

## BH SAB-Q 2<sup>nd</sup> quarter

### Selected balance sheet items

(PLN'000, rounded to the nearest decimal)

Selected balance sheet items		
Item	2 <sup>nd</sup> qr 1997	2 <sup>nd</sup> qr 1998
Cash and due from the Central Bank	387 660.8	494 734.1
Due from other financial institutions, of which:	2 833 634.8	3 099 839.1
current receivables	184 353.5	307 647.1
term receivables	2 649 281.3	2 792 192.0
Due from customers, State and local budgets	7 629 920.9	8 806 909.2
Due to other financial institutions, of which:	5 662 839.0	7 110 370.8
current payables	494 019.6	866 693.1
term payables	5 168 819.4	6 243 677.7
Due to customers, State and local budgets	4 239 074.8	5 637 799.3
current payables	1 424 050.5	1 351 638.1
term payables	2 815 024.3	4 286 161.2
Equity and retained earnings, of which:	2 301 123.1	2 867 995.0
share capital	260 000.0	260 000.0
Capital adequacy ratio (%)	14.0	14.2
...		

### Selected items of the profit & loss account

(PLN' 000, rounded to the nearest decimal)

Selected items of the profit & loss account				
Item	2 <sup>nd</sup> qtr. 1997	2 qtrs 1997 (cumulative)	2 <sup>nd</sup> qtr. 1998	2 qtrs 1998 (cumulative)
Interest income	442 500.8	871 867.0	550 766.3	1 086 592.0
Interest expense	253 149.3	498 824.3	317 164.8	638 525.6
Fee and commission income	56 315.0	103 668.3	70 001.0	138 195.8
Fee and commission expense	10 912.8	17 464.1	14 100.2	21 706.3
Income from shares and other securities	5 387.9	5 472.9	8 538.5	8 538.5
Net profit on financial operations	28 109.6	43 961.2	(22 721.6)	(7 390.5)
Net profit on foreign exchange	35 793.4	107 690.9	50 053.6	109 485.2
Profit on banking activity	304 044.6	616 371.9	325 372.8	675 189.1
General expenses	107 618.8	196 755.8	130 015.3	244 439.0
Movement in provisions	2 240.7	14 706.6	3 412.9	8 531.3
Operating profit	185 207.2	412 216.3	194 057.1	422 170.0
Extraordinary items	(19.4)	(55.0)	3.9	0.9
Profit before taxation (loss)	185 187.9	412 161.3	194 061.0	422 170.9
Corporate income tax	70 461.0	151 869.9	40 943.9	112 010.5
Other obligatory charges to profit (addition to loss)				
Net profit (loss)	114 726.9	260 291.4	153 117.1	310 160.4

## Selected items of the cash flow statement

(PLN '000, rounded to nearest decimal)

Selected items of the cash flow statement				
Item	2 <sup>nd</sup> qtr. 1997	2 qtrs 1997 (cumulative)	2 <sup>nd</sup> qtr. 1998	2 qtrs 1998 (cumulative)
Depreciation	14 170.8	26 479.0	16 841.6	33 193.6
Net cash from operational activities	(4 486 301.2)	(3 127 207,1)	479 814.5	58 796.4
Net cash from investment activities	4 048 187.0	2 646 354.6	(137 628.1)	(41 948.0)
Net cash from financial activity	451 462.8	451 176.7	(302 374.7)	(182 649.3)
...				

## Additional items for the consolidated quarterly report

(PLN '000, rounded to nearest decimal)

Additional items for the consolidated quarterly report				
Item	2 <sup>nd</sup> qtr. 1997	2 qtrs 1997 (cumulative)	2 <sup>nd</sup> qtr. 1998	2 qtrs 1998 (cumulative)
Profit (loss) on holdings in associated undertakings				
Profit (loss) for minority shareholders				
...				

## Comments to the quarterly report SAB-Q II/98 for the 2<sup>nd</sup> quarter of 1998

### 1) Accounting principles (legal basis)

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. 1/95 of the Governor of the National Bank of Poland as of 16 February 1995 on specific principles of accounting for banks and preparation of comments (Dz. Urz. NBP [Official Journal of the National Bank of Poland] no. 4, item 8 with later amendments).

### 2) Investment tax relief

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 PLN125.7 million from the taxable income. In addition, in the years 1995-1996 the Bank decreased taxable income by the amount of PLN62.8 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 June 1998, PLN93.1 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.

### **3) Deferred tax provision**

As of 30 June 1998 there was a temporary negative difference in deferred corporate income tax. This was brought about by the difference in recognition of timing of income as gained and costs as incurred by the Accounting Law and tax regulations. Pursuant to Art. 37 of the Accounting Law and prudential standards of accounting, the Bank did not include that difference (estimated at PLN10.4 m) in active inter-period settlements. If it had been included in active inter-period settlements, it would have decreased the income tax amount, and thus would have led to an increase in net profit for June 1998.

### **4) Financial results and selected items of the profit and loss account**

Net profit for the 2nd quarter of 1998 was higher by PLN 38.4 m than in the same period of the previous year.

Cumulative net profit, for the six months ended June 1998, was higher by PLN 49.9 m as compared with the same period of the previous year.

In the 2nd quarter of 1998 the following events had occurred which influenced significantly the financial results, namely:

- in April 1998 there was a repayment of a guarantee issued by Bank Handlowy w Warszawie SA on the order of Polimx-Cekop S.A. in favour of a Yugoslav firm Minel-Enim, and consequently a provision made for that guarantee in previous years in the amount of PLN 109.4 m was released. At the same time, pursuant to Art. 130 of the Banking Law as of 29 August 1997, the Bank created a tax-deductible general risk provision, totalling PLN 130.0 m.

- in May 1998 the Bank's deposit, placed with Centro Internationale Handelsbank AG as a guarantee of debt due to that bank by the Republic of Poland, was repaid with Treasury Bonds in the amount corresponding to that debt. Following that transaction, Bank Handlowy released the specific provision, equal to PLN 75.9 m, created in 1994, securing that deposit. At the same time, the Bank charged against financial operations the loss resulting from the calculation of the above bonds in the amount of PLN 74.2 m. This resulted in an artificial fall of net profit on financial operations, and consequently of profit on banking activity in the amount of PLN 74.2 m, reflecting the difference between the gross value and the market value of the mentioned bonds, which earlier had been shown in provisions for amounts due from other financial institutions. On the other hand, however, the release of that provision at present brought about an increase in the profit and loss account. In reality then, in the 2nd quarter of 1998 there was only a settlement of operations from the previous years which in fact had no influence on the Bank's net profit.

- In June 1998 the Bank disposed of the blocks of shares of two companies: Winiary SA and Goplana SA. Profit on the first transaction was PLN 40.2 m and on the second - PLN 7.0 m.

The amounts of net released provisions in the 2nd quarter of 1997 and cumulatively in two quarters of 1997 were PLN 2.2 m and PLN 14.7 m respectively, whereas in the 2nd quarter of 1998 and cumulatively in two quarters of 1998 were PLN 3.4 m and PLN 8.5 m respectively.

## **5) Equity**

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 included in the Bank's supplementary fund. As of 30 June 1997 the Special Bonds were shown as amounts due on securities issued.

## **6) The way of presenting the selected balance sheet and cash flow data**

In order to preserve the comparability of the data for 1998, the shifts of certain items of the presented data for the second quarter of 1997 have been made with reference to the earlier issued quarterly report. 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 previous quarterly report due from and due to leasing companies were included in items: „Due from customers” or „Due to customers”.

- selected items of the cash-flow statement were presented according to the verified data issued in the semi-annual report for 1997.