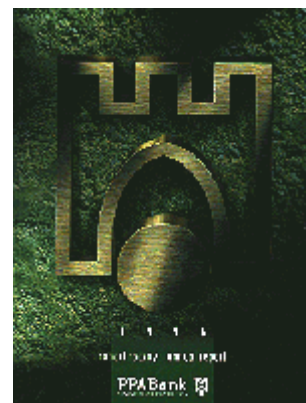


Annual Report 1996

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Letter from the Chairman



It is with great satisfaction that I inform you about the performance of the First Polish-American Bank S.A. in 1996, which signifies another major step in strengthening the position of PPABank as a modern financial institution in Poland offering high-quality services.

The geographical organization of the Bank has been changed according to plan, and is now founded on a regional basis. The top priorities for PPABank Branch Managers include the constant improvement of the standard of services and expansion of the spectrum of banking products offered to our clients. In the first half of 1996, PPABank began - as one

of very few banks in Poland - to issue American Express cards. Since August 1996, the Bank has been issuing and negotiating American Express traveler's checks as well. Other new products offered by PPABank include security trust accounts and purchase of treasury bills on behalf of our clients. This creates an opportunity for them to invest their surplus cash at the highest possible return. 1996 was also a year in which the Bank's Cash Management System was introduced and marketed to our clients, enabling them to effect banking operations by telecommunications, directly from their premises.

Our clients' confidence and the professional competence of the Bank's management and staff have resulted in a net profit of PLN 9.05 million for 1996 - an increase of 160 per cent compared to 1995. The main source of income for PPABank has been its growing credit operations. Small and medium-sized private companies, which are the Bank's primary target market, appreciate the simple credit procedures and timely processing of credit applications. Another important factor is the emphasis on the quality of the loan portfolio. The policy of careful analysis of the applicants' financial standing is beneficial both to the clients, as it allows them to make rational decisions about the type and amount of the financing they need, and to the Bank, which can keep the profitability of its credit operations at an adequate level. The quality of PPABank's credit portfolio has continued to improve and is remarkably high by Polish banking standards.

The implementation of PPABank's development program would have been impossible without the solid foundation established in previous years. This includes the agreement with the Enterprise Credit Corporation, the opening of branch offices in Katowice and Warsaw, and the development of advanced communications and computer systems.

Our goal is to strengthen our position in 1997, both through the continued delivery of high quality service and the establishment of new branches. The Bank Council has approved the long-term development strategy, prepared for the Bank by its Board of Executives, and authorized the opening of branch offices in Poznan and Lublin, and the extension of the scope of operations conducted by the representative office in Częstochowa in 1997. Future expansion of the branch network, beyond 1997, is also planned, to include cities in which the Bank's representative offices - whose operations are currently limited to loans - are situated. As in previous years, the Bank's capital will also be increased as needed to enable the Bank to continue to effectively compete on the market.

It is my sincere belief that the performance of PPABank will continue to meet with the approval of our clients and shareholders. I wish to take this opportunity to extend to them my heartfelt thanks, for it is our clients and shareholders who have made our success possible.

Joseph S. Conti
Chairman of the Bank's Council

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Bank's Authorities

Bank's Council

Chairman
Vice-Chairman
Vice-Chairman

Joseph S. Conti
Arkadiusz Krężel
Antoni Potocki
Zbigniew Dresler
Robert Lindsay
Dariusz Prończuk
Juliusz Sikora



Bank's Board of Executives

Manek Kuleycki

President



Benjamin H. Turnbull

Chief Operating Officer

Thomas C. Cianfrani

Vice-President
Chief Financial Officer





Jany Markiewicz

Vice-President
Director of Treasury Department

Dorota Pietrows

Vice-President
Director of the Southern Region



Renek Niemczyk

Vice-President
Director of the Eastern Region



Stanisław Wasowski

Vice-President
Director of the Western Region



Wojciech Piórowski

Vice-President
Director of the Credit-risk
Department



History of PPABank



November 1990	Formation of the Krakow Banking Society (on the initiative of the Krakow Industrial Society and the Agency for Industrial Development, Joint Stock Company)
December 1990	Registration of share capital in the amount of PLN 1,268,120
December 1990	Registration of the Krakow Banking Society in the Commercial Register by the Krakow-Srodmiescie District Court
February 1991	General Shareholders' Meeting of the Krakow Banking Society approves the Polish-American Enterprise Fund as the Society's strategic investor and decides to issue B-series shares
April 1991	Registration of share capital in the amount of PLN 3.5 million
May 1991	The Krakow Banking Society changes its name to Pierwszy Polsko-Amerykanski Bank w Krakowie S.A. (First Polish-American Bank in Krakow S.A.)
1991-1993	Reorganization of the Bank's structure; decentralization of some elements of the decision making process; implementation of new credit procedures
October 1992	PPABank opens its Branch Office in Zakopane
April 1993	Bank's General Shareholders' Meeting decides to issue C-series shares
1994	Computerization of the Bank's systems. The EQUATION system is implemented in the Bank's Head Office as well as in the First and Third Branch Offices in Krakow
May 1994	PPABank drops "Krakow" from its name and adopts a new name: Pierwszy Polsko-Amerykanski Bank S.A.
July 1994	Registration of share capital in the amount of PLN 7.5 million
November 1994	PPABank's stock debuts on the Warsaw Stock Exchange
March 1995	PPABank opens its Branch Office in Katowice
April 1995	PPABank concludes a co-operation agreement with the Enterprise Credit Corporation (ECC). The loan-production offices formerly operated by the ECC are turned into the Bank's representative offices
April 1995	Appointment of the Bank's new Board of Executives (which is presented in this Report)
April 1995	The Bank - together with the Enterprise Credit Corporation - launches the joint Small Business Loan Program
April 1995	PPABank obtains a full foreign-exchange license from the National Bank of Poland and the Ministry of Finance
May 1995	PPABank opens its Branch Office in Warsaw
December 1995	PPABank's Extraordinary General Shareholders' Meeting decides to issue 1.25 million D-series shares

May 1996	PPABank's General Shareholders' Meeting decides to issue 1.25 E-series shares
July 1996	Registration of the issue of D-series shares and increase of the share capital to PLN 10 million
July 1996	The Bank Council decides to open a Branch Office in Poznan
December 1996	The Bank Council decides to open a Branch Office in Lublin

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Organizational Structure of the Bank



The expansion of PPABank's organizational structure resulted from the dynamic development of the Bank's operations as well as from the need to specialize in a particular range of banking services. Moreover, it was necessary to introduce effective measures for co-ordinating activities carried out by individual units of the Bank.

The Rules of Procedure provide that the Bank's authorities consist of:

- General Shareholders' Meeting,
- Bank's Council,
- Board of Executives.

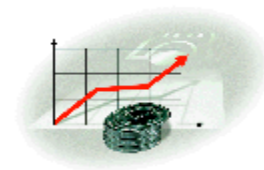
The Bank's operating structure comprises the Head Office and three regions (Western, Eastern and Southern). Each of the regions includes branch offices, their sub-branches and agencies, and representative offices. Each region is headed by a director who also acts as a Vice-President of the Bank.

The Bank's Head Office is located in Kraków. On December 31, 1996, the Bank operated the following units:

- Five full-service Branch Offices (First and Third Branch Offices in Kraków, Katowice Branch Office, Warszawa Branch Office and Zakopane Branch Office),
- 13 Representative Offices (located in Częstochowa, Gdynia, Gliwice, Katowice, Kraków - two, Lublin, Łódź, Poznań, Szczecin, Warszawa, Wrocław, and Zakopane),
- Agency of the Kraków First Branch Office,
- Sub-branch of PPABank's Branch Office in Warsaw (at ul. Cypryjska).

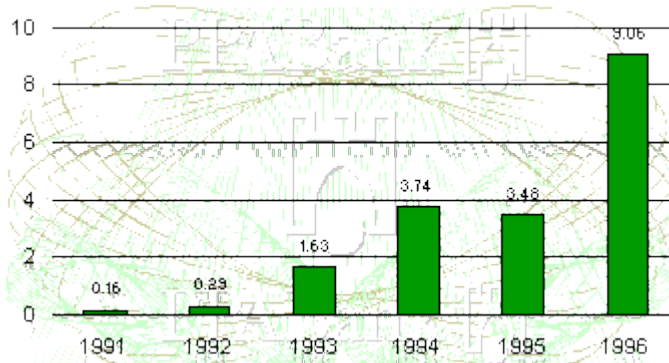
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PPABank's Financial Performance as of the End of 1996



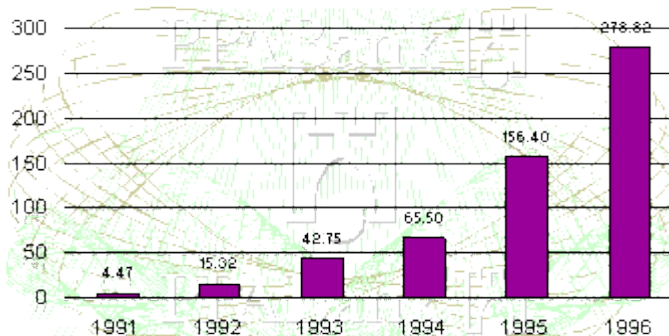
The year 1996 was very favorable for PPABank. **NET PROFIT** generated by the Bank reached PLN 9.05 million which represents an over 250-per-cent increase over 1995. This achievement was possible due to more effective and dynamic organization of the Bank's operations. It must be emphasized that the Bank continued to benefit from considerable investment in its telecommunications and information infrastructure in 1995 and 1996, as well as its territorial expansion. It must also be noted that net profit growth was not accompanied by any significant growth in the number of employees. In both 1995 and 1996, the Bank employed ca. 300 persons.

