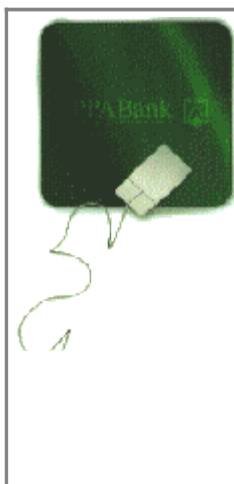


Annual Report 1997

Table of Contents

1. [Letter from the Chairman](#)
2. General Information on the Bank
 - [The Board of Directors](#)
 - [PPABank Board of Executives](#)
 - [History](#)
 - [Organization Chart](#)
3. Financial Summary
 - [Introduction](#)
 - [Acquisition of Funds](#)
 - [Allocation of Funds](#)
 - [Balance Sheet Structure](#)
 - [Profit and Loss Account](#)
 - [Performance Indicators](#)
 - [Forecast for 1998](#)
 - [Indicator Calculation Methods](#)
4. Marketing Strategy
 - [Clients](#)
 - [Market Research](#)
 - [New Services](#)
 - [Promotion](#)
5. [Auditors' Opinion and Report](#)
6. [Correspondent Banks](#)
7. [Branch and Representative Offices](#)



Publisher: **PPABank S.A.**

Editors: **Promotion & Public Relations Group**

Translation **Krzysztof Kwasniewicz**
(except "Auditor's Report"):

Design: **advert / ikon**

Photos of Executives: **Adam Golec**

Other Photos: © **PhotoDisc, Inc.** & © **KPT Metatools**

WWW Development: **OSO Systems**

Letter from the Chairman



The past year was an important year for PPABank. The Bank achieved results that allowed it to resume territorial expansion and to open new branch offices in Poznan and Lublin, as well as a sub-branch in Czestochowa, transformed at the beginning of 1998 into a full-scale branch. The existing branch offices in Kraków, Zakopane, Katowice and Warsaw, along with the Bank's loan and treasury-bill operations, all made major contributions to the Bank's strong earnings performance. One should take note of the fact that PPABank succeeded in strengthening its presence on the private enterprise market, building up a stable client base, and achieving a high level of customer satisfaction.



During 1997, Poland's private sector experienced an unprecedented loan demand as the economy recorded a 6 percent growth. Loan demand was particularly heavy in the Small and Medium-size Enterprise sector, the Bank's traditional target market. Credit commitment grew from PLN 179 million at the end of 1996, to PLN 311 million at the end of 1997, an over 74 percent increase. The proportion of non-performing loans in the total loan portfolio stood at 2 percent at the end of 1997. In terms of loan portfolio quality, PPABank's performance ranks among the very best in Poland's banking sector.

The growth in loans was complemented by an increase in customer deposits, which reached PLN 381 million at the end of the year. This attests to the attractiveness of our products and to the high level of customer confidence enjoyed by PPABank. The strong deposit growth the Bank experienced enabled it to avoid dependence on funding from an extremely volatile interbank market.

Last year's plans could not have been implemented without the assistance of our Shareholders. Close cooperation with the Polish-American Enterprise Fund allowed PPABank to steadily increase its capital, which made possible the Bank's rapid development.

The strategy for the coming years is based on the continuation of efforts in the Small and Medium-size Enterprise sector. We intend to keep improving the quality of our services, extending the scope of products on offer, and opening new branch offices. In this way, we will be able to satisfy both the needs of our clients and the expectations of our shareholders.

As we look towards the year 2000, it becomes apparent that the consolidation of Poland's banking sector will continue leading to fewer, but stronger banks. With this in mind, in early 1997 the Bank entered into negotiations with a major European bank about investing in PPABank. In November, an agreement was concluded with Generale Bank, the largest bank in Belgium. Under the terms of the agreement, Generale Bank is to become PPABank's strategic investor. This arrangement will offer PPABank easier access to capital, business and banking know-how, human resources and technology. Thus the Bank will now be positioned to compete on an equal basis with the larger Polish and foreign banks on the Polish market. As part of the agreement, the Bank has established a European Desk to support Generale Bank's worldwide clients doing business in Poland. We feel that this is an important step for the Bank, and one that ensures the future security of PPABank and provides a new impetus for further growth and success.

PPABank's success would not have been accomplished without the involvement of the Bank Council and a dedicated team of managers and staff, who all share a common goal - to provide highest-quality banking services to our customers. I would also like to thank our customers for their loyalty to the Bank. Without them, we would not have attained our spectacular success, nor would it have been possible to attract a strategic investor such as Generale Bank. The future for PPABank is bright, and we expect 1998 to mark the beginning of a new stage of our development.

[back](#)

The Board of Directors

Chairman	Joseph S. Conti
Vice-Chairman	Arkadiusz Krezel
Vice-Chairman	Antoni Potocki
Members of the Bank Council	Zbigniew Dresler Dariusz Pronczuk Stephen G. Seamans Juliusz Sikora Luc Delvaux*

*as of registration of the series G share issue

Until June 26, 1997, the Bank Council included Mr Robert Lindsay.

Note: In accordance with the Banking Law, in force until December 31, 1997, the Board of Directors was called the Bank Council.

[back](#)

PPABank Board of Executives

President

Marek Kulczycki

First Vice-President,
Chief Operating Officer

Benjamin H.
Turnbull

Vice-President
Chief Financial Officer

Thomas C. Cianfrani

Vice-President,
Director of the Treasury Department

Jerzy Markiewicz

Vice-President,
Director of the Business Development
Department

Leszek Niemycki

as of January 1, 1998

Vice-President posts were held in 1997 by Ms. Dorota Pietrow (until December 31) Mr. Slawomir Wasowski (until December 31) and Mr. Wojciech Piotrowski (until August 29).



Marek Kulczycki
President

Benjamin H. Turnbull
First Vice-President
Chief Operating Officer



Jerzy Markiewicz
Vice-President
Director of Treasury
Department

Thomas C. Cianfrani
Vice-President
Chief Financial Officer

Leszek Niemycki
Vice-President
Director of the
Business Development
Department

[back](#)

History of PPABank

1990

November



The Krakow Banking Society is formed

1991

February

General Shareholders' Meeting of the Krakow Banking Society accepts the Polish-American Enterprise Fund as its strategic investor

May



The Krakow Banking Society changes its name to Pierwszy Polsko-Amerykanski Bank w Krakowie S.A. (First Polish-American Bank in Krakow S.A.)

1992

October

PPABank opens its branch in Zakopane

1994

May



The words "in Krakow" are dropped from the Bank's name. The Bank adopts a new name: Pierwszy Polsko-Amerykanski Bank S.A.

November

PPABank stock makes its debut on the Warsaw Stock Exchange

1995

March

PPABank opens its branch in Katowice

April



PPABank concludes a Credit Service agreement with the Enterprise Credit Corporation (ECC) and converts the ECC loan-production offices into PPABank representative offices.
PPABank obtains a full foreign-exchange license

May


PPABank opens its branch in Warsaw

1997

June PPABank opens its branch in Poznan

July PPABank opens its sub-branch in Czestochowa

September PPABank opens its branch in Lublin

November  PPABank concludes an agreement with Generale Bank

[back](#)

Financial Summary

Introduction

The First Polish-American Bank S.A. focuses on the dynamic sector of small and medium-size enterprises. The Bank offers a wide range of modern banking products and seeks to meet the customers' requirements to the fullest extent possible.



In recent years, the Bank has steadily increased its capital, reinvested profits and actively sought new deposits. These funds have been predominantly used to finance the increased volume of loans, the expansion of the branch and representative office network, and investments in the telecommunications and data-processing infrastructure, necessary to ensure the highest standards of services.

In 1997, PPABank total assets and net profit grew by more than 50 percent.

The Bank's capital adequacy ratio remained at secure levels at all times. Even with the dynamic growth of all balance sheet items, return on equity and return on assets were high. This is a testimony to the strategy of reinvesting profits and to the sound allocation of capital acquired through new share issues.

The Bank's performance attests to its healthy development and allows one to formulate an optimistic forecast for the future. PPABank net profit in 1998 should exceed PLN 18 million, which translates into a growth of approximately 30 percent.

[back](#)

Acquisition of Funds

Share Capital Increase

Over its seven-year history, PPABank has increased share capital on several occasions. Raising new capital has been easier since the Bank's stock began public trading on the Warsaw Stock Exchange in November 1994.

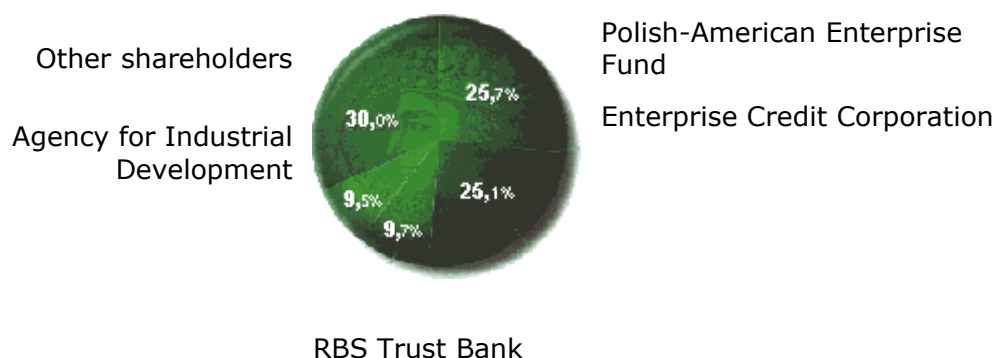
Between 1991 and 1996, PPABank share capital increased from PLN 1.3 million to PLN 10 million, through the issue of series A, B, C and D shares. As early as 1991, the Bank found a strategic investor: the Polish-American Enterprise Fund.

