

Annual Report 1998



Deutsche Bank Polska S.A.
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Rada Nadzorcza Supervisory Board

Tessen von Heydebreck

Przewodniczący
Członek Zarządu
Chairman
Member of the Group Board
Deutsche Bank AG
Frankfurt/Main
(od 29 kwietnia 1998)
(from April 29, 1998)

Georg Krupp

Przewodniczący
Członek Zarządu
Chairman
Member of the Group Board
Deutsche Bank AG
Frankfurt/Main
(do 29 kwietnia 1998)
(until April 29, 1998)

Dr Jürgen Bilstein

Deutsche Bank AG
Frankfurt/Main
(do 19 października 1998)
(until October 19, 1998)

Hubert Pandza

Deutsche Bank AG
Frankfurt/Main

Peter Thelen

Deutsche Bank AG
Frankfurt/Main

Edgar Most

Deutsche Bank AG
Oddział w Berlinie
Berlin Branch

Peter Tills

Deutsche Bank AG
Frankfurt/Main
(od 29 kwietnia 1998)
(from April 29, 1998)

Detlef Bindert

Deutsche Morgan Grenfell
London
(do 19 października 1998)
(until October 19, 1998)

Janusz Reiter

Warsaw

Zarząd Management Board

Zakres działalności
Scope of activity

Rainer Müller

Firmy i instytucje
Dział Personalny
Treasury

*Corporates and Institutions
Personnel
Treasury*

Norbert Czepionka

Klienci prywatni
Banki
Rozwój sieci oddziałów

*Private customers
Banks
Branch Development*

Ralf-Otto Gogoliński

Organizacja i zarządzanie
Prawo
Księgowość
Zarządzanie ryzykiem kredytowym
Kontrola wewnętrzna
Działalność powiernicza
(do 31 grudnia 1998)

*Organisation and management
Law, Compliance
Controlling
Credit Risk Management
Internal Audit
Custody
(until December 31, 1998)*

Michael Rummel-Grock

Bankowość Inwestycyjna

Investment Banking

Krzysztof Kalicki

(od 19 października 1998)

(from October 19, 1998)

Report on operations of Deutsche Bank Polska S.A. in 1998

Main events

The 1998 year was planned to be a corner stone for the strategy of Deutsche Bank Polska S.A. in terms of organisation and operations. After the initial years of the Bank's operations which were used as a period of establishing a presence in the market, 1998 saw the Bank undertake a number of strategic decisions. These decisions are discussed further below.

The Bank's activity in 1998 was focused on strengthening its position in the corporate customers segment in respect of the sale of banking services and products. An important element in developing the corporate customer business was the Bank's decision to increase its equity by PLN 315 million. This had had a positive impact on the ability to meet larger corporate customer lending needs, improved the Bank's ratios and credit concentration limits.

During 1998 the Bank sold its shares in DB Leasing Polska Sp. z o.o. The sale was completed in March 1998 and resulted in net profit amounting to PLN 221 thousand.

Important strategic decisions undertaken during 1998 included the following:

I. Organisation and development of branches as a result of the customers regional diversification

The following regions were chosen:

Wrocław, Katowice, Poznań, Gdańsk, Szczecin, Cracow and Łódź. In order to create a branch network the Bank invested PLN 6.5 million in 1998 and further PLN 2.7 million is planned for 1999.

II. Decision on expansion of custody department services

Activity relating to custody operations was started at the end of 1997 after receiving a licence to commence custody operations at the beginning of October 1997 and finalising internal policies and procedures to undertake such operations. Implementation of software utilised in custody services was completed in the second part of 1998 and

employment of additional persons was also undertaken to ensure that the custody services offered by the Bank are provided with professionalism.

Among strategic decisions in this field it should be mentioned that the Bank applied for a licence to serve Open Pension Funds as a custodian bank. In obtaining the required permission the Bank had to satisfy a significant number of procedural requirements and minimum equity requirements. The minimum equity requirement in this respect was an equivalent of EURO 100 million, which was satisfied by the Bank in 1998 by the increase of share capital and capital reserves by PLN 315 million.

At the end of the year the Bank entered into an initial service agreement with two Funds applying for a licence. Until the end of March 1999 the Bank satisfied all the requirements and until the end of April it will sign the first agreement with an Open Pension Fund.