Net Profit
PLN million



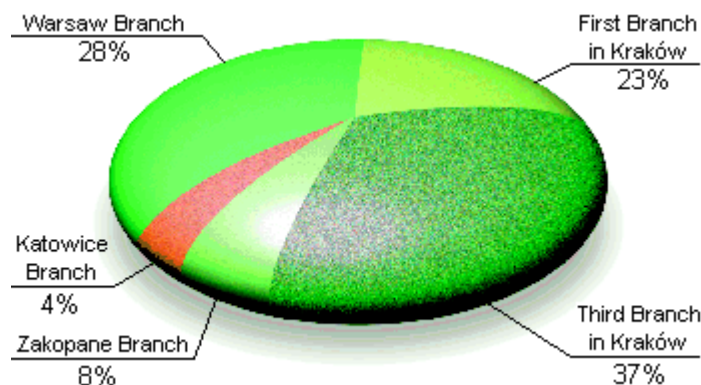
At the end of 1996, clients' **DEPOSITS** stood at PLN 305.47 million - an increase of PLN 152.0 million, or over 99 per cent, over the end of 1995. Corporate clients constitute the largest group in the Bank's deposit-client base. Their resources constitute 64 per cent of total deposits.

Deposits
PLN million



Deposits can be held at the five PPABank branch offices. At the level of the Board of Executives, this sphere of the Bank's operations is the responsibility of the Region Directors. In 1996, the greater part of amounts due to clients and budget-sector units was accounted for by deposits with maturities of less than one year. Apart from standard deposits, PPABank also accepts negotiated deposits, in the case of which interest rate depends on the rates on the interbank market, the level of obligatory reserve on a given deposit, and the deposit amount and duration.

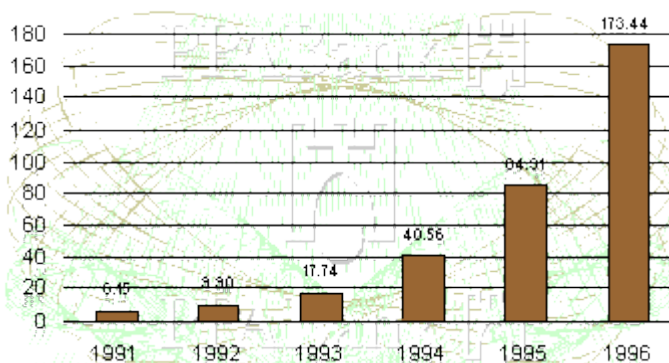
Branch deposit structure based on average annual balance of deposits (including financial institutions, excluding deposits of other banks)



As of the end of December 1996, the Bank's **LOAN EXPOSURE** had grown to PLN 173.6 million from PLN 84.9 million a year earlier. Following this growth in the aggregate volume of the Bank's loan portfolio during 1996, the share of amounts due from clients in total assets increased from 32.2 per cent at the end of 1995 to 41.4 per cent a year later. Trade and production companies account for the major part of the Bank's credit exposure (respectively, over 40 per cent and 20 per cent).

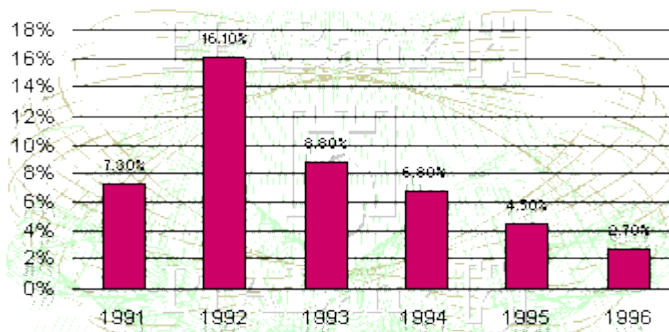
PPABank specializes in loans to small and medium-sized businesses. To this end, the Small Business Loan Program has been launched by the Bank, in co-operation with the Enterprise Credit Corporation. Since the inception of the program in April 1995, PPABank has granted 1,064 loans to small and medium-sized companies, with an aggregate value of USD 42,258,600. The program is targeted on all types of firms from all sectors of the economy which are already in business. Companies commencing operations can apply for loans offered under the program, too, but they have to meet very strict criteria. Professional experience of applicants and their capital involvement in the intended projects are of crucial importance here. PPABank's loan offer invariably meets with the clients' interest. PPABank also administers the loan portfolio of the Enterprise Credit Corporation and grants USD-denominated loans under the Small Business Loan Program. As of 31 December 1996, the aggregate value of ECC loans administered by the Bank stood at USD 29.3 million.

Loan activity - net value
PLN million



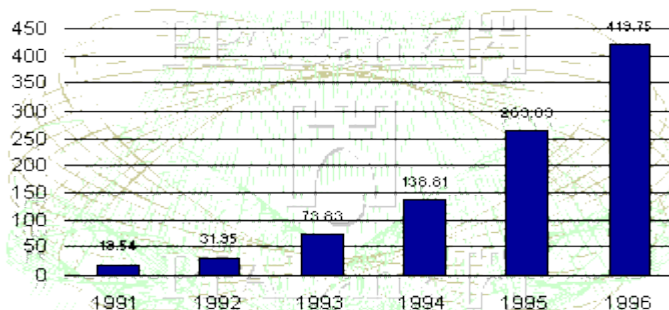
The significant rate of growth in the volume of lending activities was accompanied by an improvement in the quality of the Bank's loan portfolio. The share of **NON-PERFORMING LOANS** in the entire portfolio dropped from 4.5 per cent on December 31, 1995, to 2.4 per cent as of the end of 1996. In 1996, PPABank took a leading position vis-a-vis other banks quoted on the Warsaw Stock Exchange in terms of the quality of its loans. This success was made possible by the very thorough and in-depth analysis of loan applicants' undertakings. The Bank endeavors to extend credit facilities only to companies which demonstrate sound financial standing. Any loan remaining in default for more than seven days - either with regard to interest due, or to repayment of principal - is subjected to special scrutiny by the bank's loan administration staff.

Non-performing loans - gross, without interest



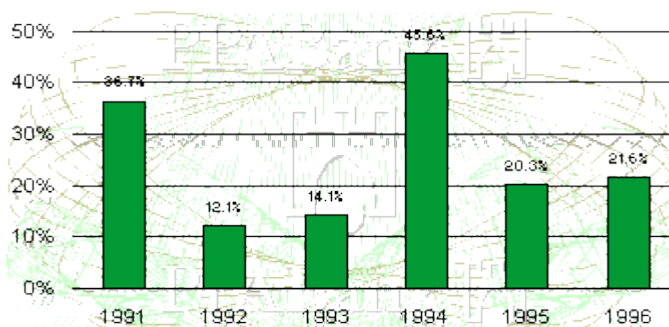
TOTAL ASSETS - which provide an overall indication of the bank's size - had grown by PLN 156 million to reach PLN 419.9 million as of the end of 1996.

Total assets PLN million



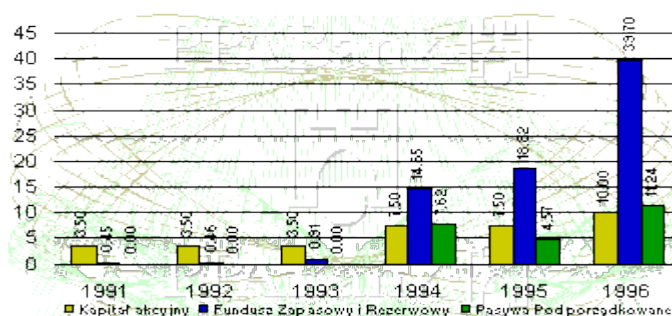
As of December 31, 1996, the **CAPITAL ADEQUACY RATIO** stood at 21.6 per cent. This is characteristic of banks with a properly managed asset structure. During 1996, the Bank's capital adequacy ratio ranged from 16.7 per cent to 25.1 per cent.

Capital adequacy ratio



PPABank attaches enormous importance to steady growth of its **CAPITAL**. The issue of D-series shares effected in the first half of 1996 was successfully completed. On July 11, 1996, the Bank's share capital was raised from PLN 7.5 million to PLN 10 million. PPABank's own funds amounted to PLN 49.7 million. In addition, the Bank concluded an agreement with its majority shareholder, the Polish-American Enterprise Fund, under which an annex was added to the loan contract of 1992, deferring the repayment of USD 4 million until the year 2001. This allowed the Bank to obtain the permission of the National Bank of Poland to treat this debt as a subordinated liability. Besides, a further contract for a USD 6 million loan was concluded with the Fund in November 1996.

The Bank's capital PLN million



In 1997, PPABank intends to strengthen its position, among other things, by developing its capital resources. The issue of E-series shares, commenced in January 1997, is a consequence of the Bank's commitment to increase its potential. One half of the resources acquired will be used to extend the scope of PPABank's loan operations, and the remaining part - to ensure liquidity, improve returns on other interest-bearing assets, continue gradual expansion and maintain the high standards of service.

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A Modern Bank



Over the last two years, PPABank has made considerable investments in its central computer system, based on state-of-the-art technology. Arguably, the implementation of the new on-line banking system (named EQUATION) was a ground-breaking achievement at the time. More importantly, it was crowned with an unequivocal success, which translated into immediate benefits for the Bank - among other things, a centralized database, an extremely efficient management information system, real-time branch-to-branch settlements, and, first of all, security of the daily transactions with clients.

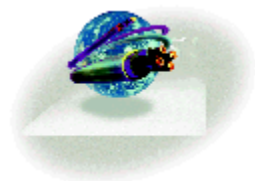
Given the fact that since its establishment, it has been the Bank's ambition to be among the country's leading financial institutions, the successful implementation of a central computer system and the simultaneous development of a telecommunications and information infrastructure in the bank's branch and representative offices have made it possible to initiate further design work on development of new modules for information processing. Thus, PPABank's computer system has been linked to the nationwide ELIXIR settlement system and the international SWIFT network.

Cash Management is a new product which has been offered by the Bank since 1995. This home-banking service facilitates the settlement of transactions and the exchange of information with the Bank - from anywhere in the world - by means of a computer and a modem. PPABank also has an Internet site with web pages and e-mail access. Moreover, the Bank views the Internet as an important banking instrument of the future.

At present, PPABank continues to work on expanding the corporate Intranet. In addition, the EQUATION system is being developed and enhanced on an on-going basis through installation of new modules which will allow the Bank to maintain its leading position in the market for high-tech banking services. All such efforts must involve an overriding commitment to increased safety of the system and transactions, which will help build a feeling of security and comfort among clients.