In 1997, 1.25 million series E shares were issued at par value of PLN 2.00 and an issuing price of PLN 15.50 each. The offer was addressed to existing shareholders and resulted in an over-subscription. In 1997, the share capital increased by 25 percent.

At the moment, PPABank share capital stands at PLN 12.5 million, divided into 6,250 thousand shares, series A through E, with a par value of PLN 2.00.

On December 10, 1997, at the General Shareholders' Meeting, the shareholders adopted a resolution to further increase share capital and offer 625,000 series F shares to existing shareholders by execution of the pre-emptive rights at a ten-to-one ratio. Moreover, Generale Bank, Brussels, expressed an interest to become a new strategic partner of the Bank. The shareholders agreed to offer Generale Bank the right to purchase 740,000 series G shares. The combined issues will increase PPABank capital by PLN 2.73 million.

Ownership Structure (April 1998)



Remaining Categories of Own Funds

The Bank's capital "Reserve I" is maintained to offset book losses. The principal source of "Reserve I" is share premium. In 1997, the amount of "Reserve I" increased considerably in connection with the issue of series E shares, which brought a premium of PLN 16,875 thousand. As of December 31, 1997, PPABank capital "Reserve I" stood at PLN 47,927 thousand.

Capital "Reserve II" amounted to PLN 17,118 thousand, divided into a general risk fund (which stood at PLN 8,340 thousand as of December 31, 1997) and other reserves (PLN 8,778 thousand as of December 31, 1997). Additionally, the Bank maintains a revaluation reserve (PLN 581 thousand as of December 31, 1997). By permission from the National Bank of Poland, the subordinated debt of PLN 9,363 thousand has been included in so-called "Category III" funds.

In total, PPABank own funds stood at PLN 78,127 thousand as of December 31, 1997, (or PLN 87,490 thousand including "Category III" funds) and were sufficient to ensure the security of the Bank's operation.

Share Capital Increase

Year	General Shareholders' Meeting Resolution	No. of shares issued (millions)	Par value (PLN)	Issuing price (PLN)	Share capital (PLN millions)	Total no. of shares (millions)
completed issues						
1990	Issue of series A founders' shares	0.127	10.00	10.00	1.268	0.127
1991	Issue of series B shares for the Polish-American Enterprise Fund	0.223	10.00	12.00	3.500	0.350
1993	Issue of series C shares (prior to stock exchange debut)	0.400	10.00	43.50	7.500	0.750
1995	Split of shares at five-to-one ratio; number of shares increases to 3.75 million, and par value decreases to PLN 2.00	-	2.00	-	7.500	3.750
1995	Series D - pre-emptive rights (3:1)	1.250	2.00	15.50	10.000	5.000
1996	Series E - pre-emptive rights (4:1)	1.250	2.00	15.50	12.500	6.250
approved issues						
1997	Series F - pre-emptive rights (10:1)	0.625	2.00	14.70	13.750	6.875
1997	Series G - for Generale Bank	0.740	2.00	16.30	15.230	7.615

Deposit Acquisition

The main source of funding for the credit operations is customer deposits. The Bank accepts deposits from both corporate and individual customers. The former comprise the core group of deposit customers, in accordance with the Bank's mission, which identifies small and medium-size enterprises as the target sector for its operations.

In 1997, the Bank enjoyed a fairly rapid increase in customer deposits. In December 1996, the PLN equivalent of deposits at the Bank (excluding deposits from financial institutions) stood at PLN 279 million, as compared with PLN 381 million at the end of 1997. Deposits with maturities of less than a year predominate, as they account for 98 percent of the total.

PPABank maintains current and term deposit accounts for its clients. The Bank also offers deposits with negotiable interest rates depending on amount, duration and the inter-bank market, as well as a range of new-type term deposits (variable-term and "PPABoom" deposits).

Other Sources of Financing

In 1991, PPABank working capital increased by means of a loan granted by the Polish-American Enterprise Fund. In May 1994, the National Bank of Poland (NBP) allowed the loan to be treated as subordinated debt. In September 1996, an amendment was made to the loan agreement, whereby the repayment of USD 4 million was deferred until the year 2001. This allowed the loan to continue to be classified as a subordinated debt. In November 1996, a second agreement was signed with the Polish-American Enterprise Fund, providing for a loan of USD 6 million.

To finance its operations, the Bank uses internal sources of funds, too. The shareholders consistently agree with the Bank Council and Board of Executives recommendation to follow a policy of non-payment of dividend, which makes possible a steady increase of the Bank's own funds.



[back](#)

Allocation of Funds

Structure of Income

The financial means originating from PPABank own funds and customer deposits are allocated for the most part to finance credit for private enterprises, investment in securities and operations on the interbank market. Besides, the Bank invests considerable amounts in the organization of new banking units and the development of its telecommunications and data-processing infrastructure.

The predominating component of PPABank income is interest on loans. In 1996, interest income accounted for 57 percent of total income - a figure which increased in 1997 to 63 percent. This means that interest income is the primary source of PPABank current income.

The second most important source of income for the Bank comprises commissions and fees. In 1997, they generated 23 percent of total income. Even though in terms of percentages their contribution to total income was slightly lower than in the previous year, the actual volume of fee and commission income was 38 percent up in comparison with 1996.

The third substantial source of income is foreign currency transactions. In 1997, they accounted for 8 percent of total income. This result is due to the active involvement of the Bank's dealing room in currency market operations.

Income Structure

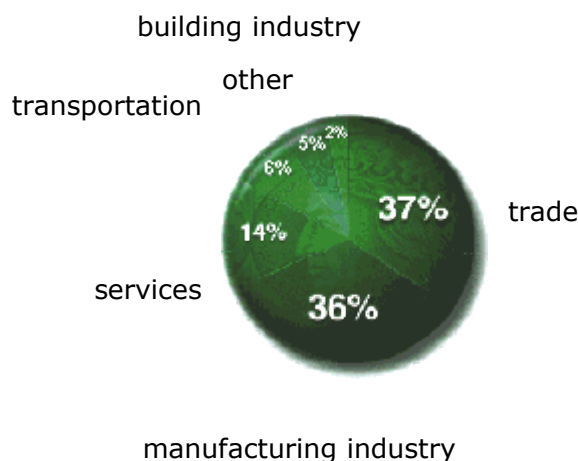
Indicator	1995	1996	1997
Net interest income	55.3%	56.7%	62.6%
Net fee and commission income	17.1%	23.1%	22.5%
Net income on foreign currency transactions	16.0%	8.2%	7.7%
Other operating income	11.6%	12.0%	7.2%
Total	100.0 %	100.0 %	100.0 %

Growth of Credit Operations

PPABank strategy targets small and medium-size private enterprises. The Bank's extensive promotional campaign among this group of actual and potential clients reflects in the increasing volume of credit operations. In December 1997, PPABank net loan portfolio amounted to PLN 311 million, as compared to PLN 179 million at the end of 1996.

The Bank's loan portfolio structure by maturity shows a preponderance of short-term loans due within a year or less. Such loans comprise more than 50 percent of the total loan portfolio. The private sector accounts for more than 90 percent of the portfolio. More detailed analysis indicates a concentration of loans in the areas of trade (37 percent) and manufacturing industry (36 percent). In contrast, consumer credit and credits for state-owned and public institutions are of marginal importance. PPABank offers private firms competitive interest rates on loans and an optimized procedure for processing loan applications, which ensures quick approval of worthy projects.

Concentration of loans by sector



Following an agreement concluded between PPABank and the Enterprise Credit Corporation (ECC), the Bank manages - in addition to its own credit operations - the credit portfolio of the Small Business Loan Program. Since launching that joint Program in April 1995, the Bank has granted 1672 loans, with an aggregate amount of USD 86 million. The total volume of ECC credits managed by PPABank exceeds USD 29 million.

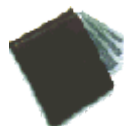
Dynamic credit expansion has been paralleled by a steady improvement of the loan quality. The share of non-performing loans (gross, excluding interest) in the portfolio dropped from 4.5 percent in 1995 to 2.7 percent in 1996 and to 2.0 percent by the end of 1997. PPABank follows a policy of extending loans only to firms whose financial standing is sound and stable. Such a policy allows the Bank to maintain profitability of its credit operations while minimizing credit risk.

Money Market Operations

PPABank invests excess liquidity in the money market. These transactions are effected through the Bank's dealing room, which carries out extensive operations on the interbank market.

PPABank participates in both the primary and secondary market of Treasury bills and in the secondary market of NBP bills. The Bank's strategy is to maintain consistently a quality investment portfolio, offering an optimum combination of profitability and liquidity. The proportion of Treasury bills in the Bank's investment portfolio stood at 64 percent as of December 31, 1997.

The Bank offers term deposits at negotiable interest rates, linked to the rates prevailing on the interbank market. Besides, PPABank conducts operations on the foreign exchange market and transactions that take advantage of interest rate fluctuations.



[back](#)

Balance Sheet Structure

There has been an extremely dynamic growth in PPABank total assets in recent years: in 1996, assets increased by 59 percent and in 1997 by a further 53 percent.

Amounts due from clients and public-sector entities represent the largest proportion of the Bank's assets: 49 percent at the end of 1997. PPABank credit operations have rapidly expanded. During 1997, amounts due from non-financial entities increased by 74 percent.