III. Enhancing investment banking and development of brokerage activities

Banking operations of Deutsche Bank Polska S.A. are not limited only to commercial banking products but they also include more complex activities such as advisory and issuance of certificates of deposit.

The Bank foresees closer co-operation with DWS Polska which is a related entity with Deutsche Bank A.G. Group. Distribution of DWS Polska investment funds units will be reflected in 1999 results.

The most significant activity undertaken in this area to date is the completion of negotiations with AIG Bank Polska S.A. on servicing the issuance of AIG's certificates of deposit. On 3rd March an agreement regarding the issuance of Certificates of Deposit, amounting to PLN 700 million was signed between Deutsche Bank Polska S.A. and ABN Amro Polska S.A. on the one side and AIG Bank Polska S.A. on the other side. Deutsche Bank Polska S.A. acts as an agent and co-dealer of the issue. To date this will be the largest issue of certificates of deposits in Poland. An initial survey made among the Bank's customers suggests that a number of large institutional customers are interested in acquiring such certificates. The Bank plans to increase the liquidity of this product

through the development of a secondary market for the certificates. In addition the Bank is planning to introduce commercial paper programmes for its customers.

Deutsche Bank group – jointly with Bank Handlowy w Warszawie S.A. – has arranged one of the largest credits ever granted to a Polish company: Polkomtel S.A 8 year telecommunication project finance DEM 660,000,000 plus PLN 300,000,000. Deutsche Bank Polska S.A. has a participation in the PLN facility for which it also acts as an Agent.

A significant decision relating to brokerage activities included the undertaking to purchase 100% of the shares in Dom Maklerski Pro Capital by Deutsche Bank Polska S.A. On 26th March 1999 the Securities and Stock Exchange Commission approved this acquisition.

IV. General development of the Bank

The development of the Bank following by the introduction of a wider range of services and products resulted in increasing employment levels. In July 1995 the Bank's premises at Plac Grzybowski were staffed with approximately 45 employees and by the end of December 1998 this number had increased to 164 persons (including those working in branches). The significant increase in employment resulted in the Bank renting additional office space in the INTRACO building. At present the offices at Plac Grzybowski are utilised as a customer service centre, whilst the administration activities of the Bank were moved to the INTRACO building. By the end of 1999 the Bank plans to increase employment to 205 persons.

The Bank made additional investments during the year in order to customise or develop its computer system in line with both increased size of operations and employee numbers.

V. Expected development of the Bank in 1999

In 1999 Deutsche Bank Polska S.A. activity will be focused on further enhancement of its position in servicing corporate customers. Special emphasis will be given to services relating to securities for example issuance and trading of certificates of deposit and commercial papers.

In 1999 Structured Finance team will be enlarged and plans to close several Project Finance transactions on the arranger level.

Further development of a network of branches includes Bydgoszcz and Lublin as our locations.

The Bank plans to continue providing private banking services for high networth individuals, specifically managers from businesses that are existing corporate customers of the Bank. It is planned to extend the scope of products offered to this clients.

Custody services will be further expanded in 1999 in order to strengthen the Bank's position on the market.

The Bank is going to focus on increasing quality of settlement services for corporate and institutional customers through the introduction of "settlement of mass transactions". In this respect it is planned to purchase and install new specialised software including "direct debit services".

Electronic banking services and the use of such services are becoming more accepted by customers, so the Bank plans to enhance its position on the market by increasing the variety of products on offer and enhance the technology associated with such activities.

VI. Current and expected financial position

As a result of an increase in customer deposits and loans as well as successful foreign exchange and money market activities the Bank achieved a net profit of PLN 19.2 million. The good result was possible due to interest income amounting to PLN 115.7 million, net result on foreign exchange activities amounting to PLN 18.5 million and net fee and commission income amounting to PLN 6.2 million. This profit will enable the Bank to cover its loss from previous years (PLN 4.6 million). It is proposed that a resolution will be passed at the General Meeting of Shareholders to increase equity reserves by the remaining PLN 14.6 million.

The Bank's capital adequacy ratio, after the increase in share capital from 1998 approximated 57% at year end which is significantly above the

minimum level required by NBP regulation. This will enable the Bank to substantially expand its lending activities.