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PPABank on the Internet



The Internet is currently the fastest growing medium of information exchange in the world, with the number of users doubling every year. It is estimated that by the year 2000, 500 million people will have access to the Internet globally.

PPABank was one of the first Polish banks to fully appreciate the Internet's potential. Since March 1996, the Bank has maintained an Internet presence with a web-site displaying the Bank's organization and services. This service is available both in English and Polish, and is subject to regular updates. The pages include information on the Bank's history and background, major shareholders, members of the Board of Executives, branch and representative offices, products offered and modern technology employed by the Bank. Separate pages include more specific information on particular services and products offered.

PPABank's URL addresses in WWW:

Polish language pages: <http://www.cyfronet.krakow.pl/com/PPABank/PPABankPL.html>*

English language pages: <http://www.cyfronet.krakow.pl/com/PPABank>*

*Since November 1997 PPABank website is available at <http://www.ppabank.com.pl/>

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PPABank's Services



Services Offered to Corporate Clients

Current and Auxiliary Accounts Denominated in Zlotys

These accounts facilitate both cash and non-cash operations, allow the holder the use of the overdraft facility and check credit, make domestic and international transfers, deposit cash on a collection basis, open domestic and international letters of credit, and maintain term-deposits with individually negotiated interest rates.

Accounts Denominated in Foreign Currencies

Corporate clients may hold foreign-currency accounts in convertible currencies. Demand deposits in the basic currencies: USD, DEM, ATS, FRF, BEF, NLG, and GBP bear interest at a progressive rate, depending on the current balance of the account. Accounts denominated in other currencies carry no interest.

Term Deposits

Term deposits are available in all convertible currencies. Interest is always individually negotiated with clients. Deposits can be opened for various, non-standard periods.

Cash Collection

Collected cash - without being counted at the moment of collection - is booked on the client's account on the same business day, although it is counted only at a later time. Cash can be collected Monday through Friday until 10.00 pm, and on Saturday until 2.00 pm.

Quick Transfers through the ELIXIR System

The ELIXIR system is a fully electronic platform which dispenses with the need to transfer paper documents. Transfers can be addressed to clients of other banks operating within the system, as well as clients of other branch offices of the same bank (branch-to-branch settlements). The system is based on telecommunications and exchange of documents in an electronic format (diskettes). Transfer orders transmitted to the National Clearing House until early afternoon are processed on the same day; orders transmitted in the afternoon are processed on the following business day. If the recipient's bank is not a member of the ELIXIR system, transfers are executed by means of exchanging paper documents (the SYBIR system).

Immediate (On-line) Branch-to-branch Transfers

Thanks to the electronic network operating in the on-line mode, all settlements between the Bank's Branch Offices are executed in real time.

Negotiation and Collection of Other Banks' Checks

Business transactions become safer if settlements are effected with checks instead of cash. The Bank cashes in checks drawn on all Polish banks within four business days.

International Money Transfers through the SWIFT System

Payment orders are either sent to a correspondent bank or directly to the beneficiary's bank through the telecommunications network of the SWIFT system (Society for Worldwide Interbank Financial Telecommunications). The same route is used for transfers from abroad addressed to Polish clients of the Bank. All transfers are executed with a spot value date, that is, on the second business day after receipt of the payment order.

Negotiation of Eurocheques

Eurocheques provide a very convenient form of payment. The Bank cashes in a eurocheque straight away, if its value does not exceed the guaranteed amount of PLN 500, or sends it for collection in the case of amounts exceeding that sum - payment takes place upon receipt of funds from the issuer's bank.

Collection of Checks Drawn on Foreign Banks

PPABank's clients can submit for collection foreign checks made out to their companies, provided they can document the title of payment, which should be related to their business activities. The amount of the check can be credited to the client's account either in the original currency, or in Polish zlotys.

Documentary Credits

A documentary credit is a conditional form of payment, which makes it a safe instrument for both parties to a transaction. Documentary credits are used to secure import payments and to assure timely payment to the supplier. The scope of the Bank's services covers both import documentary credits (issued by the Bank) and export documentary credits (received from other banks). Clients who co-operate with foreign partners can indicate PPABank as the advising bank, if a documentary credit is to be issued in their favor. Upon the ordering client's request, a documentary credit issued by PPABank can be confirmed by a foreign bank which assumes thereby responsibility for payment, alongside that of the issuing bank.

Documentary Collection

This is a form of settlement used in international trade under which documents entrusted by the seller to the bank - which give the title to claim imported goods - are released to the buyer either against payment for the goods, or against an undertaking to effect such payment (acceptance of a bill of exchange). Such documents include shipping documents, insurance

policies, and invoices. Documentary collection is useful in situations when there is no need to issue a documentary credit, but the transaction partners do not know each other well enough to settle accounts by direct money transfers.

Cash Management

Cash management allows the bank's clients to control the liquidity of their companies and to decide on the use of cash by means of direct modem communication between the clients' office and the Bank. Multi Cash software facilitates domestic and international money transfers as well as retrieval of information and data on operations from the previous day (bank statements) and from the current day. The system also reminds clients of due payments and allows them to process payment orders in a preset order.

American Express Cards

PPABank is one of the few Polish banks to issue AMEX cards. These cards are designed for business people who frequently travel. Using AMEX cards, clients can make non-cash settlements without an upper limit of expenses. The Bank offers AMEX Company Cards to corporate clients, as well as Personal Cards and Gold Cards to individual clients. Each type of American Express cards incorporates an additional set of available services, such as personal travel insurance, purchase discounts, priority hotel reservations, etc.

Negotiation and Issue of American Express Traveler's Checks

The Bank cashes in and issues American Express traveler's checks denominated in USD and DEM. The checks represent one of the safest ways of carrying cash. Traveler's checks can be cashed straight away at any time and they are accepted by numerous stores, restaurants and hotels. There are no time limits for cashing the checks. In addition, American Express renders such complementary services to check holders as assistance in re-arrangement of travel plans, forwarding personal messages or issuing temporary personal identification documents.

Stock Investor Accounts

This account is designed to invest surplus financial resources in stock exchange transactions, processed through investment accounts handled by brokerage offices. An investment account must be opened with a brokerage house holding its bank account at PPABank. The Bank opens and maintains stock investor accounts for both individual and corporate clients. Interest on these accounts is variable and is progressively linked with the balance at the end of each settlement day. An account holder can only make the following transactions:

- cash payments to the account,
- cash withdrawals from the account,
- money transfers to the current account of his/her brokerage office.

On the basis of a client's standing order, the Bank transfers the whole balance available at the stock investor account to the brokerage office's current account prior to the stock exchange session on each trading day.

Individual Investment Accounts

This service is available to resident individuals, resident legal persons and resident entities without legal personality. Through this account, clients can buy or sell treasury bills on the primary market (during auctions held by the National Bank of Poland) or secondary market (trading in bills with PPABank or any other bank participating in the Central Register of Treasury Bills).

Mass Transaction Processing (based on bar-code technology)

This is a special service offered to those clients who receive numerous small money transfers every day (e.g. from subscribers). Bar-code technology facilitates quick document processing and presentation of data in convenient forms (as aggregate daily statements or as

electronically formatted information on payment status of particular subscribers).

Bank Accounts for Non-resident Clients

These accounts are opened for non-resident clients to deposit cash and execute domestic and international cash or non-cash transactions denominated in zlotys and foreign currencies. Deposits on such accounts are payable on demand. Interest is variable, accrues in the currency of the account and is payable at the end of each calendar year.

Working-capital and Investment Loans in Foreign Currencies and Zlotys

A working-capital loan is used to finance the current operations of a firm, while the purpose of an investment loan is the financing of the creation of new fixed assets (or improvement of existing ones). PPABank grants loans denominated in PLN, USD, and DEM - and if necessary, also in other currencies.

Overdraft Facility

The overdraft facility provides the client with immediate access to financing of all kinds of short-term needs of the firm. It is a loan arrangement whereby the client is allowed to overdraw his/her account. The resulting debit balance is subsequently canceled out by incoming payments. Interest is charged only on the amounts actually utilized.

Loans for the Purchase of Securities

This kind of loan offers clients additional funds to increase their security holding. It is available to holders of stock investor accounts with PPABank.

Guarantees

A bank guarantee is an irrevocable undertaking of the bank, made in writing, to pay the beneficiary a stated amount of money in the event of non-performance by the debtor of a certain obligation to the beneficiary. The Bank issues guarantees to cover liabilities arising over short periods, not exceeding 12 months, such as loan repayment, payment for delivered goods or services, payment of customs duties, payment under a leasing agreement, payment under a documentary credit, performance of a contract, or repayment of an advance.

Factoring Credit

Factoring offers clients an opportunity to settle all kind of debts immediately, which allows one to purchase goods on more favorable terms and obtain cash discounts, as suppliers prefer clients who pay on the spot. It is also a way for companies to maintain liquidity, avoid financial bottlenecks, offer more flexible terms of deferred payment to customers without engaging one's working capital, and reduce operating costs.

Leasing

Leasing is a highly attractive form of investment financing. It provides an additional source of external financing, which facilitates investment and modernization of firms through the use of new technology, spreads expenditure over time, and has considerable tax advantages. Companies which take a lease on their property may simultaneously obtain loans. PPABank conducts leasing operations involving assets for which there is a well developed secondary market (e.g. means of transportation, printing equipment). Settlements under leasing contracts are made exclusively in zlotys.

PPABank also offers the following additional services to its corporate clients:

- Safe deposit
- Transportation of cash under convoy
- Personal accounts for employees of companies holding current accounts at PPABank

Services Offered to Individual Clients

Negotiation and Collection of Other Banks' Checks

PPABank cashes in and collects checks drawn on other banks - parties to an agreement involving 35 banks. The agreement defines, on a reciprocity basis, amounts up to which checks can be cashed by the banks. PPABank also accepts checks for larger amounts although such checks can be cashed only upon previous confirmation from the issuer's bank.

Collection of Checks Drawn on Foreign Banks

The Bank accepts for collection checks drawn on foreign banks, made out to the name of the client. The amount collected can be booked to the client's account in the original currency or in Polish zlotys.