The increased asset volume is financed mainly by customer deposits from non-financial entities, the value of which accounted for nearly 60 percent of the Bank's liabilities as of December 1997. Deposits have expanded steadily and relatively quickly: amounts due to clients and the public sector grew by 78 percent in 1996 and by 37 percent in 1997. Likewise, the volume of the Bank's own funds has constantly increased, thanks to stock issues and the reinvestment of profits.

The structure and dynamics of selected balance-sheet items (PLN 000s)

Balance-sheet items	1996	Proportion in total assets/liabilities	1997	Proportion in total assets/liabilities	Change 1996-1997
Cash and Central Bank balances	41355	9.9%	80033	12.5%	93.5%
Due from financial institutions	81032	19.3%	91443	14.4%	12.9%
Due from customers and the public sector	178671	42.6%	311201	48.6%	74.2%
Due to financial institutions	58928	14.0%	109198	17.0%	85.3%
Own funds (including net profit)	58752	14.0%	91840	14.3%	56.3%
Share capital	10000	2.4%	12500	2.0%	25.0%
Total assets	419751		640982		52.7%

[back](#)

Profit and Loss Account

Despite the increasing market interest rates, PPABank managed to record a growth of interest income in 1997, which exceeded PLN 42 million - 56 percent up over 1996.

During 1997, PPABank made significant investments in expanding its network of banking units (by opening branches in Poznan and Lublin, as well as a sub-branch in Czestochowa, which at the beginning of 1998 was transformed into a full-scale branch) and continuously improving its technological infrastructure. The higher operating costs (54 percent up since 1996) were adequately covered by rapid growth of revenues.

Net income on banking activities rose by 49 percent last year, and net operating income - by 46 percent. Net profit increased by more than 50 percent.

Growth dynamics of selected items of profit and loss account (PLN 000s)

Profit and loss account (in thousands)	1996	1997	Change 1996-1997
Net interest income	27199	42519	56.3%
Net fee and commission income	11055	15263	38.1%
Net income on financial transactions	423	331	-21.8%
Net income on foreign currency transactions	3928	5249	33.6%
Net income on banking activities	42605	63362	48.7%
Net operating income	15501	22553	45.7%
Gross profit	15501	22553	45.7%
Income tax	(6444)	(8839)	37.2%
Net profit	9057	13713	51.4%

[back](#)

Performance Indicators

Operational and Capital Indicators

In 1997, the proportion of PPABank own capital to total liabilities increased to 14 percent. This was a result of the new issue of stock, which allowed the Bank to increase its share capital by 25 percent last year.

Capital adequacy ratio dropped slightly to 18 percent in 1997, due to the significant increase of the credit volume. It is to be noted, however, that this indicator still exceeds by a broad margin the level of 8 percent recommended as a minimum by the National Bank of Poland.

Indicator	1995	1996	1997
Interest income / assets	8.0%	8.2%	8.2%
Own capital / liabilities	12.8 %	11.6 %	13.5%
Capital adequacy ratio	20.3 %	21.6 %	17.7%

Indicators Related to Assets and Liabilities

The ratio of interest revenue to assets has fluctuated between 16 and almost 18 percent over the last three years. At the same time the ratio of interest expenditure to liabilities was up from 8.2 percent in 1996 to 8.4 percent in 1997.

In recent years, the Bank's interest margin has stabilized at around 8 percent.

Indicator	1995	1996	1997
Interest revenue / assets	17.7 %	16.4 %	16.7%
Interest expenditure / liabilities	9.7%	8.2%	8.4%
Interest margin	8.0%	8.2%	8.3%

Profitability Indicators

The buildup of the branch network, increase in personnel and implementation of computer technology meant a considerable growth of operating expenses. Even so, the Bank's profit rose by more than 50 percent, but the increased expenditure did reflect on profitability indicators: gross profit rate dropped from 30 to 28 percent and net profit rate - from 17.4 to 16.8 percent.

In connection with return on equity (ROE), one should take notice, above all, of the steady increase of PPABank own funds: by 89 percent in 1996 and by a further 57 percent in 1997.

There was a slight decrease of the return on assets (ROA) indicator in 1997: from 2.74 to 2.66 percent. This was a consequence of the rapid growth in total assets (by nearly 53 percent in 1997).

Indicator	1995	1996	1997
Gross profit rate	19.4%	29.7%	27.6%
Net profit rate	14.0%	23.6%	19.7%
Return on equity (ROE)	14.0%	23.6%	19.7%
Return on assets (ROA)	1.8%	2.7%	2.7%



[back](#)

Forecast for 1998

In 1998, PPABank will issue series F and G shares. Such a strategy signifies ever more intensive efforts to keep up the rapid pace of the Bank's development.

The plan adopted for 1998 assumes a credit commitment of PLN 524 million by the end of the year, which translates into a 69 percent growth.

At the same time the aggregate volume of deposits is expected to increase: by year-end deposits should reach PLN 645 million, over 69 percent more than in December 1997.

In recent years, the Bank Council, with Shareholders' approval, has followed a policy of reinvesting profits to augment the Bank's own funds. Maintaining such a policy is also the intention of the parties to an agreement concluded on November 6, 1997, between the Polish-American Enterprise Fund, Enterprise Credit Corporation and Generale Bank. Among other provisions, it was decided that the parties will refrain, for a period of three successive

accounting years, from supporting any motion for dividend payment.

In 1998, PPABank net profit should exceed PLN 18 million, which would signify a 30 percent growth over 1997.

PPABank performance in 1997 and forecast for 1998 (PLN millions)

Indicator	1997	1998 (forecast)	growth (forecast)
Aggregate deposits	381	645	69.3%
Total credit commitment	311	524	68.5%
Net profit	14	18	28.6%

[back](#)

Indicator Calculation Methods

Operational and capital indicators	
Interest income / assets	net interest income / average weighted total assets
Own capital / liabilities	average weighted own capital / average weighted total liabilities
Capital adequacy ratio	own funds (net) / weighted assets and off-balance sheet items
Assets and liabilities indicators	
W1: Interest revenue / assets	interest revenue / average weighted total assets
W2: Interest expenditure / liabilities	interest expenditure / average weighted total liabilities
Interest margin	W1 - W2
Profitability indicators	
Gross profit rate	gross profit / [interest expenditure + fee and commission expenditure + Bank operating expenses]
Net profit rate	net profit / [interest expenditure + fee and commission expenditure + Bank operating expenses]
Return on equity (ROE)	net profit / average weighted own funds less subordinated debt
Return on assets (ROA)	net profit / average weighted total assets

[back](#)

Marketing Strategy

Clients

PPABank targets its offer on small and medium-size private enterprises. Such enterprises account for over 90 percent of economic units registered in Poland and about 60 percent of employment in Poland's economy (excluding farming, forestry and fishing).



The development of private enterprises has long been hampered by the difficulty of access to bank capital. In order to satisfy market demand, PPABank has always sought to offer efficient credit procedures for enterprises. PPABank loan products addressed at the private sector comprise overdraft loans, working-capital and investment loans, factoring credits and discount credits. It should be noted that PPABank offers credit on more favorable terms than other banks, which extend loans to the same group of clients. Besides, the Bank provides a full range of financial services and strives to make its offer ever more diversified and attractive.

The largest and most dynamic branch of the small and medium-size enterprise sector is trade. This observation is reflected in the branch structure of loans granted by PPABank: trading companies make up 37 percent of our credit clients. A considerable proportion of PPABank funds is employed to finance the operation of large shopping centers.

Private enterprise tends to concentrate in certain areas. About 40 percent of firms and manpower are based in the most highly urbanized provinces. Accordingly, PPABank keeps developing its branch network and establishing new banking units in the principal economic centers of the country.

Recent years have witnessed a dynamic development of the private sector, reflected by the numbers of new enterprises, the growth of employment, and an increasing investment volume. The last-mentioned indicator is particularly impressive in the case of medium-size enterprises. All this furnishes convincing proof that the Bank has made the right choice of its target market.

PPABank appreciates and supports the efforts of institutions which stimulate enterprise in Poland. The first such institution of which the Bank was and remains a sponsor is the Cracow branch of the Polish-American Enterprise Club, which provides advice, information and training for private firms. PPABank is also a member of the Chamber of Commerce and Industry in Cracow, the American Chamber of Commerce, Business Foundation and Business Center Club.

The latest initiative of PPABank is addressed to individual customers with more substantial incomes. In 1998, the Bank introduced an attractive product package for this group of clients.

[back](#)

Market Research

It is the ambition of PPABank to ensure the highest standard of services for all its clients. To this end, accurate data is necessary about the needs of actual and potential clients. One way to identify such needs is through systematic market research. In 1997, three types of studies were conducted, which focused, respectively, on clients' satisfaction with PPABank services, the competitiveness of the Bank's offer and the analysis of regional markets in connection with the opening of new branches. PPABank received much praise for its customer service, which is perceived as effective and highly efficient. What the clients especially appreciate is the speed of banking operations, and the competence and accuracy of customer service. In addition, many respondents mentioned the favorable credit terms offered by the Bank.

The studies conducted in mid-1997 by the INDICATOR Market Research Center demonstrate that PPABank is perceived as an efficient and customer-friendly financial institution with an attractive offer of products.

[back](#)

New Services

PPABank is one of the few banks in Poland, which intermediate in the issuance of American Express international cards. These dollar-denominated charge cards for which no upper limit of expenditure is imposed are accepted by nearly 4 million firms all over the world. The card is rendered even more attractive by a number of additional benefits offered to the holder.

Since August 1996, PPABank has also been cashing American Express Traveler's Checks for individual clients. A foreign tourist may cash the check in Polish zlotys or in the original currency. PPABank clients who are planning to travel abroad may also buy traveler's checks at the Bank's counters.