Warsaw, 12 April 1999



(R. Müller)



(K. Kalicki)



(N. Czypionka)



(M. Rummel)

Balance sheet

Assets	Notes	31.12.1997 PLN	31.12.1998 PLN
Cash and amounts due from NBP	(1)	29,690,952.32	120,979,222.00
current		25,180,350.52	119,360,629.00
obligatory reserve		1,354,890.00	—
other		3,155,711.80	1,618,593.00
Due from other financial institutions	(2)	349,782,505.59	470,614,194.22
current		24,307,197.07	28,838,468.38
term		325,475,308.52	441,775,725.84
Due from clients and the budget sector	(3)	229,647,635.06	654,783,061.64
Debt securities	(4)	41,101,475.59	37,320,195.10
of state issuers		41,101,475.59	37,320,195.10
Investments in associates	(5)	2,200,000.00	—
in financial institutions		2,200,000.00	—
Intangibles assets	(6)	4,512,009.88	4,735,736.29
start-up expenses or organisational expenses of raising additional capital in company		42,190.92	29,742.17
other intangibles		4,469,818.96	4,705,994.12
Fixed assets	(7)	16,306,422.38	21,262,603.59
other fixed assets		14,368,320.22	21,083,926.05
assets under construction		1,938,102.16	178,677.54
Other assets	(8)	808,412.42	1,712,733.35
Prepayments		193,117.83	71,189.02
Total assets		674,242,531.07	1,311,478,935.21

Liabilities and equity	Notes	31.12.1997 PLN	31.12.1998 PLN
Due to other financial institutions	(9)	288,381,183.12	186,776,350.00
current		3,479,656.67	5,838,002.00
term		284,901,526.45	180,938,348.00
Due to clients and the budget sector	(10)	231,403,841.12	635,097,345.98
Other		231,403,841.12	635,097,345.98
current		82,746,785.10	132,407,289.98
term		148,657,056.02	502,690,056.00
Special funds and other liabilities	(11)	20,090,417.76	18,521,030.56
special funds		36,020.15	121,513.66
other liabilities		20,054,397.61	18,399,516.90
Interperiod settlements and deferred income	(12)	1,080,545.06	847,354.93
accruals		217,505.86	558,387.60
deferred income		863,039.20	288,967.33
Provisions		—	932,425.65
deferred tax position	(17)	—	932,425.65
Subordinated debt	(13)	27,882,675.99	29,675,290.00
Share capital	(14)	70,000,000.00	230,000,000.00
Capital reserve	(15)	40,000,000.00	195,000,000.00
share premium		40,000,000.00	195,000,000.00
Accumulated result from previous years	(16)	(10,817,482.97)	(4,596,131.98)
loss		(10,817,482.97)	(4,596,131.98)
Net result for current financial year		6,221,350.99	19,225,270.07
profit		6,221,350.99	19,225,270.07
Total liabilities and equity		674,242,531.07	1,311,478,935.21

Off balance sheet items

	Notes	31.12.1997 PLN	31.12.1998 PLN
Contingencies granted	(24)	257,676,891.11	383,416,428.87
Contingent assets received	(24)	229,055,626.00	385,098,776.68
Currency transactions	(24)	729,997,605.50	866,528,615.00

Profit and loss statement

	Notes	Period ended 31.12.1997 PLN	Year ended 31.12.1998 PLN
Interest income	(18)	78,399,486.31	115,726,819.26
from financial institutions		50,553,207.69	39,413,926.55
from clients and budget sector		18,396,290.14	63,682,465.33
from securities:		9,449,988.48	12,630,427.38
fixed income		9,449,988.48	12,630,427.38
Interest expense	(19)	(48,450,913.34)	(65,108,139.98)
from financial institutions		(26,354,334.61)	(21,895,935.70)
from clients and budget sector		(21,073,628.68)	(42,813,174.94)
other		(1,022,950.06)	(399,029.34)
Net interest income		29,948,572.98	50,618,679.28
Fee and commission income		3,688,434.47	7,552,449.83
Fee and commission expense		(605,439.49)	(1,273,291.31)
Net fee and commission income		3,082,994.98	6,279,158.52
Financial profit/(loss)	(20)	(475,982.86)	221,100.00
Profit/(loss) on foreign exchange position	(21)	4,138,128.41	18,491,378.29
Gross banking profit		36,693,713.51	75,610,316.09
Other operating income		1,034,125.62	1,312,839.79
Other operating expenses		(160,013.32)	(791,485.57)
General expenses	(22)	(22,795,224.88)	(40,381,389.03)
payroll		(7,702,827.37)	(13,680,051.64)
social security costs and other payroll-related charges		(3,158,224.67)	(5,844,301.53)
other		(11,934,172.84)	(20,857,035.86)
Depreciation of fixed assets and intangible assets		(3,077,963.03)	(4,334,649.50)
Increases of provisions and deficit on revaluation		(238,315.91)	(3,765,608.67)
Release of provisions and deficit on revaluation		95,500.00	1,758,871.29
Net provisions increase/decrease and revaluation	(23)	(142,815.91)	(2,006,737.38)
Operating profit/(loss)		11,551,821.99	29,408,894.40
Result before corporate income taxation		11,551,821.99	29,408,894.40
profit before tax		11,551,821.99	29,408,894.40
Taxes		(5,330,471.00)	(10,183,624.33)
corporate income tax	(17)	(5,330,471.00)	(10,183,624.33)
Net result after taxation		6,221,350.99	19,225,270.07
profit after tax		6,221,350.99	19,225,270.07