Deposit Certificates

Deposit certificates, issued to bearer, are a form of banking deposit. PPABank offers for sale PLN-1,000 and PLN-5,000 certificates, with a three-month maturity. On due date the client is paid the face value of the certificate plus interest.

Currency Exchange

Every branch office of PPABank trades in foreign currencies. The service is offered to our clients at attractive prices.

In addition, PPABank offers the following services to its individual clients:

- Personal accounts for employees of the Bank's corporate clients
- Foreign-currency demand deposits
- Term deposits denominated in zlotys (negotiable duration and interest rate)
- Term deposits denominated in foreign currencies
- Fast international money transfers (SWIFT)
- Negotiation of eurocheques
- Stock investor accounts
- Loans for the purchase of securities
- Security deposit accounts
- Safe deposit
- Loans for investments in securities
- American Express Personal and Gold Cards
- Negotiation and issue of American Express traveler's checks
- Bank accounts for non-resident clients

Detailed characteristics of the services listed above have been given in the section on products for corporate clients.

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Our Clients



The First Polish-American Bank is primarily involved in supporting business initiatives for small and medium-size companies. This objective is served by such projects as the Small Business Loan Program. In terms of credit exposure, the largest group of clients serviced under the Program consists of sole proprietorships (36.2 per cent) and civil partnerships (35.1 per cent). Limited liability companies constitute another large group.

Most of the Bank's clients are wholesalers and industrial companies. Working-capital credits dominate the Bank's loan portfolio, although investment loans are also popular among PPABank clients.

The largest deposits are maintained by limited-liability companies; resources deposited by this group of customers represent 35.5 per cent of total deposits. Deposits of individual clients constitute the second largest group.

Regarding the type of activities, corporate deposit clients operate primarily in the service sector (44.5 per cent of total deposits). The share of deposits held by individual clients stands at 31.0 per cent.

Presented below are several of our clients who - thanks to apt management and co-operation with PPABank - have attained a significant position in their respective branches.

ROJAX, Szczecin

ROJAX is a manufacturer of steel and cast iron gears for passenger cars as well as assorted components for the machinery and shipbuilding industries. The company specializes in tool machining. ROJAX was created in 1994 as a result of merger of two metal production plants which had been in co-operation for many years. At the moment of joint start-up, the company's capital was too limited to meet the market demand for ROJAX's products. Therefore, the company decided to use credit facilities offered by the Enterprise Credit Corporation. The company has co-operated with the ECC for two years and with PPABank for one year. The choice of financial partners was influenced by the short time of processing loan applications and the Bank's professional assistance in the preparation of the application.

Thanks to the loans, ROJAX was able to almost double its production output. The large scale production necessitated an increase in the company's working capital. At the company's request, PPABank increased the credit line to facilitate financing of its current operations. The company's sales revenues rose from PLN 0.8 million in 1994, when its first contacts with the ECC were made, to PLN 4 million at the end of 1996.

MAJOR Trading Company, Kraków

MAJOR, a trading organization currently operating as a joint-stock company, was established in Kraków in 1985. The company is owned by Teresa, Leonard and Andrzej Jarmuł. Since 1991, the company has been focused on developing a supermarket chain. In 1993, the company became a client of PPABank. Mr. Andrzej Jarmuł, president of the company, says that the decision to commence financial co-operation with the Bank was made on the basis of an attractive offer presented by PPABank. An important factor was also the Bank's interest in and positive attitude towards MAJOR.



Good co-operation soon yielded desirable results. At present, MAJOR operates four supermarket stores located in Kraków. Two of the stores were purchased by the company thanks to loans granted by PPABank. Much of the equipment used

in the stores was acquired through leasing agreements arranged by the Bank. The aggregate area of the supermarkets operated by MAJOR exceeds 4,500 square meters. In 1996, the company opened the fifth supermarket - this time in Tarnów - with a total area of 1,300 square meters. Every day, some 16,500 clients shop in MAJOR stores.

At the end of 1993, when MAJOR became a client of PPABank, the company's annual sales revenues amounted to PLN 24.7 million. A year later, revenues exceeded PLN 46 million, and reached PLN 63 million as of the end of December 1996. Each newly opened supermarket has been a source of additional jobs. The company now employs a total of 390 employees.

The high standard of MAJOR's supermarkets and management have not gone unnoticed. In 1993, Mr. Andrzej Jarmuł received a prestigious prize for the most efficient entrepreneur in the Kraków region. In the following year, Mr. Jarmuł was awarded the "Businessman of the Year" title.

"After a short time, we knew we had made the right decision in choosing PPABank as our partner. Professional service and the utmost care for clients' satisfaction induce us to stay and take advantage of long-term financial and credit co-operation with PPABank," comments Mr. Jarmuł.

TORUS Heating Technologies, Poznan

TORUS was established in Poznań in 1985. In the following year, the company began manufacturing gas boilers based on Polish technical designs and components. At the beginning of the 1990's, TORUS modernized its production facilities and product lines. In 1991, TORUS purchased from the Dutch firm AWB a license for wall-mounted gas boilers for household use. At present, the company's output is ca. 10,000 such boilers a year, and it is steadily growing. TORUS has also initiated co-operation with French and German companies for the production of medium-capacity industrial boilers.

At the beginning of 1995, the company's management became aware of the Enterprise Credit Corporation's financing facilities. There ensued close co-operation with the ECC and subsequently with PPABank. After the purchase of new production facilities, rapid development of the company began, following significant growth in its productive capacity and increased storage space. But this growth created a need for working capital. Therefore, TORUS has taken advantage of working-capital loans from the Enterprise Credit Corporation and PPABank.

The Bank has also issued a guarantee in favor of TORUS' largest supplier of components, thereby reducing the volume of working capital used by the company for purchasing components.

Co-operation between TORUS and the ECC and PPABank has brought about measurable financial advantages. At the end of 1995, the company employed 72 people, and its sales revenues stood at ca. PLN 13 million. A year later, employment rose to 120 persons and sales revenues exceeded PLN 20 million. In the same period, the number of vendors offering the company's products increased from 220 to 260. TORUS co-operates today with nearly 300 firms and continues to extend its product range.

CENTRUM Department Store, Czestochowa

CENTRUM Department Store, a civil partnership, operates in Czestochowa and is owned by Mr. Zygmunt Szkop and Mr. Ryszard Zimecki. The partnership was established in 1990 and rented 3,000-square-meter trading premises from a state-owned enterprise. Two years later, the two businessmen purchased the department store at an auction. Initially, CENTRUM used another bank as its financial partner. When PPABank opened its sub-branch in Czestochowa (later turned into a representative office), the company decided to change banks. More attractive interest rates on investment loans as well as speedy processing of loan applications were the decisive factors.



Until 1996, the partnership had obtained loans totaling USD 550,000. The money, used very efficiently, allowed CENTRUM to embark on and continue rapid development. Over five years, the partnership's sales grew by 250 per cent. In 1995, CENTRUM bought a large, 13-storey office building with a total area of 9,000 square meters, together with a parking lot for 200 cars. The office space is now rented to various institutions. According to the owners' estimates, loans granted by PPABank have allowed the company to increase its earnings by approximately 25 per cent. Earnings will increase further when all loans and credits have been repaid.

KLIMAWENT Ventilation Systems, Gdynia

Centrum Techniki Wentylacyjnej KLIMAWENT was established in 1992 by Mr. Janusz Kaszyński. The company manufactures ventilation equipment. In addition, the company also designs and assembles customized ventilation systems.

Thanks to investment and working-capital loans granted to the company by the ECC, KLIMAWENT constructed new facilities and increased its working capital. Shortly afterwards, the company's owner applied for an increase in the loan amount. This increase allowed KLIMAWENT to complete its construction project. As a result, the company's sales revenues grew from PLN 2 million in 1994 to PLN 5.5 million in 1996. In March 1996, the company applied to PPABank for a working-capital loan. The loan was granted in the amount requested. At present, 50 per cent of interest payments are being refunded by the National Fund for Rehabilitation of the Disabled, since the company provides employment for the disabled. Therefore, given the lower cost of the loan, the company can effectively increase sales and guarantee current employment levels.

KLIMAWENT has earned a positive reputation among clients for the quality of its production and timely deliveries. The company sells its products to ca. 2,000 customers. In addition to its headquarters, the company has six representative offices in Poland.

In 1996, KLIMAWENT took first place in a national competition for safe working conditions provided by employers.

ITAL BIKE Production and Trading Company, Bialy Dunajec

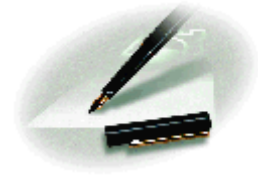
ITAL BIKE was established in Bialy Dunajec in 1991. Zofia and Ryszard Lasyk, the company's owners, were initially involved in importing Italian bicycles. At that time, their financial needs were catered for by a different bank. In 1992, when PPABank opened its Branch Office in Zakopane, ITAL BIKE transferred its accounts there. This decision soon began to show results. Managers of the company have calculated that every loan taken from PPABank allowed ITAL BIKE to double its sales. ITAL BIKE's sales revenues - initially recorded at PLN 0.5 million per annum - have recently risen to PLN 20 million.



The company commenced operations on 300-square-meter premises. Now the total area of ITAL BIKE's premises has reached 8,000 square meters. In 1991, the company had five employees; their number has now risen to fifty. In January 1997, ITAL BIKE opened new, modern production facilities in Nowy Targ. The coming year will see a gradual growth of the employee numbers, as the company intends to implement new technological and assembly lines.

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What the media say...



For Small and Medium-Sized Businesses

Parkiet, July 27-29, 1996

The First Polish-American Bank focuses its attention primarily on services for small and medium-sized private companies. Its dynamic growth confirms the correctness of the Bank's decision to focus on this market niche.

... Rendering services to small and medium-sized companies seems to be a laudable concept. Our economy still suffers from a lack of banks willing to pay attention to small companies. PPABank's Board of Executives and shareholders were quite right to take the opportunity and concentrate on this poorly serviced niche. Today, some of the small companies which worked with PPABank in the initial stages of their development, stand out as large and dynamic enterprises, with several dozen employees or more.