In 1997, a new type of term deposit was introduced, called a variable term deposit. It is particularly convenient for customers who cannot declare in advance what the deposit duration is going to be. This new product earns a higher interest rate with every successive month of the life of the deposit. Variable term deposits are accepted for periods not exceeding 12 months.

Yet another type of deposit has been offered since the beginning of 1998: the "PPABoom" deposit, the interest rate on which is linked to the WIBID T/N rate. Such deposits are accepted for three-month periods and are renewable. They are addressed to clients who wish to invest larger amounts of money (PLN 10,000 or more) and expect attractive returns.

A new product for clients who wish to avoid the exchange risk in transactions with foreign partners is the forward rate agreement, allowing a specified amount of foreign currency to be bought or sold for Polish zlotys (or, in some cases another foreign currency) at a predetermined rate of exchange, called the forward rate. The rate to be applied when the transaction is actually effected is set on the day the agreement is concluded.

In 1998, PPABank introduced a product package for individual clients in higher income brackets. Such a package combines a current account (which has been offered so far only to persons employed by a PPABank client) with various types of related deposit and credit services, credit cards home banking and other products. Some of the services offered in packages for individual clients have equivalent variants addressed at enterprises. The Bank also intends to enhance its existing products and improve the operational procedures connected with its current offer of services.

[back](#)

Promotion

PPABank relies on various forms of promotion, the principal goal of which is to build long-lasting links between the client and the bank.

Market research indicates that over 70 percent of customers gain their knowledge of banking services directly from visits in bank branches or materials displayed on the bank premises. With this in mind, the Bank organizes, on a regular basis, presentations for its actual and potential clients.

Promotion through the media concentrates on the press. Another forum for promotion, whose importance is rapidly growing, is the Internet. PPABank was second among Polish banks and first among the banks quoted on the Warsaw Stock Exchange to start its Web page. You can view the PPABank page at <http://www.ppabank.com.pl/>

At the level of direct contacts with customers, account managers play an increasing role in the promotion and sales of banking products.

The Bank's promotion policy attaches great importance to corporate image creation. This is achieved both through public relations and through an emphasis on a uniform style of interior decoration and graphic design of the Bank's publications.

All these various forms of promotion undertaken by PPABank are being carefully coordinated, so as to trigger an integrated-communication effect.

[back](#)

Auditor's Opinion and Auditor's Report on the Financial Statements

- [Auditor's Opinion](#)
- [Auditor's Report](#)
 - I. [General Information](#)
 - 1. [Introduction](#)
 - 2. [Legal Status of the Bank](#)
 - 3. [Basic Information on the Bank](#)
 - 4. [Information on the Financial Statements for 1996](#)
 - II. [Performance Ratios of the Bank](#)
 - III. [Detailed Information](#)
 - 1. [Accounting Policies](#)
 - 2. [Financial Statements and Notes to Financial Statements](#)
 - [Balance Sheet Statement](#)
 - [Profit and Loss Statement](#)
 - [Cash Flow Statement](#)

[auditor's report](#)

Auditor's opinion on the financial statements for the General Shareholders' Meeting of First Polish-American Bank S.A. for the year ended December 31, 1997

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

1. the balance sheet as of December 31, 1997 with assets and liabilities amounting to PLN 640,982.0 thousand (PLN 640,982,039.88);
2. off-balance sheet items amounting to PLN 249,996.8 thousand (PLN 249,996,817.44) of contingencies;
3. the profit and loss account for the period January 1, 1997 to December 31, 1997, with net profit amounting to PLN 13,713.3 thousand (PLN 13,713,304.45);
4. the cash flow statement for the period January 1, 1997 to December 31, 1997, with a net cash inflow amounting to PLN 56,838.7 thousand (PLN 56,838,701.09);
5. notes to the financial statements.

The Management Board is responsible for the fairness and correctness of the information disclosed in the financial statements. Our responsibility is to issue a report on these financial statements based on our audit.

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 with further amendments);
2. auditing standards issued by the National Council of the Chartered Accountants.

In our opinion, the attached financial statements have been prepared, in all material 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), the Order of the Securities Commission Chairman dated April 1, 1997 regarding type, form and dates of passing current and periodical information by issuers of securities to admitted public trading (M.P. no. 21, item 213), and the Order of the Securities Commission Chairman dated June 14, 1995, regarding the scope of the additional information given in banks' financial statements and consolidated financial statements of banks that are issuers of securities admitted to, or applying for their admission to, the public trading (M.P. no. 32, item 376), and are based on properly held accounting books.

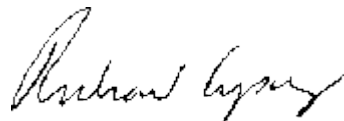
The financial statements fulfill the requirements of the current regulations and the Bank's articles of association with respect to their form and contents and give a true and fair view of all material information relevant to the assessment of profitability and results of operations for

the year ended December 31, 1997 and the financial position as of December 31, 1997.

The information included in the management report on the Bank's activities is compliant with the information included in the audited financial statements.

Chartered Accountant
No. 4979/2575
Hanna Fludra

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



Warsaw, March 23, 1998



Auditor's report on the audit of financial statements for the period ended December 31, 1997

I. General Information

[auditor's report](#)

1. Introduction

1.1. This report on the audit of the financial statements for the period ended December 31, 1997 was prepared for First Polish-American Bank S.A. ("PPABank", "the Bank") and relates to the financial statements including the following:

- a. the balance sheet as of December 31, 1997 with assets and liabilities amounting to PLN 640,982.0 thousand (PLN 640,982,039.88);
- b. off-balance of sheet items amounting PLN 249,996.8 thousand (PLN 249,996,817.44) of contingencies;
- c. the profit and loss statement for the period from 1 January 1997 to December 31, 1997, with net profit amounting to PLN 13,713 thousand (PLN 13,713,304.45);
- d. the cash flow statement for the period ended December 31, 1997 with a net cash inflow amounting to PLN 56,838.7 thousand (PLN 56,838,701.09);
- e. notes to the financial statements.

1.2. The audit was carried out at the Bank's premises during the period February 9-March 17, 1998, in accordance with "The agreement for audit of the annual and semi-annual financial statements" concluded on December 22, 1997 between:

- First Polish-American Bank S.A. located in Krakow, Kordylewskiego 11;
and
- KPMG Polska Audyt Sp. 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 of 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 March 23, 1998 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, 1997.

1.5. All figures presented in this report are shown in thousands of Polish zloty (PLN) unless otherwise noted.

[auditor's 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, with subsequent amendments), 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, with subsequent amendments) and the Articles of Association.

[auditor's report](#)

3. Basic Information on the Bank

3.1. The share capital of the Bank as of December 31, 1997 amounted to PLN 12,500,000. The Bank's share capital was increased by PLN 2,500,000 during the year ended December 31, 1997. The ownership structure may be analyzed as follows:

	12/31/97 (%)	12/31/96 (%)
Polish-American Enterprise Fund	25.7%	25.3%
Enterprise Credit Corporation (ECC)	25.1%	29.3%
RBS Trust Bank, London	9.7%	-
Agency for Industrial Development	9.5%	11.3%

Other shareholders	30.0%	34.1%
	=100.0%	=100.0%

3.2. The share capital of the Bank as of December 31, 1997 consists of 6,250,000 shares with a nominal value of PLN 2 each:

	shares	PLN
series A	634,060	1,268,120
series B	1,115,940	2,231,880
series C	2,000,000	4,000,000
series D	1,250,000	2,500,000
series E	1,250,000	2,500,000
total	6,250,000	12,500,000

3.2.1. During the year ended December 31, 1997 the Bank issued 1,250,000. shares through a public offering. On April 11, 1997 the Register Court of Krakow- Srodmiemie approved the new share capital, which was fully subscribed. The share issue resulted in the nominal value of share capital increasing by PLN 2,500 thousand and the share premium reserve by PLN 16,875 thousand.

Under the provisions of Resolution 5 approved at the Extraordinary Shareholders Meeting of December 10, 1997, the issue of shares series F and G has been decided.

- Series F shares will be issued through exercise of pre-emptive rights in a ten-to-one proportion. The pre-emptive right determination date has been set for March 2, 1998.
- Series G share issue will be offered to Generale Bank joint stock company seated in Brussels excluding the existing shareholders from the pre-emptive right.
- Series F and G shares participate in dividend since January 1, 1997.

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 bills of exchange and cheques;
- executing money market transactions with Polish and foreign banks;
- issuing and accepting bank guarantees;
- providing foreign currency services and foreign trade financing;
- provide leasing and factoring services;
- on April 20, 1995 following the decision of the President of the NBP the Bank received a full foreign exchange license.

3.4. During the year the Bank opened branches in Poznan, Lublin and a sub-branch in Czestochowa. In this period the South Region was divided into the Silesia Region

and the Malopolska Region. The Bank conducts its operations through its head office in Krakow and a total of eight branches. The Bank also grants loans from thirteen representative offices located throughout Poland.

3.5. On the Resolution No. 52/97 of August 29, 1997 the Bank Council recalled Mr Wojciech Piotrowski from the position of the Vice-president in the Board of Directors of the Bank.

As of December 31,1997 the Board of Directors of the Bank consisted of:

Bank President	Marek Kulczycki
First Vice-President	Benjamin H. Turnbull
Vice-president	Thomas C. Cianfrani
Vice-president	Jerzy Markiewicz
Vice-president	Dorota Pietrow
Vice-president	Leszek Niemycki
Vice-president	Slawomir Wasowski

3.5.1. On the Resolution No. 93/97 the Bank Council decided to decrease the Board of Directors to 5 members from January 1, 1998. Therefore, due to the fact that Mrs. Dorota Pietrow and Mr. Slawomir Wasowski are Region Managers, the Bank Council decided to recall them from the position of Vice-presidents in the Board of Directors from January 1, 1998.

