

BH SAB-Q 3rd quarter

State Securities and Exchange Commission

To

Date of compilation

Quarterly report

Legal basis:

The Management Board of issues hereby this quarterly report for the of the year .

First names and surnames of persons undersigned

Selected balance sheet items

(PLN'000, rounded to the nearest decimal)

Selected balance sheet items		
Item	3 rd qr 1997	3 rd qr 1998
Cash and due from the Central Bank	809 053.1	203 504.5
Due from other financial institutions, of which:	3 219 260.2	2 334 580.4
current receivables	259 052.5	284 969.3
term receivables	2 960 207.7	2 049 611.1
Due from customers, State and local budgets	8 153 319.9	9 397 218.1
Due to other financial institutions, of which:	6 717 019.7	6 600 582.3
current payables	750 445.9	691 097.5
term payables	5 966 573.8	5 909 484.8
Due to customers, State and local budgets	4 860 507.3	5 867 862.9
current payables	1 465 104.5	1 425 679.2
term payables	3 395 402.8	4 442 183.7
Equity and retained earnings, of which:	2 467 190.2	2 910 752.7
share capital	260 000.0	260 000.0
Capital adequacy ratio (%)	12.9	13.8
...		

Selected items of the profit & loss account

(PLN' 000, rounded to the nearest decimal)

Selected items of the profit & loss account				
Item	3 rd tr. 1997	3 qtrs 1997 (cumulative)	3 rd qtr. 1998	3 qtrs 1998 (cumulative)
Interest income	461 955.1	1 333 822.1	489 347.4	1 575 939.4
Interest expense	262 640.1	761 464.4	315 297.3	953 822.9
Fee and commission income	57 185.1	160 853.4	67 536.6	205 731.3
Fee and commission expense	10 938.3	28 402.4	8 585.0	30 291.3
Income from shares and other securities	1 382.0	6 854.9	12.4	8 550.9
Net profit on financial operations	15 084.1	59 045.3	(74 482.0)	(81 872.5)
Net profit on foreign exchange	74 988.9	182 679.8	53 564.9	163 050.1
Profit on banking activity	337 016.8	953 388.7	212 097.0	887 285.0
General expenses	113 063.8	309 819.6	123 602.6	368 041.6
Movement in provisions	29 457.7	44 164.3	(255.6)	8 275.7
Operating profit	239 530.3	651 746.6	76 323.0	498 491.9
Extraordinary items	(38.3)	(93.3)	(0.1)	0.8
Profit before taxation (loss)	239 492.0	651 653.3	76 322.9	498 492.7
Corporate income tax	73 424.9	225 294.8	33 564.0	145 574.5
Other obligatory charges to profit (addition to loss)				
Net profit (loss)	166 067.1	426 358.5	42 758.9	352 918.2

Selected items of the cash flow statement

(PLN '000, rounded to nearest decimal)

Selected items of the cash flow statement				
Item	3 rd qtr. 1997	3 qtrs 1997 (cumulative)	3 rd qtr. 1998	3 qtrs 1998 (cumulative)
Depreciation	17 127.2	43 606.2	18 174.8	51 368.4
Net cash from operational activities	172 705.5	(2 954 501.6)	(281 758.3)	(222 961.9)
Net cash from investment activities	(69 187.4)	2 577 167.2	(32 104.3)	(74 052.3)
Net cash from financial activity	316 845.5	768 022.2	(9 695.7)	(192 345.0)
...				

Additional items for the consolidated quarterly report

(PLN '000, rounded to nearest decimal)

Additional items for the consolidated quarterly report				
Item	3 rd qtr. 1997	3 qtrs 1997 (cumulative)	3 rd qtr. 1998	3 qtrs 1998 (cumulative)
Profit (loss) on holdings in associated undertakings				

Profit (loss) for minority shareholders				
...				