After the First Six Months

Rzeczpospolita, July 19, 1996

The growth in the volume of deposits from PLN 88.3 million in June 1995 to PLN 147.4 million this year must be regarded as the Bank's outstanding success. In the same period, the aggregate value of granted loans rose from PLN 84.9 million to PLN 140 million. One of the new products offered by the Bank is the purchase of treasury bills on behalf of clients ... The growth in the volume of deposits and granted loans has been achieved by the same number of employees as a year ago. It clearly indicates that investment in new banking techniques is already bearing fruit. As Mr. Kulczycki, President of the Bank, puts it, PPABank derives its strength from its loyalty to clients: "We grow with them."

In the Market Niche

Gazeta Bankowa, April 21, 1996

Are loans to small businesses profitable? Mr. Leszek Niemycki, member of PPABank's executive board, is absolutely positive about this. But - he adds - you have to know how much can be lent to whom. Undoubtedly, PPABank does know, judging by the low share of non-performing loans in the entire portfolio. Less than five per cent is quite a good result by world standards.

Issue After Issue

Gazeta Krakowska, May 10, 1996

Last year's investments included a merger with the Enterprise Credit Corporation, which allowed the Bank to take over nine locations and their employees in the country's leading economic centers. The Bank also opened two new branch offices in Katowice and Warsaw ... In addition, PPABank has invested in computer software designed to facilitate a whole range of foreign-currency transactions and carry out cash management operations. The investments are already showing their first results. Net earnings reported for the first quarter of the year rose by 16 per cent to PLN 1.356 million, i.e., over PLN 0.5 million more than in the same period of 1995.

PPABank: Dynamic Growth

Cash, no. 15, April 12, 1996

The Bank - along with the traditional deposit and loan services - offers many modern banking products. Cash management - one such product introduced to the Bank's scope of service last year - deserves a closer and appreciative look. Using computer modems, clients can execute

all operations on their accounts without even visiting the Bank's offices. Moreover, the bank offers leasing services and factoring. PPABank is an active player on the interbank money market and enjoys a full foreign-currency license granted last year. Recently, PPABank introduced a new product - American Express credit cards.

Ranking of Banks Friendly to Your Company

Businessman Magazine - November 1996

At PPABank, certain elements of the business plan are included in the loan-application form. The Bank has taken over "credit windows" from the Polish-American Enterprise Fund. At these locations, the Bank employs officers trained by American specialists and experienced in dealing with small and medium-sized businesses.

New System for Financial Liquidity Control

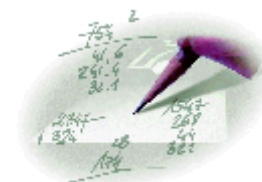
Nowa Europa, March 13, 1996

Quick access to information as well as time - and money-saving opportunities are of interest to every serious businessman. In the case of companies executing many financial operations during the day, frequent visits to a bank can become a nuisance. The First Polish-American Bank has developed Cash Management system for financial liquidity control and management of financial resources by means of computer communications between clients' offices and the Bank.

Cash Management allows clients to retrieve bank statements from the previous day, to access information on bank operations on the current day, to make domestic transfers, to access information on foreign currency rates and to exchange other types of data with the Bank.

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Auditors' opinion and auditors' report...



...on the financial statements for the year ended December 31, 1996 for the General Meeting of Shareholders of First Polish-American Bank S.A.

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[auditors' report](#)

Auditors' opinion on the financial statements for the General Meeting of Shareholders of First Polish-American Bank S.A.

We have audited the financial statements of First Polish-American Bank S.A. ("the Bank") including:

1. the balance sheet as of December 31, 1996 with assets and liabilities amounting to PLN 419,750,733.45;
2. off-balance sheet items amounting to PLN 68,292,580.93 of contingencies granted and PLN 52,339,769 of contingencies received;
3. the profit and loss statement for the period January 1, 1996 through December 31, 1996, with net profit amounting to PLN 9,057,190.21;
4. notes to the financial statements;
5. the cash flow statement for the year ended December 31, 1996 with a net cash inflow amounting to PLN 727,511.25.

We have carried out the audit in accordance with:

1. section 7 of the Accounting Act dated September 29, 1994 (Official Journal no. 121, item 591);
2. auditing standards issued by the national Council of the Certified Auditors.

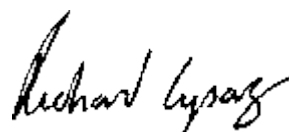
In our opinion, the attached financial statements have been prepared, in all significant aspects, in accordance with the accounting policies stated in the Accounting Act mentioned above and the President of The National Bank of Poland ("NBP") Regulation no. 1/95 dated February 16, 1995 on the special rules for bank accounting and the notes to the financial statements (NBP Official Journal no. 4, item 8 with subsequent amendments), and are based on correct accounting books.

The financial statements fulfill the requirements of the current regulations and the Status of the Bank with respect to their form and contents and give a true and fair view of all information relevant to the assessment of profitability and results of operations for the year ended December 31, 1996 and the financial position as of December 31, 1996.

Information included in the Board of Directors' Report is in accordance with the information included in the audited financial statements.



Chartered Accountant
No. 3875/5030
Justyna Strus



KPMG Polska Audyt Sp. z o.o.
Richard Cysarz
Partner

Warsaw, April 11, 1997

Auditors' report on the audit of the financial statements for the year ended December 31, 1996

I. General information

[auditors' report](#)

1. Introduction

1.1. This report on the audit of the financial statements for the year ended December 31, 1996 was prepared for First Polish-American Bank S.A. ("the Bank") and relates to the financial statements including the following:

- a. the balance sheet as at December 31, 1996 with assets and liabilities amounting to PLN 419,751 thousand;
- b. off-balance sheet items amounting to PLN 68,293 thousand contingencies granted and PLN 52,340 thousand of contingencies received;
- c. the profit and loss statement for the period from January 1, 1996 to December 31, 1996 with net profit amounting to PLN 9,057 thousand;
- d. notes to the financial statements;
- e. the cash flow statement for the period ended December 31, 1996 with a net cash inflow amounting to PLN 728 thousand.

1.2. The audit was carried out at the Bank's premises in the period 4-21 February 1997, in accordance with "The agreement for audit and the 6 month review of the financial statements" concluded on 5 December 1997 between:

- First Polish-American Bank S.A. located in Krakow, Kordylewskiego 11; and
- KPMG Polska Audyt Spółka z o.o., located in Warsaw, Al. Jerozolimskie 65/79, enrolled on the list of bodies entitled to audit the financial statements under the registered number 458.

1.3. All the information and documents required for the audit of the financial statements and preparation of the report were provided.

1.4. The Management of PPABank on April 11, 1997 provided us with a statement of assurance on the completeness, truth and fairness of information included in the above mentioned financial statements, as well as assurance that there were no events occurring up to the end of our audit, which could significantly influence the amounts presented in the financial statements for the year ended December 31, 1996.

1.5. All figures presented in this report are shown in thousands of Polish Zloty (PLN).

[auditors' report](#)

2. Legal status of the Bank

2.1. Following the decision of the President of National Bank of Poland no 46, dated October 6, 1990, Krakowskie Towarzystwo Bankowe S.A. in Krakow was established. The Notary Act, no A I 15847/90 containing the company agreement and Articles of Association, was signed on November 5, 1990. Krakowskie Towarzystwo Bankowe S.A. became a legal entity on December 19, 1990 by registration in the Local Court for Krakow, under the number H/B 2785.

2.2. The Bank is established for an unlimited period and may carry out banking activities in Poland.

2.3. Following a general meeting of the shareholders on February 16, 1991, some essential changes were made to the legal status of the Krakowskie Towarzystwo Bankowe S.A. The key changes were as follows:

- a. the Polish-American Enterprise Fund was admitted as shareholder;

- b. changes to the Articles of Association, included a change in the name of the Bank to First Polish-American Bank S.A. in Krakow.

All changes were accepted by the President of National Bank of Poland and stated in documents dated May 23, and May 27, 1991 respectively.

2.4. The Bank operates in accordance with the Banking Law Regulation, dated January 31, 1989 (Official Journal No 4/89, entry 21, as amended), the President of Republic of Poland Regulation dated June 27, 1934 "Commercial Code" (Official Journal No 57/34, entry 502, as amended), Foreign Exchange Law, dated December 2, 1994 (Official Journal No 136/94, entry 73, as amended) and the Articles of Association.

[auditors' report](#)

3. Basic information on the Bank

3.1. Share capital of the Bank as of December 31, 1996 amounted to PLN 10,000,000 and was higher than the level as at January 1, 1996 by PLN 2,500,000. The composition of shareholders of the Bank at December 31, 1996 and 1995 may be analyzed as follows:

	12/31/96 %	12/31/95 %
Polish-American Enterprise Fund	25.3	24.6
Enterprise Credit Corporation (ECC)	29.3	29.3
Agency for Industrial Development	11.3	15.3
Other shareholders	34.1	30.8
	<u>100.0</u>	<u>100.0</u>

3.1.1. Enterprise Credit Corporation (ECC) is a fund incorporated in the state of Delaware USA, which grants loans to companies in Poland. ECC is wholly owned by Polish-American Enterprise Fund.

3.2. The increased share capital of the Bank consists of 5,000,000 shares at nominal value PLN 2 per share as follows:

series A	634,060 shares equal	1,268,120
series B	1,115,940 shares equal	2,231,880
series C	2,000,000 shares equal	4,000,000
series D	1,250,000 shares equal	2,500,000
Total	5,000,000 shares equal	10,000,000

3.2.1. During the year 1996 the Bank issued additional 1,250,000 shares by a public offering. On July 11, 1996 the Register Court of Krakow-Srodmiemie approved the new share capital, which was fully subscribed. Following this offering the nominal value of share capital increased by PLN 2,500 thousand and share premium by PLN 16,875 thousand.

3.3. The purpose of the Bank is to provide banking and other financial services, both in zlotys and foreign currencies, for domestic and foreign legal entities and individual persons and other organizations including economic organizations with no legal status.

The activities of the Bank may include the following banking services:

- opening and maintaining bank accounts;
- accepting a'vista and term placements;
- performing money transfers and settlements;
- granting and taking loans;
- performing operations on promissory notes, bills of exchange and cheques;
- making money market transactions with Polish and foreign banks;
- issuing and accepting bank guarantees;
- providing foreign currency services and foreign trade financing;
- providing leasing and factoring services.