3.7. On December 31, 1997 the Bank employed a total of 408 full time personnel (average monthly remuneration amounted to PLN 2,377).

[auditor's report](#)

4. Information on the Financial Statements for 1996

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 on Accounting dated September 29, 1994 (Official Journal no.121, item 591 with subsequent amendments). An unqualified opinion was issued on these financial statements.

4.2. December 31, 1996 closing balances were properly recorded as opening balances as at January 1, 1997.

4.3. The Bank held its Annual General Meeting of Shareholders on June 26, 1997. The protocol from this meeting including approval of the Bank's 1996 financial statements and profit distribution was delivered to Regional Court on July 3, 1997. The Bank's financial statements were submitted for publishing on July 2, 1997 in Monitor Polski B and published in Monitor Polski no. B-349 on August 20, 1997, p.18.

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 1997, amounting to PLN 13,713.3 thousand:

- reserve capital PLN 6,857 thousand
- general risk fund PLN 6,856 thousand

[auditor's report](#)

II. Performance Ratios of the Bank

1.1. Performance and other ratios are as follows:

	12 months ended 12/31/97 (PLN 000's)	12 months ended 12/31/96 (PLN 000's)	12 months ended 12/31/95 (PLN 000's)
Total assets	640,982.0	419,750.7	263,885.2
Net profit	13,713.3	9,057.2	3,479.9
Capital adequacy ratio	17.7%	21.6%	20.3%
Foreign exchange position:			
- global	(1.8)%	2.8%	9.2%
- maximum	8.1%	6.3%	9.2%
Income earning assets to total assets	83.1%	84.5%	76.9%
Cost bearing liabilities to total liabilities	76.4%	80.5%	80.6%
Profit per 1 share (PLN) - shares issued with preemptive right to the profits of the year	1.80	1.45	0.70
Profit per 1 share (PLN) - weighted average number of shares outstanding during the year	2.35*	2.12	0.93
Interest income to income earning assets	16.1%	15.3%	16.9%
Net interest income to income earning assets	8.0%	7.7%	7.6%
Net interest income to interest income	49.4%	50.2%	45.3%
Interest expense to cost bearing liabilities	8.9%	8.0%	8.8%
Income earning assets to cost bearing liabilities	108.8%	105.0%	95.4%

*includes series F and G right to profit distribution from 1/1/1997.

1.2. During the year ended December 31, 1997 the inflation rate, being the index of retail prices of consumer goods and services, amounted to 13.2 % and the Polish zloty devalued by approximately 22.3 % against the US dollar.

1.3. Net profit increased over the corresponding period ended December 31, 1996 by 51.4% mainly due to a 58.6% increase in interest income on loans and securities, and a general increase in commission income, foreign exchange differences income.

1.4. Capital adequacy ratio

The capital adequacy ratio (calculated in accordance with an appendix to the Decree No. 7/93 dated May 20, 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 17.7 % at December 31, 1997. This ratio was above the rate recommended by the National Bank of Poland of 8.0 %.

1.5. Foreign exchange position

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

III. Detailed Information

[auditor's 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 operates on-line and accordingly the account and sub-account balances 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 maintained. The entries to the books are documented by source documents, which are the basis for the accounting entries.

1.2. Internal control

The internal controls are adequate for the present level of the Bank's activities. 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 in the year ended December 31, 1997.

1.3.1 Fixed assets

Fixed assets are recorded at cost or revalued amount net of accumulated depreciation. The cost of the 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 17, 1997 (Official Journal no.6 item 35 with subsequent amendments).

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

Fixed assets with a cost not exceeding PLN 2,000 in 1996 and PLN 2,500 in 1997 are fully amortized in the month when they are brought into use.

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 1.3.1. above.

1.3.3. Investment tax relief

The purchased fixed assets eligible for investment tax relief maybe offset against corporate income tax payable under the Law dated February 15, 1992 on corporate income tax (Official Journal No. 106 item 482, with subsequent amendments). Following the resolution of the Board of Directors (No. 120/97) dated December 5, 1997 the Bank claimed PLN 3,313 thousand of investment tax relief in 1997. As a result the taxable income of the Bank for 1997 was reduced by this amount and the deferred tax liability established for the timing differences between the accelerated tax benefit of the relief and the depreciation schedule of the associated fixed assets. Under this law the Bank may

claim a further 50% of the balance to reduce taxable income in 1998 as a permanent benefit. The law provides for a possibility of withdrawal of investment tax relief in defined cases. In case of withdrawal of investment tax relief, liabilities would be recalculated as if the relief had not been taken. Penalty interest would be applied in such a case against retrospective tax liabilities arising.

1.3.4. Loans

Loans granted by the Bank, are disclosed as principal with capitalized interest, accrued interest receivable and interest billed and not paid. 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.

1.3.5. Securities

Securities are classified in the investment or trading portfolio. Dependent on the transaction, they are disclosed as follows:

- securities allocated for sale (the trading portfolio) are disclosed at the cost 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 costs of financial operations;
- securities allocated for investment are disclosed at the cost with any accrued interest, discount and premium including a provision for permanent diminution in value if any. In case of a permanent fall in value, the amount is stated net of an appropriate provision.

1.3.6. 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 is not booked to the profit and loss account but is disclosed as interest receivable with a provision held as suspended interest in liabilities.

1.3.7. Fees and commission income and expense

All fee and commission income and expense is recognized at its receipt/maturity, i.e. at the actual payment date or after the contractual payment date, if delayed on a cash basis.

1.3.8. Foreign currencies

All balances in foreign currencies were revalued at the average exchange rates announced by the President of NBP as of December 31, 1997. Both realized exchange rate differences and unrealized differences resulting from the revaluation of foreign currency balances are recognized in the profit and loss account.

1.3.9. Purchase and sale of foreign currencies

Transactions in the purchase and sale of foreign currencies are valued on the basis of contractual exchange rates. Realized foreign exchange transactions income is recognized in the profit and loss account.

1.4. Post balance sheet events

According to the paragraph No. 174 of the new Banking Law the General Risk Fund is liquidated from 01/01/1998. The Fund amounted PLN 8,340 thousand as of

12/31/1997 consisting of PLN 7,840 thousand as deductions from the retained earnings and of PLN 500 thousand of charges through the profit and loss account. The total amount transferred to reserve capital amounts to PLN 8,240 thousand. The tax liability arising amounts to PLN 100 thousand and will be paid from January 1998 to December 2000 by equal monthly payments.



2. Financial Statements

[auditor's report](#)

BALANCE SHEET STATEMENT

	Notes	12/31/97 PLN 000's	12/31/96 PLN 000's
ASSETS			
Cash and Central Bank balances	2.1.	80,032.9	41,354.5
Due from financial institutions	2.2.	91,442.5	81,032.1
1. Call		20,961.0	2,800.7
2. Term		70,481.5	78,231.4
Due from customers and budget sector	2.3.	311,200.8	178,670.9
Securities	2.4.	120,908.7	80,391.7
Shares, investments and other floating income securities	2.4., 2.5.	294.3	-
Other investments	2.4., 2.6.	5.2	4.7
Intangible assets	2.7.	6,932.4	4,863.2
Fixed assets	2.8.	24,593.5	22,119.5
Other assets	2.9.	2,715.9	9,707.2
1. Seized assets		38.4	18.2
2. Other		2,677.5	9,689.0
Interperiod settlements	2.10.	2,855.8	1,606.9
		640,982.0	419,750.7
LIABILITIES			
Due to NBP		-	-
Due to financial institutions	2.11.	109,198.0	58,928.0
1. Current		12,837.9	5,127.8
2. Term		96,360.1	53,800.2
Due to other customers and budget sector	2.12.	380,657.9	278,817.8
1. Current		112,122.4	156,315.9
2. Term		268,535.5	122,501.9
Special funds and other liabilities	2.13.	40,442.1	6,478.8
Accrued expense and deferred income	2.14.	4,991.6	2,914.7

Provisions	2.15.	4,489.1	2,623.7
Subordinated debt	2.16.	9,363.3	11,236.0
Share capital	2.17.	12,500.0	10,000.0
Capital reserve I	2.18.	47,927.0	31,012.5
Revaluation reserve	2.19.	581.4	620.9
Capital reserve II	2.20.	17,118.3	8,061.1
Net profit		13,713.3	9,057.2
		640,982.0	419,750.7
Off-balance sheet items granted	2.21.	154,999.1	68,292.6
Off-balance sheet items received	2.21.	83,129.6	52,339.8
Foreign exchange transactions		94,997.7	86,792.1

[auditor's report](#)

PROFIT AND LOSS STATEMENT

	Notes	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Interest income	2.22.	86,008.0	54,222.2
Interest expense	2.23.	(43,489.5)	(27,023.7)
Net interest income		42,518.5	27,198.5
Fee and commission income	2.24.	16,619.5	12,131.0
Fee and commission expense		(1,356.2)	(1,075.8)
Net fee and commission income		15,263.3	11,055.2
Income on financial transactions	2.25.	330.6	422.6
Foreign exchange differences - net		5,249.4	3,928.4
Profit on banking activities		63,361.8	42,604.7
Other operating income		8,093.2	8,524.3
Other operating expense		(3,520.9)	(3,187.9)
Net operating revenue		67,934.1	47,941.1
General expenses	2.26.	(37,017.1)	(24,094.3)
Depreciation of fixed and intangible assets		(8,111.2)	(6,951.1)
Charges to loan loss provision	2.27.	(3,441.8)	(3,894.8)
Release of provision and other decreases	2.28.	3,188.5	2,500.2
Net release of provision		(253.3)	(1,394.6)
Profit on operating activities		22,552.5	15,501.1
Gross profit		22,552.5	15,501.1
Income tax	2.29.	(8,839.2)	(6,443.9)
Net profit		13,713.3	9,057.2

