

In the first half of the year, total operating costs were 9% up on 2000, but staff costs remained static in nominal terms. Other operating costs increased mainly as a result of branch network expansion and respective growth in rental costs. Merger costs in the first half of the year totalled PLN 26 mln.

Changes in the structure of the balance sheet

Total assets of the bank increased by 10.3% over the past 12 months. The main source of balance sheet growth were customer term deposits which went up by PLN 4.3 PLN. This upward tendency was accompanied by a decline in proportion of interbank funding whose contribution to the Bank's funds dropped from 21% as at the end of June 2000 to 8% a year later. At the same time, loans increased only slightly (+PLN 27 mln). Funds deposited by customers were placed on the interbank market or invested in debt securities.

Slow growth in lending reflects lower business activity and the impact of high interest rates on low demand for bank loans.

Income tax

As a result of the tax policy harmonisation, the profit after tax produced by BZ is higher than the profit before tax by PLN 24 mln. The harmonisation process consisted in adopting a uniform approach towards the lost loan provisions with respect to their recording in the value of the deferred tax provisions. This gave rise to the activated tax which drove the profit up.

As at 30 June 2001, income tax liabilities of BZ WBK computed in accordance with the Polish tax regulations amounted to PLN 37.231 k, whereas income tax stated in the P& L account totalled PLN 24.028 k. The difference of PLN 61.259 k constitutes the activated deferred tax and results from the following:

- future income tax liability as at 30 June 2001 calculated on the income certain to be earned as at the same date - PLN 133,971 k,
- utilised tax provision from the previous years – PLN 72,636 k
- deferred income tax assets – PLN 122,594 k

In the first half of 2001, BZ deducted donations of PLN 305.3 k from the taxable base. The amount of payable tax included PLN 2,550 k representing tax paid on dividends. Income tax on extraordinary items amounted to PLN 15.4 k.

4. Additional information

Shareholding structure

According to the knowledge of the Management Board, the shareholders who had more than 5% of the total votes at the AGM, as at 30 June 2001, were AIB European Investments Ltd., with the registered office in Dublin (70,5%)

As at the end of June 2001, members of the Management Board held 4607 BZ WBK shares. The figures have not changed as compared to the figures as at 25 June 2001. Members of the Bank Council did not hold any BZ WBK shares.

Additional financial information

	<i>(in PLN k)</i>
Total of own and supplementary funds	2,011,035
Net balance sheet total	23,753,309
Amounts due from financial sector – total net, including:	5,032,059
banks – residents gross	1,898,264
Amounts due from non-financial and public sector – total net	10,365,583
a) from business entities (gross)	8,565,712
b) from personal customers (gross)	1,622,141
c) problem (gross)	1,996,435
Securities	5,345,025
Fixed assets	1,142,337
Amounts due to financial sector – total	1,923,231
Including banks residents	1,490,303
Amount due to non-financial and public sector:	18,003,339
a) Total business deposits	3,263,023
of which:	
- in PLN	2,738,611
- demand	1,207,456
b) Personal deposits	12,721,050
of which:	
- in PLN	10,947,165
- demand	1,952,154
Solvency ratio in %	13.49
Interest income	1,436,139
Net interest income	294,419
Net commission income	186,175
Profit on operations	726,645

Bank's operating costs	(471,652)
Balance of provisions	(79,582)
Pre-tax profit	116,525
After tax profit	140,553