3.4. During the year, a subsidiary to the PPABank branch in Warsaw was established in Warsaw. The Bank now conducts its operations through the head office in Krakow and a total of five branches. The Bank is also granting loans from nine representative offices.

3.5. During 1996 there were no changes in the members of the Board of Directors.

As of December 31, 1996 the Board of Directors of the Bank consisted of:

Bank President	- Marek Kulczycki
Chief Operating Officer	- Benjamin H. Turnbull
Vice-president	- Thomas C. Cianfrani
Vice-president	- Jerzy Markiewicz
Vice-president	- Dorota Pietrow
Vice-president	- Leszek Niemycki
Vice-president	- Slawomir Wasowski
Vice-president	- Wojciech Piotrowski

3.6. On April 20, 1995 following the decision of the President of NBP the Bank received a full foreign exchange license.

3.7. On December 31, 1996 the Bank employed a total of 309 full time personnel (average monthly remuneration amounted to PLN 1,658.5).

[auditors' report](#)

4. Information on Bank financial statements for 1995

4.1. The financial statements for the year ended December 31, 1996 were audited by KPMG Polska Audyt Sp. z o.o. The audit was carried out in accordance with Act dated September, 29 1994 on auditing and publishing financial statements and certified auditors (Official Journal no. 121, item 591 with further amendments and obtain opinion without qualification.

4.2. 1995 closing balances were properly recorded as opening balances for 1996.

4.3. General Meeting of Shareholders protocol including financial statements approval and profit distribution was delivered to Regional Court on May 15, 1996. Bank financial statements were published on July 18, 1996 in "Monitor Polski" B-111.

4.4. The Board of Directors of the Bank is to propose the General Meeting of Shareholders the following distribution of the net profit for 1996, amounting to PLN 9,046.9 thousand:

- to reserve capital	PLN 4,528.5 thousand
- to general risk fund	PLN 4,528.5 thousand

II. Performance ratios of the Bank

1.1. Performance and other ratios are as follows:

	1996 PLN 000's	1995 PLN 000's	1994 PLN 000's
Total assets	419,751	263,885	138,810
Net profit	9,057	3,479	3,742
Capital adequacy ratio	21.6%	20.3%	46.6%
Liquidity ratio	0.68	0.66	1.00
Foreign exchange position:			
- global	2.8%	9.24%	2.3%
- maximum	6.3%	9.24%	1.2%
Net profit to total assets	19.1%	13.2%	27.0%
Income earning assets to total assets	80.2%	76.0%	73.2%
Cost bearing liabilities to total liabilities	79.7%	79.4%	71.8%
Profit per 1 share (PLN)	1.81	0.93	1.00
Interest income to income earning assets	15.8%	16.1%	23.0%
Net interest income to income earning assets	7.9%	6.7%	12.4%
Net interest income to interest income	49.8%	41.9%	53.8%
Interest expense to cost bearing liabilities	8.1%	8.9%	10.9%
Income earning assets to cost bearing liabilities	100.7%	95.7%	102.0%

1.2. During the year ended December 31, 1996 the inflation rate, being the index of retail prices of consumer goods and services, amounted to approximately 18.5% and the Polish zloty devaluated by 14% against the US dollar.

1.3. The Bank's net profit increased in this period by 160.3%. The increase primarily resulted by 57.4% increase in interest income, mostly on credits and on securities, and increase in commissions.

1.4. Capital adequacy ratio

The capital adequacy ratio (calculated in accordance with an appendix to the Decree No. 7/93 dated 20 May 1993 Official Journal no 6, item 11 with further amendments equal the quotient of net equity reserves to the value of risk weighted assets and off-balance liabilities) amounted to 21.6% at 31 December 1996 above level of 8.0% recommended by the National Bank of Poland.

1.5. Liquidity ratio

The liquidity ratio, defined as assets to liabilities with maturity to 3 months equalled 0.68, which was slightly below the minimum level of 0.7 recommended by the National Bank of Poland.

1.6. Foreign exchange position

The foreign exchange position of the Bank, both global and maximum, remained within risk limits set by NBP.

III. Detailed information

[auditors' report](#)

1. Accounting policies

1.1. Accounting books

The Bank's accounting records are computerized using a central data base which results in one general ledger for Head Office and branches. The system works on-line and accordingly the balances on the accounts and sub-accounts are up to date at the end of each day.

The Bank applies a chart of accounts approved by a resolution of the Board of Directors dated August 1, 1994.

The Books ensure clear and reliable presentation of the assets and of the financial standing of the Bank as well as to enable the preparation of the required financial statements.

Transactions are clearly and fully documented and properly classified in the books. The books are properly kept and securely maintained. The entries to the books are documented by source documents, being the basis for the entries.

1.2. Internal control

The accounting system is surrounded by internal controls, that are appropriate to the present level of the Bank's activity.

These procedures ensure the limitation of the risk of irregularities by the complete and proper classification and documentation of the Bank's transactions.

1.3. Valuation method

No amendments were made to the accounting policies and methods of valuation during 1996.

1.3.1. Fixed assets

Fixed assets are recorded at cost or revalued amount net of accumulated depreciation. The cost of fixed assets purchased in foreign currencies is calculated using the official NBP rate of exchange on the day of payment. Depreciation is calculated monthly on a straight line basis in compliance with rates of depreciation and procedures set by the Regulation of the Ministry of Finance dated January 20, 1995 (Official Journal no. 7 item 34 with subsequent amendments).

The exceptions are fixed assets under lease agreements which are in most cases, depreciated on a reducing balance method.

The items of the features of fixed assets and at a cost not exceeding PLN 2,000 are fully amortised in the month when they are brought into use and remain fully amortised in the off-balance sheet evidence.

1.3.2. Intangible assets

Intangible assets are shown at cost net of accumulated depreciation calculated on a straight line basis in compliance with the relevant regulation set out in paragraph 3.3.1. above.

1.3.3. Loans

Loans granted by the Bank, i.e. principal and capitalized interest, are shown net of specific loan loss provisions. To provide against potential losses resulting from loan activities, specific provisions are created in accordance with the Regulation no. 13/94 of the President of NBP to reduce the nominal value of the loans. Additionally the Bank holds a general risk fund which forms a part of the equity of the Bank. Accrued interest on loans is disclosed along with the receivables in one position.

1.3.4. Securities

Securities are classified under either investment or trading portfolio. Dependant on the transaction, they are disclosed as follows:

- securities allocated for sale (the trading portfolio) are disclosed at the purchase value along with any accrued interest, discount or premium but not higher than the net current sales value. In cases where the value determined by this method is higher than the market value, the difference between the two is charged to the cost of financial operations,
- securities allocated for investment are disclosed at the purchase value along with any accrued interest, discount or premium. In case of a permanent or temporary fall in value, the amount is stated net of the appropriate provision.

1.3.5. Interest income and expense

Interest income and expense are disclosed together with any accrued interest on regular loans at the balance sheet date. Interest accrued on irregular loans (overdue interest) and accrued interest on loans classified as substandard, doubtful or lost, are booked as interest receivable in the assets of the balance sheet and as suspended interest in the liabilities.

1.3.6. Fees and commission income and expense

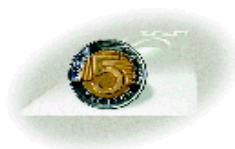
All fee and commission income and expense is recognized on a cash basis.

1.3.7. Foreign currencies

All balances in foreign currencies are translated at the average exchange rate announced by the President of NBP as of December 31, 1996. Realized exchange rate differences and result on revaluation of foreign currency items have been booked directly to the profit and loss account.

1.3.8. Purchase and sale of foreign currencies

Transactions in the purchase and sale of foreign currencies are valued on the basis of contractual exchange rates. Unrealized exchange rate differences have been booked directly to the profit and loss account.



2. Financial statements

[auditors' report](#)

BALANCE SHEET

	Notes	12/31/96 PLN 000's	12/31/95 PLN 000's
ASSETS			
Cash and Central Bank balances	5.1.	41,354	40,627
Due from financial institutions	5.2.	81,032	31,006
1. Call		2,801	4,101
2. Term		78,231	26,905
Due from customers	5.3.	178,671	88,540
Securities	5.4.	80,392	67,764
Other investments	5.5.	5	5
Intangible assets	5.6.	4,863	2,808
Fixed assets	5.7.	7,518	6,643
Fixed assets leased to customers	5.8.	14,602	15,597
Other assets	5.9.	9,707	9,074
1. Seized assets		18	69
2. Other		9,689	9,005
Interperiod settlements	5.10.	1,607	1,821
		419,751	263,885
LIABILITIES			
Due to financial institutions	5.11.	58,928	56,195
Due to other customers	5.12.	278,818	156,403
Special funds and other liabilities	5.13.	6,478	13,242
Accrued costs and deferred income	5.14.	2,915	2,410
Deferred tax provision	5.15.	2,624	1,243
Subordinated debt	5.16.	11,236	4,572
Share capital	5.17.	10,000	7,500
Reserve capital I	5.18.	31,013	14,076
Reserve capital II	5.18.	8,682	4,764
Net profit		9,057	3,480
		419,751	263,885
Off-balance sheet items granted	5.19.	68,293	27,889
Off-balance sheet items received		52,340	82
Contigent liabilities		0	0

[assets](#)

5.1. Cash and Central Bank balances

	12/31/96 PLN 000's	12/31/95 PLN 000's
--	-----------------------	-----------------------

Cash, of which:	30,116	25,485
- in Polish zloty	13,948	10,673
- in foreign currencies	16,168	14,812
Central Bank balances, of which:	11,238	15,142
- current account	11,238	13,885
- obligatory reserve account	-	1,257
	41,354	40,627

[assets](#)

5.2. Due from financial institutions

	12/31/96 PLN 000's	12/31/95 PLN 000's
Current accounts, of which:	2,801	4,101
- in Polish zloty	1	113
- in foreign currencies	2,800	3,988
Term placements, of which:	78,231	26,905
- in Polish zloty	2,879	15,772
- in foreign currencies	75,352	11,133
	81,032	31,006