[auditor's report](#)

CASH FLOW STATEMENT

		12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
A.	CASH FLOW FROM OPERATING ACTIVITIES		
I.	Net profit (loss)	13,713.3	9,057.2
II.	Adjustments for	78,860.0	(14,364.3)
1.	Depreciation	8,111.2	6,951.1
2.	Foreign exchange gains (losses)	-	-
3.	Interest and dividend	-	-
4.	Provision for receivables	386.8	676.0
5.	Other provisions	(73.6)	675.1
6.	Income tax charge	8,839.2	6,443.9
7.	Income tax paid	(7,062.1)	(3,818.3)
8.	Gain or loss on sale and liquidation of fixed assets	-	20.7
9.	Change in securities held	-	-
10.	Change in receivables from other financial institutions	7,749.9	(51,326.5)
11.	Change in receivables from customers and budget	(132,916.7)	(90,806.4)
12.	Change in shares and investments floating income securities	(294.3)	-
13.	Change in payables to other financial institutions	50,269.9	2,733.3
14.	Change in payables to customers and budget	101,840.2	122,414.7
15.	Change in bank's own securities	-	-
16.	Change in other liabilities	33,963.3	(6,763.8)
17.	Change in interperiod settlements	(479.8)	(997.0)
18.	Change in deferred income	1,396.2	470.3
19.	Other items	7,129.8	(1,037.4)
III	Net cash flow from operations	92,573.3	(5,307.1)
B.	CASH FLOW FROM INVESTING ACTIVITIES		
I.	Receipts from investing activities	203,113.9	321,686.5
1.	Sale of intangible fixed assets	0.8	-
2.	Sale of tangible fixed assets	7,101.6	3,021.1
3.	Sale of shares and participation investments	-	-
4.	Sale of shares and affiliated investments	-	-
5.	Sale of other shares, investments and securities (also including securities publicly traded)	196,011.5	318,665.4
6.	Other receipts	-	-
II.	Expenditures on investing activities	(256,350.8)	(342,991.1)
1.	Acquisition of intangible fixed assets	(3,431.3)	(2,735.2)

2.	Acquisition of tangible fixed assets	(16,390.5)	(8,962.4)
3.	Acquisition of shares and participation investments	-	-
4.	Acquisition of shares and affiliated investments	-	-
5.	Acquisition of other shares, investments and securities (also including securities publicly traded)	(236,529.0)	(331,293.5)
III	Net cash flow from investing activities	(53,236.9)	(21,304.6)
C.	CASH FLOW FROM FINANCIAL ACTIVITIES		
I.	Receipts from financial activities	19,375.0	26,038.6
1.	Raised long term credits from banks	-	-
2.	Raised long term loans from other financial institutions	-	-
3.	Issue of bonds and other securities for other financial institutions	-	-
4.	Increase in subordinated debt	-	6,663.6
5.	Receipts from issue of own shares, investments, share capital payments	19,375.0	19,375.0
6.	Other items	-	-
II.	Expenditures on financial activities	(1,872.7)	-
1.	Repayment of long term credits from banks	-	-
2.	Repaid long term credits to other financial institutions	-	-
3.	Redemption of bonds and other securities to other financial institutions	-	-
4.	Decrease in subordinated debt	(1,872.7)	-
5.	Payment of dividends and other payments to owners	-	-
6.	Other items	-	-
III	Net cash flow from financial activities	17,502.3	26,038.6
D.	NET CASH FLOW	56,838.7	(573.1)
E.	CASH AT PERIOD BEGINNING	44,155.2	44,728.3
F.	CASH AT PERIOD END	100,993.9	44,155.2

[auditor's report](#)

FOOT NOTES

[assets](#)

2.1. Cash and Central Bank balances

	12/31/97 PLN 000's	12/31/96 PLN 000's
Current account	75,590.1	41,351.2

Obligatory reserve account	4,431.7	-
Other	11.1	3.3
	80,032.9	41,354.5

[assets](#)

2.2. Due from financial institutions

	12/31/97 PLN 000's	12/31/96 PLN 000's
Performing loans	91,203.6	81,001.2
Accrued interest	238.9	30.9
	91,442.5	81,032.1

2.2.1. Maturity of term placements with financial institutions:

	12/31/97 PLN 000's	12/31/96 PLN 000's
Due within 1 month	90,531.2	78,138.7
Due between 1 and 3 months	672.4	1,902.1
Due between 3 months and 1 year	-	960.4
Due between 1 and 5 years	-	-
Due after 5 years	-	-
Non-performing loans	-	-
Accrued interest	238.9	30.9
	91,442.5	81,032.1

[assets](#)

2.3. Due from customers and budget sector

	12/31/97 PLN 000's	12/31/96 PLN 000's
Performing loans	305,582.4	175,049.6
- Accrued interest	4,688.4	2,559.1
Non-performing loans	9,871.3	7,487.4
- substandard	2,283.6	906.8
- doubtful	-	52.1
- loss	3,947.8	3,855.3
- accrued interest	3,639.9	2,673.2
Total	315,453.7	182,537.0

2.3.1. Classification of non-performing loans provisions

	12/31/97 PLN 000's	12/31/96 PLN 000's
substandard	658.1	243.6
doubtful	-	44.0
loss	3,594.8	3,578.5
Total	4,252.9	3,866.1

2.3.2. Maturities of amounts due from customers and budget sector

	12/31/97 PLN 000's	12/31/96 PLN 000's
Overdrafts	61,429.9	33,543.8
Due within 1 month	28,971.6	10,737.5
Due between 1 and 3 months	19,672.2	9,266.4
Due between 3 months and 1 year	60,577.4	35,772.3
Due between 1 and 5 years	128,465.6	83,047.5
Due after 5 years	1,777.3	123.0
Net non-performing loans	1,978.5	948.1
Interest	8,328.3	5,232.3
Net	311,200.8	178,670.9
Non-performing loans provisions	4,252.9	3,866.1
Total	<u>315,453.7</u>	<u>182,537.0</u>

2.3.3. Change in provisions

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	3,866.1	3,190.1
Increases:	2,856.4	2,658.7
- change of risk category	2,050.5	2,640.7
- exchange rate differences	44.6	-
- others	761.3	18.0
Decreases:	(2,469.6)	(1,982.7)
- payments	(2,463.3)	(1,955.0)
- exchange rate differences	-	(4.5)
- others	(6.3)	(23.2)
Closing balance as of 12/31/97	<u>4,252.9</u>	<u>3,866.1</u>

2.3.4. Collateral for non-performing loans

	12/31/97 PLN 000's	12/31/96 PLN 000's
- substandard loans	-	-
- doubtful loans	-	-
- loss loans	353.0	276.8
Total	<u>353.0</u>	<u>276.8</u>

2.4. Shares, investments and other securities

	12/31/97 PLN 000's	12/31/96 PLN 000's
Securities	120,908.7	80,391.7
Shares and investments	294.3	-
- shares	294.3	-
Others	5.2	4.7
- share in Society for Worldwide International Funds Transfer (S.W.I.F.T.) located in Belgium	5.2	4.7
	121,208.2	80,396.4

2.4.1. Securities

	12/31/97 PLN 000's	12/31/96 PLN 000's
Issued by State	118,990.1	80,391.7
- treasury bills	77,378.8	43,650.8
- government bonds	41,611.3	36,740.9
Bills of non-financial institutions	1,918.6	-
Total	120,908.7	80,391.7

2.4.2. Change in shares, investments and other securities

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	80,396.4	67,768.3
Increases:	236,823.3	331,293.5
- purchase	232,178.9	329,192.2
- interest	4,266.9	2,101.3
- discount	377.0	-
- exchange rate differences	0.5	-
Decreases:	(196,011.5)	(318,665.4)
- sale	(196,011.5)	(316,906.5)
- discount	-	(1,758.9)
Closing balance as of 12/31/97	121,208.2	80,396.4

2.4.3. Shares, investments and other securities

	12/31/97 PLN 000's	12/31/96 PLN 000's
Trading portfolio	294.3	-
Investment portfolio	120,913.9	80,396.4
Total	121,208.2	80,396.4

2.4.4. Trading portfolio - shares, investments and other securities

	12/31/97 PLN 000's	12/31/96 PLN 000's
* unlisted securities with unlimited rights to sale	294.3	-
shares (book value)	294.3	-
- purchase price	294.3	-
Total	294.3	-

2.4.5. Investment portfolio - shares, investments and other securities

	12/31/97 PLN 000's	12/31/96 PLN 000's
* securities with unlimited rights to sale, listed on the stock exchange	41,611.3	36,740.9
government bonds (book value)	41,611.3	36,740.9
- adjustments	3,193.2	2,699.9
- purchase price	38,418.1	34,041.0
* securities with unlimited rights to sale, traded over-the-counter	77,378.8	43,650.8
treasury bills (book value)	77,378.8	43,650.8
- adjustments	7,695.8	3,958.4
- purchase price	69,683.0	39,692.4
* unlisted and not traded over-the-counter securities with unlimited rights to sale	1,918.6	-
bills of non-financial institutions (book value)	1,918.6	-
- adjustments	36.2	-
- purchase price	1,882.4	-
* securities with limited rights to sale	5.2	4.7
shares (book value)	5.2	4.7
- adjustments	-	-
- purchase price	5.2	4.7
Purchase price	109,988.7	73,738.1
Adjustments	10,925.2	6,658.3
Book value	120,913.9	80,396.4

2.4.6.