Comments to the quarterly report SAB-Q III/98 for the 3rd quarter of 1998

The report has been prepared according to the accounting principles enforced by the Accounting Law as of 29 September 1994 (Dz.U. [Journal of Laws] no. 121, item 591 with later amendments) and by the Ordinance no. 1/98 of the Commission for Banking Supervision as of 3 June 1998 on specific principles of accounting for banks and preparation of comments (Dz. Urz. NBP [Official Journal of the National Bank of Poland] no. 14, item 27).

Basing on the Ordinance of the Council of Ministers of January 25, 1994 on the deduction of investment expenditures from income and income tax reductions (Dz. U. [Journal of Laws] No. 18, item 62 with subsequent amendments), in the years 1994-1995 the Bank applied the capital allowance and deducted investment expenditures totalling PLN 125.7 million from the taxable income. In addition, in the years 1995-1996 the Bank decreased taxable income by the amount of PLN 62.8 million, representing 50% of the previous years' allowances (i.e. the so-called investment premium).

The amount representing the investment tax relief is subject to allocation over time against expenses not constituting tax-deductible expenses by the application of amortisation rates provided for in the amortisation plan. As of 30 September 1998, PLN 90.8 million remains to be allocated and this is the basis for accruing the deferred income tax. No deferred tax is accrued on the additional 50% capital allowance as this is considered to be a permanent difference.

Net profit for the 3rd quarter of 1998 was lower by PLN 123.3 m than in the same period of the previous year.

Cumulative net profit, for the time span: January - September 1998, was lower by PLN 73.4 m as compared with the analogous period of the previous year.

In August 1998 the financial crisis which occurred in Russia was manifested, among others, by the collapse of payments liquidity and a serious devaluation of the RUR. One of the effects of this crisis was the announcement from the Russian government on the restructurisation of the countries debt.

In August 1998 the Bank made extra charges against costs for the total amount of ca. PLN 175 m. These extra costs reflect the influence of current events in Russia and embrace reductions in the value of financial instruments associated with the Russian and other emerging markets risks (including Poland), realised losses from the sale of these instruments as well as provisions covering Russian receivables.

In August 1998 the Bank reached a compromise with Bank Gospodarki Ćywno Ćciowej on the contentious receivables. Under this compromise BG^Ć paid the contentious capital charges in the amount of PLN 55.2 m. At the same time, in August - following the compromise - a provision on the total amount of PLN 55.2 m was released.

Financial results in September 1998 were highly influenced by costs of pricing the balance sheet and off-balance sheet foreign exchange items, what had an essential impact on the increase of the temporary negative difference in deferred corporate income tax, brought about by the dissimilarity in recognition of timing of income as gained and costs as incurred by the Accounting Law and tax regulations. The temporary negative difference in deferred corporate income tax at 30 September 1998 was PLN 35.1 m, which means it grew in the third quarter, the current year, by PLN 24.7 m. As a result of this, in order to preserve the rule of commensurability of the income-to-cost ratio, in a given accounting period, and the respective changes in charges to net profit for corporate income tax, indicated in the profit and loss account, the Bank decided to include that difference into active inter-period settlements, as of 30 September 1998, assuming that noninclusion of that difference might have substantially distorted the Bank's financial results.

The amounts of net released provisions in the 3rd quarter 1998 and cumulatively in three quarters of 1998 were respectively PLN (0.3) m and 8.3 m, whereas in the 3rd quarter of 1997 and cumulatively in three quarters of 1997 were respectively PLN 29.5 m and 44.2 m.

After the consent, granted in April by the Commission for Banking Supervision, funds acquired by the Bank for the issuance in May 1997 of the Special Convertible Participating Bonds of total nominal value PLN 112 m were allocated to the Bank's supplementary fund. As of 30 September 1997 the Special Bonds were indicated as due from equity investment.

In order to preserve the comparability of the data for 1998, the shifts of certain items of the presented data for the three quarters of 1997 were made with reference to the quarterly report issued earlier. The changes are as follows:

- due from and due to leasing companies are indicated as: „Due from other financial institutions”, or „Due to other financial institutions”. In the earlier issued quarterly report due from and due to leasing companies were included in items: „Due from customers” or „Due to customers”.