5.2.1. The maturities of term placements with financial institutions are as follows:

	12/31/96 PLN 000's	12/31/95 PLN 000's
Due within 3 months	80,041	30,013
Due between 3 months and 1 year	960	455
Due between 1 and 5 years	0	455
interest	31	83
	81,032	31,006

[assets](#)

5.3. Due from customers

	12/31/96 PLN 000's	12/31/95 PLN 000's
Loans to commercial enterprises, of which:	174,669	86,973
- in Polish zloty	96,663	41,470
- in foreign currencies	78,006	45,503
Loans to individuals, of which:	2,636	1,132
- in Polish zloty	2,240	1,132
- in foreign currencies	396	-
Total	177,305	88,105
Provisions	(3,866)	(3,190)

Net	173,439	84,915
accrued and suspended interest	5,232	3,625
Total of due from customers	178,671	88,540

5.3.1. The maturities of amounts due from customers are as follows:

	12/31/96 PLN 000's	12/31/95 PLN 000's
Due within 3 months	34,109	28,893
Due between 3 months and 1 year	55,211	27,079
Due between 1 year and 5 years	83,047	28,161
Due after 5 years	1,072	782
Accrued and suspended interest	5,232	3,625
	178,671	88,540

5.3.2. The loan exposure classification by risk category is presented as follows:

	12/31/96 PLN 000's	12/31/95 PLN 000's
Loans graded as "normal"	175,050	85,589
Loans graded below "normal", of which:	7,487	6,141
- substandard	907	218
- doubtful	52	1,566
- loss	3,855	2,188
- interest on irregular loans	2,673	2,169
Loan loss provision, of which:	(3,866)	(3,190)
- substandard	(244)	(45)
- doubtful	(44)	(958)
- loss	(3,578)	(2,187)

[assets](#)

5.4. Securities

	12/31/96 PLN 000's	12/31/95 PLN 000's
Securities, of which:	80,392	67,764
* issued by State	80,392	60,156
- trading portfolio	-	-
- investment portfolio	80,392	60,156
* issued by Central Bank	0	7,608
- trading portfolio	-	-
- investment portfolio	0	7,608
	80,392	67,764

5.4.1. The maturities of securities are as follow:

	12/31/96 PLN 000's	12/31/95 PLN 000's
Due within 3 months	-	22,941
Due between 3 months and 1 year	43,651	42,010
Due between 1 year and 5 years	36,741	2,813
	80,392	67,764

5.4.2. Securities in the portfolio may be analyzed as follows:

	12/31/96 PLN 000's	12/31/95 PLN 000's
Treasury bills	43,651	56,355
Government bonds	36,741	3,800
Treasury bills of NBP	0	7,609
	80,392	67,764

5.4.3.

PLN 20 million of securities are pledged as collateral for interbank deposits and another PLN 611 thousand is pledged towards the Bank Guarantee Fund.

[assets](#)

5.5. Shares in affiliated entities

The Bank owns shares at the book value of PLN 4.7 thousand in the "S.W.I.F.T." company located in Belgium.

[assets](#)

5.6. Intangible assets

	Costs of obtaining share capital PLN 000's	Software PLN 000's	Total PLN 000's
Gross book value Balance as of 1/1/1996	936	2,282	3,218
Additions	2,085	650	2,735
Disposals	0	0	0
Balance as of 12/31/1996	3,021	2,932	5,953
Depreciation Balance as of 1/1/1996	183	227	410
Charge	337	343	680
Disposals	0	0	0
Balance as of 12/31/1996	520	570	1,090
Net book value as of 1/1/1996	753	2,055	2,808
Net book value as of 12/31/1996	2,501	2,362	4,863

[assets](#)

5.7. Fixed assets

	Equipment PLN 000's	Assets under construction PLN 000's	Other PLN 000's	Total PLN 000's
Gross book value Balance as of 1/1/1996	8,530	-	137	8,667
Additions	1,610	402	450	2,462
Disposals	80	60	21	161
Balance as of 12/31/1996	10,060	342	566	10,968
Depreciation Balance as of 12/31/1996	2,012	-	12	2,024
Charges	1,361	-	79	1,440
Disposals	14	-	-	14
Balance as of 12/31/1996	3,359	-	91	3,450
Net book value as of 1/1/1996	<u>6,518</u>	-	<u>125</u>	<u>6,643</u>
Net book value as of 31/12/1996	<u>6,701</u>	<u>342</u>	<u>475</u>	<u>7,518</u>

[assets](#)

5.8. Fixed assets leased to customers

	Vehicles PLN 000's	Other PLN 000's	Total PLN 000's
Gross book value Balance as of 1/1/1996	2,071	16,338	18,410
Additions	5,175	1,132	6,307
Disposals	287	4,212	4,499
Provision	230	-	230
Balance as of 31/12/1996	7,189	13,259	20,448
Depreciation Balance as of 1/1/1996	589	2,224	2,813
Charges	754	3,884	4,638
Disposals	150	1,455	1,605
Balance as of 31/12/1996	<u>1,193</u>	<u>4,653</u>	<u>5,846</u>
Net book value as of 1/1/1996	<u>1,482</u>	<u>14,115</u>	<u>15,597</u>
Net book value as of 12/31/1996	<u>5,996</u>	<u>8,606</u>	<u>14,602</u>

[assets](#)

5.9. Other assets

	12/31/96 PLN 000's	12/31/95 PLN 000's
Gross assets for sale	63	110

Provision for assets for sale	(45)	(41)
Net assets for sale	18	69
Other assets, of which		
- income tax receivables	337	1,582
- client's receivables	412	17
- interbank settlements	5,882	-
- lease receivables	1,016	-
- other	2,443	7,636
Gross other assets	10,090	9,235
Provision for other assets	(401)	(230)
Net other assets	9,689	9,005
Total net other assets	9,707	9,074

[assets](#)

5.10. Interperiod settlements

	12/31/96 PLN 000's	12/31/95 PLN 000's
Prepayments, of which:	676	916
- marketing expenses	302	407
- other	374	509
Other interperiod settlements	931	905
	1,607	1,821

[liabilities](#)

5.11. Due to financial institutions

	12/31/96 PLN 000's	12/31/95 PLN 000's
Current accounts, of which:	5,128	19,342
- in Polish zloty	2,674	2,566
- in foreign currencies	2,454	16,776
Term deposits, of which:	53,800	36,853
- in Polish zloty	8,279	9,825
- in foreign currencies	45,521	27,028
	58,928	56,195

5.11.1. The maturities of term deposits due to financial institutions are as follows:

	12/31/96	12/31/95
--	-----------------	-----------------

	PLN 000's	PLN 000's
Due within 3 months	33,325	31,461
Due between 3 months and 1 year	2,880	-
Due between 1 year and 5 years	17,519	5,300
interest payable	76	92
	53,800	36,853

5.11.2.

Term deposits to financial institutions include USD 6 million of subordinate debt owed to the PAEF at 5.5% interest. USD 3 million matures in June 2001 and the remaining USD 3 million in December 2001.

[liabilities](#)

5.12. Due to other customers

	12/31/96 PLN 000's	12/31/95 PLN 000's
Commercial enterprises accounts, of which:	179,931	103,738
current accounts	132,463	42,010
- in Polish zloty	128,311	40,087
- in foreign currencies	4,152	1,923
term deposits	47,468	61,728
- in Polish zloty	44,503	61,725
- in foreign currencies	2,965	3
Individuals' accounts, of which:	97,845	52,196
current accounts	23,311	11,364
- in Polish zloty	13,024	5,950
- in foreign currencies	10,287	5,414
term deposits	74,534	40,832
- in Polish zloty	50,780	29,160
- in foreign currencies	23,754	11,672
Budgets accounts of which	1,042	469
current accounts	541	342
- in Polish zloty	417	342
- in foreign currencies	124	0
term deposits	501	127
- in Polish zloty	501	127
- in foreign currencies	0	0
	278,818	156,403

5.12.1. The maturities of amounts due to other customers is as follows:

	12/31/96 PLN 000's	12/31/95 PLN 000's

A' vista	219,642	53,625
Due within 3 months	22,903	80,790
Due between 3 months and 1 year	30,895	17,882
Due between 1 year and 5 years	2,177	1,064
Due after 5 years	63	2
interest payable	3,138	3,040
	278,818	156,403

5.12.2.

PLN 19.8 million of deposits at market rates of interest are due to shareholders.

[liabilities](#)

5.13. Special funds and other liabilities

	12/31/96 PLN 000's	12/31/95 PLN 000's
Special funds	75	53
Others, including:	6,403	13,189
Interbank settlements	1,149	5,954
Income tax settlement	1,064	405
	6,478	13,242

5.13.1.

In other liabilities the amount of PLN 72 thousand relates to PLN 8 million of outstanding currency swap transactions.

[liabilities](#)

5.14. Accrued costs and deferred income

	12/31/96 PLN 000's	12/31/95 PLN 000's
Interperiod settlements	77	43
Income in suspense	2,677	2,220
Others	161	147
	2,915	2,410

[liabilities](#)

5.15. Deferred tax provision

	12/31/96 PLN 000's	12/31/95 PLN 000's
Taxable timing differences, of which:	10,279	6,816
- interest receivable	9,778	6,218
- investment relief	452	598
- F/X differences	49	-
Tax deductible timing differences, of which:	(3,375)	(3,708)

- interest payable	(3,214)	(3,148)
- provisions	-	(372)
- deferred income	(161)	(147)
- negative F/X differences	-	(41)
Net taxable timing differences	6,904	3,108
Deferred tax provision 40%	-	1,243
38%	2,623	-
Change in the balance of deferred tax is as follows: Balance at 1/1/1996	1,243	1,447
Balance at 12/31/1996	2,623	1,243
Release of provision	1,380	(204)

[liabilities](#)

5.16. Subordinated loan

	PLN 000's
Balance as of 1/1/1996	4,572
Additions	6,664
Reclassification	-
Balance as of 12/31/1996	11,236

On the NBP decision of November 8, 1996 the Bank included with the funds the equivalent of USD 4 million (PLN 11,236 thousand) owed to PAEF at 8% interest rate. USD 2 million matures in September 2000 and the remaining USD 2 million in March 2001.