PLN 20 million of securities are pledged as collateral for transactions on the Polish interbank market and additional PLN 740 thousand is pledged towards the Banking Guarantee Fund as at December 31, 1997.

[assets](#)

2.5. Shares, investments and other floating income securities

In December 1997 the Bank purchased 9,977 shares in Sanwil S.A. for PLN 294.3 thousand. The shares have been admitted for public trading.

[assets](#)

2.6. Other investments

The Bank owns a share with a book value of PLN 5.2 thousand in S.W.I.F.T.

[assets](#)

2.7. Intangible assets

	12/31/97 PLN 000's	12/31/96 PLN 000's
Series A, B, C, D, E share issue expense	3,154.4	2,499.8
Computer software and licenses	3,778.0	2,363.4
Total	6,932.4	4,863.2

2.7.1. Changes in intangible assets

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	5,952.9	3,217.7
Additions	3,666.3	2,735.2
- purchase	1,978.3	650.4
- costs of raising capital	1,669.7	2,084.8
- settlements of investments	18.3	-
Disposals	(11.6)	-
- liquidation	(11.6)	-
Closing balance as of 12/31/97	9,607.6	5,952.9
Amortization as of 01/01/97	(1,089.7)	(409.5)
Amortization for the year	(1,585.5)	(680.2)
- purchase	(581.2)	(342.5)
- costs of raising capital	(1,015.1)	(337.7)
- liquidation	10.8	-
Amortization as of 12/31/97	(2,675.2)	(1,089.7)
Net book value as of 12/31/97	6,932.4	4,863.2

[assets](#)

2.8. Fixed assets

	12/31/97 PLN 000's	12/31/96 PLN 000's
Land and Buildings	-	33.3
Equipment	17,688.1	12,663.2
Other	6,809.7	9,081.1
Assets under	95.7	341.9

construction		
Total	24,593.5	22,119.5

2.8.1. Changes in fixed assets

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	31,415.7	27,079.8
Additions	11,834.3	9,215.3
- purchase	9,585.5	8,333.3
- settlements of investments	2,248.8	341.9
- other	-	540.1
Disposals	(6,114.8)	(4,879.4)
- sale	(5,589.0)	(3,687.8)
- liquidation	(181.3)	-
- decrease of assets under construction	(246.2)	(3.5)
- other	(98.3)	(1,188.1)
Closing balance as of 12/31/97	37,135.2	31,415.7
Depreciation as of 01/01/97	(9,296.2)	(4,838.3)
Depreciation for the year	(3,245.5)	(4,457.9)
- purchase	(6,301.9)	(6,077.2)
- sale	2,927.8	1,332.2
- liquidation	128.6	77.7
- other	-	209.4
Depreciation as of 12/31/97	(12,541.7)	(9,296.2)
Net book value as of 12/31/97	24,593.5	22,119.5

2.8.2. Fixed assets (ownership structure)

	12/31/97 PLN 000's	12/31/96 PLN 000's
Own and used by the Bank	15,170.9	7,517.8
Customer leases or other agreement disclosed as the property of the Bank	9,422.6	14,601.7
Total	24,593.5	22,119.5

[assets](#)

2.9. Other assets

	12/31/97 PLN 000's	12/31/96 PLN 000's
Assets for sale	38.4	18.2
Other assets	2,677.5	9,689.0
- income tax receivables	425.3	337.0

- interbank settlements	779.1	5,877.7
- other	1,473.1	3,474.3
Gross other assets	<u>2,715.9</u>	<u>9,707.2</u>

2.9.1. Assets for sale

	12/31/97 PLN 000's	12/31/96 PLN 000's
Property	33.3	-
Inventory	5.1	18.2
Total	<u>38.4</u>	<u>18.2</u>

2.9.2. Change in assets for sale

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	63.7	110.3
Increases:	33.3	14.3
- reclassification of an apartment	33.3	-
- collateral taken over	-	14.3
Decreases:	(58.6)	(106.4)
- sale	(13.1)	(2.4)
- provision	(45.5)	(45.5)
- other	-	(58.5)
Closing balance as of 12/31/97	<u>38.4</u>	<u>18.2</u>

[assets](#)

2.10. Interperiod settlements

	12/31/97 PLN 000's	12/31/96 PLN 000's
Prepayments	2,755.8	676.3
- rents	2,245.3	127.7
- other	510.5	548.6
Other interperiod settlements	100.0	930.6
Total	<u>2,855.8</u>	<u>1,606.9</u>

[liabilities](#)

2.11. Maturities of term deposits due to financial institutions

	12/31/97 PLN 000's	12/31/96 PLN 000's
Due within 1 month	83,236.5	35,577.2

Due between 1 and 3 months	-	2,875.5
Due between 3 months and 1 year	-	2,880.3
Due between 1 and 5 years	25,816.7	17,519.0
Due after 5 years	-	-
Accrued interest	144.8	76.0
Total	109,198.0	58,928.0

2.11.1.

Due to financial institutions includes USD 6 million of loans owed to the PAEF at 5.5% interest. USD 3 million matures in June 2001 and the remaining USD 3 million matures in December 2001.

2.11.2.

As of December 31, 1997 PLN 51,528.9 thousand of deposits are due to shareholders which earn market rates of interest.

[liabilities](#)

2.12. Maturity of amounts due to other customers and budget sector

	12/31/97 PLN 000's	12/31/96 PLN 000's
Due within 1 month	274,751.5	219,642.4
Due between 1 and 3 months	51,029.0	22,903.2
Due between 3 months and 1 year	45,789.3	30,894.3
Due between 1 year and 5 years	3,614.1	2,176.8
Due after 5 years	50.0	63.2
Accrued interest	5,424.0	3,137.9
Total	380,657.9	278,817.8

[liabilities](#)

2.13. Special funds and other liabilities

	12/31/97 PLN 000's	12/31/96 PLN 000's
Special funds	153.3	75.0
- social fund	111.5	15.5
- other	41.8	59.5
Others including:	40,288.8	6,403.8
- interbank settlements	32,595.1	1,786.1
- other	7,693.7	4,617.7
Total	40,442.1	6,478.8

[liabilities](#)

2.14. Accrued expense and deferred income

	12/31/97 PLN 000's	12/31/96 PLN 000's
Interperiod settlements	758.1	77.3
- reserve for employee awards	500.0	-
- other	258.1	77.3
Deferred income	4,233.5	2,837.4
- income in suspense	3,659.8	2,676.7
- other	573.7	160.7
Total	<u>4,991.6</u>	<u>2,914.7</u>

[liabilities](#)

2.15. Provisions

	12/31/97 PLN 000's	12/31/96 PLN 000's
Deferred tax provision	4,489.1	2,623.7
Other provisions	-	-
Total	<u>4,489.1</u>	<u>2,623.7</u>

2.15.1. Change in provisions

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	2,623.7	1,243.2
Increases:	4,388.4	3,589.5
- deferred tax provision	4,388.4	3,589.5
Decreases:	(2,523.0)	(2,209.0)
- deferred tax provision	(2,523.0)	(2,209.0)
Closing balance as of 12/31/97	<u>4,489.1</u>	<u>2,623.7</u>

[liabilities](#)

2.16. Subordinated debt

Item	Amount	Currency	Interest rate	Maturity
PAEF	2,000,000	USD	5.5%	I installment USD 2,000,000 - 9/25/2000 II installment USD 2,000,000 - 3/15/2001

On November 8, 1996 the NBP gave approval for the Bank to classify PLN 11,236 thousand PAEF loan as subordinate debt. The debt is in USD and interest is 5.5% per annum. USD 2 million matures in September 2000 and the remaining USD 2 million in March 2001. The amount of the subordinated debt was, according to a recommendation from the General Banking Inspectorate, decreased by 1/3 of the

first installment on September 25, 1997. As a result, the subordinated debt amounts to PLN 9,363.3 thousand at present.

[liabilities](#)

2.17. Share capital

The nominal value of share capital was increased following a public offer of 1,250,000 shares with nominal value of PLN 2 each during the period. Share capital as at December 31, 1997 is PLN 12,500 thousand.

2.17.1.

Shares series	Number of Shares	Nominal value of Shares (PLN thousands)	Date of registration	Participation in the net profit distribution
A	634,060	1,268,120	12/19/90	from full payment of shares
B	1,115,940	2,231,880	4/30/91	from full payment of shares
C	2,000,000	4,000,000	7/17/94	1/1/94
D	1,250,000	2,500,000	7/11/96	1/1/95
E	1,250,000	2,500,000	4/11/97	1/1/96
	6,250,000	12,500,000		

2.17.2. Change in share capital

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	10,000.0	7,500.0
Increases:	2,500.0	2,500.0
- share issue	2,500.0	2,500.0
Closing balance as of 12/31/97	12,500.0	10,000.0

[liabilities](#)

2.18. Reserve capital I

	12/31/97 PLN 000's	12/31/96 PLN 000's
Reserve capital from share premium	47,596.4	30,721.4
Obligatory reserve capital	330.6	291.1
Total	47,927.0	31,012.5

2.18.1. Change in Reserve capital I

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	31,012.5	14,075.6
Increases:	16,914.5	16,936.9
- sale of shares with	16,875.0	16,875.0

premium		
- liquidation of fixed assets	39.5	61.9
Decreases	-	-
Closing balance as of 12/31/97	<u>47,927.0</u>	<u>31,012.5</u>

[liabilities](#)

2.19. Revaluation reserve

Change in revaluation reserve

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	620.9	682.8
Increases	-	-
Decreases:	(39.5)	(61.9)
- liquidation of fixed assets	(39.5)	(61.9)
Closing balance as of 12/31/97	<u>581.4</u>	<u>620.9</u>

[liabilities](#)

2.20. Reserve capital II

	12/31/97 PLN 000's	12/31/96 PLN 000's
General risk fund	8,340.4	3,811.8
Others, of which:	8,777.9	4,249.3
- reserve capital	8,777.9	4,249.3
Total	<u>17,118.3</u>	<u>8,061.1</u>

2.20.1. Change in reserve capital II

	12/31/97 PLN 000's	12/31/96 PLN 000's
Opening balance as of 01/01/97	8,061.1	4,081.2
Increases:	9,057.2	3,979.9
- distribution of profit	9,057.2	3,479.9
- general risk fund	-	500.0
Closing balance as of 12/31/97	<u>17,118.3</u>	<u>8,061.1</u>

[liabilities](#)

2.21. Off-balance sheet items

	12/31/97 PLN 000's	12/31/96 PLN 000's
Contingent liabilities granted to financial institutions and commercial		

enterprises:		
- guarantees	75,229.9	22,016.0
- letters of credit	12,443.4	4,722.5
- unused credit lines	67,325.8	41,554.1
	154,999.1	68,292.6
Contingent liabilities received from financial institutions:		
- guarantees	825.6	739.8
- others	82,304.0	51,600.0
	83,129.6	52,339.8

2.21.1.

The value of PLN 41,805.7 thousand relates to guarantees granted to ECC as of December 31, 1997.

[profit and loss](#)

2.22. Interest income

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Interest from:		
- operations with financial institutions	12,789.5	1,375.8
- operations with customers and budget sector	54,981.3	30,729.1
- securities operations:	18,237.2	22,117.3
* fixed income securities	18,237.2	22,117.3
	86,008.0	54,222.2

[profit and loss](#)

2.23. Interest expense

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Interest from:		
- operations with financial institutions	6,358.6	7,494.8
- operations with customers and budget sector	36,513.5	19,174.2
- subordinated debt	617.4	354.7
	43,489.5	27,023.7

[profit and loss](#)

2.24. Fee and commission income

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Fees and commissions on banking activity	16,619.5	12,131.0
Fees and commissions on brokerage activity	-	-
	16,619.5	12,131.0

Included in fee and commission income for the twelve months ending December 31, 1997 is PLN 6,162.4 thousand received from a related party, ECC.

[profit and loss](#)

2.25. Income on financial transactions

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Income from securities transactions	(186.8)	21.1
- revenues on securities transactions	4.1	52.2
- expenses of securities transactions	(190.9)	(31.1)
Income on other financial transactions	517.4	401.5
	330.6	422.6

[profit and loss](#)

2.26. General expenses

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Compensation:	18,908.6	11,062.8
- salaries	12,772.8	7,430.8
- surcharges on salaries	5,250.6	3,394.7
- social support of employees	885.2	237.3
Other general expenses:	18,108.5	13,031.5
- advertising and marketing	1,400.7	1,121.4
- rents	3,805.6	2,044.4
- telecommunication	1,772.9	1,132.5
- office supplies	1,229.4	866.2
- representation costs	390.6	357.7
- business travel	615.9	453.6
- advisory services	1,376.2	2,528.2

- Bank Guarantee Fund contribution	771.6	701.5
- Other	6,745.6	3,826.0
	37,017.1	24,094.3

[profit and loss](#)

2.27. Charge to loan loss provision

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Charges to provisions for:	(3,441.8)	(3,894.8)
- non-performing loans	(2,811.8)	(2,658.7)
- general risk fund	-	(500.0)
- other	(630.0)	(736.1)
	(3,441.8)	(3,894.8)

[profit and loss](#)

2.28. Release of provision and other decreases

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Release of provisions for:	3,188.5	2,500.2
- non-performing loans	2,469.6	1,955.0
- other	718.9	545.2
	3,188.5	2,500.2

[profit and loss](#)

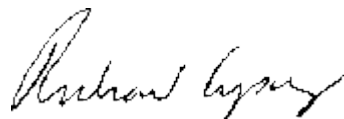
2.29. The reconciliation of gross profit and the basis for the income tax calculation is as follows:

	12 months ended 12/31/97 PLN 000's	12 months ended 12/31/96 PLN 000's
Gross profit in the financial statements	22,552.5	15,501.1
Costs not allowed for tax:	10,312.7	4,217.8
- provisions	4,186.6	2,213.0
- accrued interest	2,354.9	239.2
- other	3,771.2	1,765.6
Incomes not treated as taxable:	(11,200.0)	(7,060.2)
- accrued interest	(6,483.9)	(3,785.1)
- provisions	(3,047.7)	(1,989.6)
- other	(1,668.4)	(1,285.5)
Other changes	(3,313.2)	-

Income before taxation	18,352.0	12,658.7
Income tax (40%) 1996	-	5,063.5
Income tax (38%) 1997	6,973.8	-
Deferred tax (36%)	1,865.4	1,380.4
Total	8,839.2	6,443.9

Chartered Accountant
No. 4979/2575
Hanna Fludra

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

Warsaw, March 23, 1998

[back](#)

Correspondent Banks

Currency	SWIFT Address	Bank	Country
ATS	CABVATWW	Creditanstalt-Bankverein	Austria
BEF	GEBABEBB36A	Generale Bank	Belgium
CAD	BOFMCAM2	Bank of Montreal	Canada
CHF	UBSWCHZH	Union Bank of Switzerland	Switzerland
DEM	MHBFDEFF DEUTDEFF	MHB Mitteleuropaeische Handelsbank Deutsche Bank AG	Germany
DKK	UNIBDKKK	Unibank AS	Denmark
ESP	GEBAESMM	Generale Bank	Spain
FIM	MRITFIHH	Merita Bank	Finland
FRF	PKOPFRPP	Bank Polska Kasa Opieki S.A. - Paris	France
GBP	BARCGB22 GEBAGB22	Barclays Bank PLC Generale Bank	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
PTE	GEBAPTPL	Generale Bank	Portugal
SEK	ESSESESS	Skandinaviska Enskilda Banken	Sweden
USD	PKOPUS33 IRVTUS3N	Bank Polska Kasa Opieki S.A. NY Bank of New York	USA
XEU	GEBABEBB36A	Generale Bank	Belgium

[back](#)

Branch and Representative Offices

Head Office

Address ul. K. Kordylewskiego 11, 31-547 Krakow
Phone (48 12) 413 66 66
Facsimile (48 12) 412 46 71
Reuters PPAB
S.W.I.F.T. PPABPLPK
Internet <http://www.ppabank.com.pl/>
e-mail ppabank@ppabank.com.pl

Branch and Representative Office in Czestochowia

Address ul. ks. J. Popieluszki 2, 42-200 Czestochowa
Phone (48 34) 65 68 77
Facsimile (48 34) 65 68 44

Branch and Representative Office in Katowice

Address ul. Piotra Skargi 2, 40-951 Katowice
Phone (48 32) 203 77 23
Facsimile (48 32) 206 24 08

First Branch and Representative Office in Krakow

Address ul. K. Kordylewskiego 11, 31-547 Krakow
Phone (48 12) 413 66 66
Facsimile (48 12) 422 21 86

Third Branch and Representative Office in Krakow

Address al. Marszałka F. Focha 1, 30-111 Krakow
Phone (48 12) 422 74 07
Facsimile (48 12) 422 68 54

Agency of the Third Branch in Krakow

Address ul. Ciepłownicza 1, 31-587 Krakow
Phone (48 12) 644 92 27
Facsimile (48 12) 644 92 27

Branch and Representative Office in Lublin

Address ul. Probostwo 6a, 20-089 Lublin
Phone (48 81) 534 68 11
Facsimile (48 81) 534 64 74

Branch and Representative Office in Poznan

Address ul. Wierzbicice 1, 61-569 Poznan
Phone (48 61) 833 05 97

Facsimile (48 61) 833 08 37

Branch and Representative Office in Warsaw

Address ul. Fredry 8, 00-097 Warszawa

Phone (48 22) 829 97 00

Facsimile (48 22) 829 97 95

Sub-Branch of the Branch Office in Warsaw

Address ul. Cypryjska 2a, 02-761 Warszawa

Phone (48 22) 642 11 43

Facsimile (48 22) 642 11 43

Branch and Representative Office in Zakopane

Address ul. T. Kosciuszki 11, 34-500 Zakopane

Phone (48 18) 201 32 46

Facsimile (48 18) 201 32 49

Representative Office in Gdynia

Address ul. Swietojanska 72, 81-388 Gdynia

Phone (48 58) 621 68 15

Facsimile (48 58) 621 68 16

Representative Office in Gliwice

Address ul. I. Daszynskiego 5, 44-100 Gliwice

Phone (48 32) 31 80 00

Facsimile (48 32) 31 80 93

Representative Office in Lodz

Address al. T. Kosciuszki 80/82, 90-437 Lodz

Phone (48 42) 36 69 68

Facsimile (48 42) 36 69 16

Representative Office in Szczecin

Address ul. Matejki 22, 70-530 Szczecin

Phone (48 91) 489 21 92

Facsimile (48 91) 489 21 91

Representative Office in Wroclaw

Address ul. Ruska 19, 50-079 Wroclaw

Phone (48 71) 72 46 34

Facsimile (48 71) 72 46 37

[back](#)