[liabilities](#)

5.17. Share capital

The nominal value of share capital was increased during the year following a public offer of 1,250,000 shares with nominal value of PLN 2 each.

[liabilities](#)

5.18. Reserve capital

	Revaluation reserve PLN 000's	General risk fund PLN 000's	Other reserve capital PLN 000's	Total PLN 000's	Reserve capital I PLN 000's
Balance as of 12/31/1995	683	1,572	2,509	4,764	14,076
- profit distribution 1995	-	1,740	1,740	3,480	-
- disposal of fixed assets	(62)	-	-	(62)	62
- share premium	-	-	-	-	16,875
- creating of general risk fund	-	500	-	500	-

Balance as of 12/31/1996	<u>621</u>	<u>3,812</u>	<u>4,249</u>	<u>8,682</u>	<u>31,013</u>
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[liabilities](#)

5.19. Off-balance sheet items

	12/31/96 PLN 000's	12/31/95 PLN 000's
Contingent liabilities granted to commercial enterprises, of which:		
- guarantees	22,016	3,876
- others	46,277	24,013
	<u>68,293</u>	<u>27,889</u>
Contingent liabilities received from financial institutions, of which:		
- guarantees	740	82
- others	51,600	-
	<u>52,340</u>	<u>82</u>
Currency transaction		
PLN sold	135	12,831
Foreign currency sold	<u>81,674</u>	<u>23,883</u>
	<u>81,809</u>	<u>36,714</u>
PLN purchased	76,258	13,441
Foreign currency purchased	<u>5,534</u>	<u>23,317</u>
	<u>81,792</u>	<u>36,758</u>

5.19.1.

The value of PLN 9,426 thousand relates to guarantees granted to the ECC.

[auditors' report](#)

PROFIT AND LOSS STATEMENT

	Notes	12 months ending 12/31/96 PLN 000's	12 months ending 12/31/95 PLN 000's
Interest income	5.20.	53,823	34,202
Interest expense	5.21.	(27,024)	(18,709)
Net interest income		<u>26,799</u>	<u>15,493</u>
Fee and commission income	5.22.	12,131	6,285
Fee and commission expense		(1,076)	(1,518)
Income on financial transactions		823	25
Foreign exchange differences - net		3,928	4,487
Profit on banking activities		<u>42,605</u>	<u>24,772</u>
Other operating income		8,524	3,629
Other operating expense		(3,188)	(402)
General expenses	5.23.	(24,094)	(15,833)

Depreciation of fixed and intangible assets		(6,951)	(4,233)
Write offs to loan loss provision		(3,895)	(1,541)
Release of provision and other decreases		2,500	614
Gross profit		15,501	7,006
Income tax	5.24.	(6,444)	(3,527)
Other obligatory profit deduction		-	-
Net profit		9,057	3,479

[profit and loss](#)

5.20. Interest income

	12 months ending 12/31/96 PLN 000's	12 months ending 12/31/95 PLN 000's
Interest due from financial institutions	1,376	5,858
Interest due from customers	30,729	19,869
Interest due on securities, of which:	21,718	8,475
- fixed income securities	21,718	8,475
Interest on other operations	53,823	34,202

[profit and loss](#)

5.21. Interest expense

	12 months ending 12/31/96 PLN 000's	12 months ending 12/31/95 PLN 000's
Interest due to financial institutions	7,153	4,304
Interest due to customers	19,031	13,776
Interest due to entities financed by state budget	146	92
Interest to subordinate debt	694	537
	27,024	18,709

[profit and loss](#)

5.22. Fee and commission income

Of the 12,131 thousand PLN of fee and commission income 5,898 thousand PLN constitutes the fee and commission received from related party ECC.

[profit and loss](#)

5.23. General expenses

	12 months ending 12/31/96 PLN 000's	12 months ending 12/31/95 PLN 000's
Employment cost, of which:	10,826	7,321

- salaries	7,431	5,181
- surcharges on salaries	3,306	2,140
- social support of employees	89	-
Other general expenses, of which:	13,268	8,511
- advertising and marketing	1,121	890
- rent	2,044	1,148
- telecommunication	1,133	594
- office stationery	866	662
- representation costs	358	287
- business trips	454	421
- advisory services	2,528	-
- contribution to Bank Guarantee Fund	701	419
- other	4,063	4,091
	24,093	15,832

[profit and loss](#)

5.24. The reconciliation of gross profit and the basis for the income tax calculation is as follows:

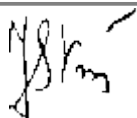
	12 months ending 12/31/96 PLN 000's	12 months ending 12/31/95 PLN 000's
Gross profit in the financial statements	15,501	7,001
Costs not allowed for tax, of which:	4,218	4,101
- provisions	2,213	1,294
- accrued interest	239	1,913
- other	1,766	894
Incomes not treated as taxable, of which:	(7,060)	(1,781)
- accrued interest	(3,785)	(1,197)
- provisions	-	(902)
- other	(3,275)	-
Other changes	-	318
Income before taxation	12,659	9,321
Income tax 40%	5,064	3,728
Deferred tax	1,380	(204)
Total	6,444	3,524

[auditors' report](#)

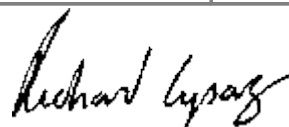
CASH FLOW STATEMENT

		12 months ending 12/31/9 6 PLN 000's	12 months ending 12/31/9 5 PLN 000's
A.	CASH FLOW FROM OPERATING ACTIVITY		
I.	Net profit	9,057	3,480
II.	Adjustments for	(25,886)	40,860
1.	Depreciation	6,758	3,817
2.	Foreign exchange gains (losses)	-	41
3.	Interest and dividend received and paid	-	-
4.	Provision for receivables	676	702
5.	Other provisions	675	182
6.	Income tax charge	6,444	4,974
7.	Income tax paid	(3,819)	(3,731)
8.	Gain or loss on sale and liquidation of fixed assets	21	-
9.	Change in securities held	(12,628)	(38,932)
10.	Change in amounts due from other financial institutions	(50,026)	6,030
11.	Change in amounts due from customers and budget	(90,806)	(46,578)
12.	Change in shares, investments and other floating income securities	-	-
13.	Change in amounts due to other financial institutions	2,733	21,340
14.	Change in amounts due to customers and budget	122,415	89,936
15.	Change in bank's own securities	-	-
16.	Change in other liabilities	(6,763)	12,112
17.	Change in interperiod settlements	(997)	1,014
18.	Change in deferred income	470	(1,257)
19.	Other items	(1,038)	(8,790)
III	Net cash flow from operating activity	(16,828)	44,340
B.	CASH FLOW FROM INVESTING ACTIVITY		
I.	Receipts from investing activity	3,021	174
1.	Sale of intangible fixed assets	-	-
2.	Sale of tangible fixed assets	3,021	174
3.	Sale of shares and participation investments	-	-
4.	Sale of shares and affiliated investments	-	-
5.	Sale of other shares, investments and securities	-	-
6.	Other receipts	-	-
II.	Expenditures on investment activity	(11,504)	(21,787)
1.	Acquisition of intangible fixed assets	(2,735)	(1,528)

2.	Acquisition of tangible fixed assets	(8,769)	(20,259)
3.	Acquisition of shares and participation investments	-	-
4.	Acquisition of shares and affiliated investments	-	-
5.	Acquisition of other shares, investments and securities	-	-
6.	Other expenditures	-	-
III	Net cash flow from investing activity	(8,483)	(21,613)
C. CASH FLOW FROM FINANCIAL ACTIVITY			
I.	Receipts from financial activity	26,039	(21)
1.	Raised long term credits from banks	-	-
2.	Raised long term loans from other financial institutions	-	-
3.	Issue of bonds and other securities	-	-
4.	Increase in subordinated debt	6,664	-
5.	Receipts from issue of own shares, investments and additional share capital payments	19,375	-
6.	Other items	-	(21)
II.	Expenditures on financial activity	-	(3,049)
1.	Repayment of long term credits from banks	-	-
2.	Repaid long term credits to other financial institutions	-	-
3.	Redemption of bonds and other securities	-	-
4.	Decrease in subordinated debt	-	(3,049)
5.	Payment of dividends and other payments to owners	-	-
6.	Other items	-	-
III	Net cash flow from financial activity	26,039	(3,070)
D.	NET CASH FLOW	728	19,657
E.	CASH AT THE BEGINNING OF THE PERIOD	40,627	20,970
F.	CASH AT THE END OF THE PERIOD	41,355	40,627



Chartered Accountant
No. 3875/5030
Justyna Strus



KPMG Polska Audyt Sp. z o.o.
Richard Cysarz
Partner

Warsaw, April 11, 1997

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PPABank's Correspondent Banks



Currency	SWIFT Address	Bank	Country
ATS	CABVATWW	Creditanstalt-Bankverein	Austria
BEF	BBRUBEBB	Bank Brussels Lambert	Belgium
CAD	BOFMCAM2	Bank of Montreal	Canada
CHF	UBSWCHZH	Union Bank of Switzerland	Switzerland
DEM	MHBFDEFF	MHB Mitteleuropaeische Handelsbank	Germany
DEM	DEUTDEFF	Deutsche Bank AG	Germany
DKK	UNIBDKKK	Unibank AS	Denmark
ESP	BDERESMM	Banco Santander	Spain
FIM	MRITFIHH	Merita Bank	Finland
FRF	PKOPFRPP	Bank Polska Kasa Opieki S. A. - Paris	France
GBP	BARCGB22	Barclays Bank PLC	Great Britain
ITL	BCITITMM	Banca Commerciale Italiana	Italy
JPY	BOTKJPJT	Bank of Tokyo Ltd	Japan
NLG	INGBNL2A	ING Bank	The Netherlands
NOK	DNBANOKK	Den norske Bank AS	Norway
SEK	ESSESESS	Skandinaviska Enskilda Banken	Sweden
USD	PKOPUS33	Bank Polska Kasa Opieki S. A. New York	USA
USD	IRVTUS33	Bank of New York	USA
XEU	BBRUBEBB	Bank Brussels Lambert	Belgium

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