Cash flow statement

	Year ended 31.12.1997 PLN	Year ended 31.12.1998 PLN
Cash flow from operating activities		
Net profit	6,221,350.99	19,225,270.07
Adjusted for:		
Depreciation	3,077,963.03	4,334,649.50
Foreign exchange gain/loss	1,589,000.00	1,792,000.00
Interest and dividends received and paid	629,274.07	1,097,502.85
Debtors-related provisions	42,815.91	2,006,737.38
Other provisions	100,000.00	932,425.65
Corporate income tax charge	5,330,471.00	9,251,198.68
corporate income tax paid	(3,038,394.00)	(10,008,161.00)
Gain/loss on sales related to investment activity item	—	(221,000.00)
(Increase)/decrease in debt securities	31,050,779.52	3,781,280.49
(Increase)/decrease in receivables from other financial institutions-term	(183,945,923.02)	(122,206,742.45)
(Increase)/decrease in receivables from clients and the budget sector	(133,909,725.63)	(427,142,003.67)
(Increase)/decrease in liabilities to financial institutions	193,754,981.69	(101,604,833.12)
(Increase)/decrease in liabilities to clients and budget sector	121,885,996.14	403,693,504.86
(Increase)/decrease in other creditors	8,512,266.40	(1,324,400.24)
(Increase)/decrease in interperiod settlements	170,539.03	462,810.55
(Increase)/decrease in deferred income	863,039.20	(574,071.87)
Other items	—	(428,734.47)
Net cash (outflow)/inflow from operating activities	52,334,434.33	(216,932,566.79)
Cash flow from investment activities		
Purchase/Sale of intangible assets	(828,867.07)	(879,904.02)
Purchase/Sale of fixed assets	(5,424,827.04)	(8,419,746.95)
Purchase/Sale of other shares and securities	(2,200,000.00)	2,421,000.00
Other	—	(178,677.54)
Net cash outflow from investment activities	(8,453,694.11)	(7,057,328.51)
Cash flow from financial activities		
Long term loans repaid to banks	—	—
Increase/decrease in subordinated creditors	54,925.61	614.01
Inflow from issue of own shares and additional capital payments	—	315,000,000.00
Other items	(629,274.07)	(1,097,502.85)
Net cash inflow from financial activities	(574,348.46)	313,903,111.16
Net cash flow	43,306,391.76	89,913,215.86
Cash at the beginning of the period	10,691,757.63	53,998,149.39
Cash at the end of the period	53,998,149.39	143,911,365.25

Supplementary information to the financial statements as at 31 December 1998

I. General information

1. Activities

Deutsche Bank Polska S.A. (The Bank) was established due to the decision number 2/95 of the President of the NBP dated 30 June 1995. The Bank became a legal entity on 9 August 1995 by the Registrar of the Local Court for Warsaw. The Bank began its commercial activity on 11 October 1995.

The Bank's primary activities comprise of commercial lending, investing and trading in debt securities, taking deposits, effecting customer payments and trading in foreign currencies.

2. Principle accounting policies

2.1. Basis for the preparation of the financial statements

The financial statements of Deutsche Bank Polska S.A. were prepared in accordance with the following:

- The Accounting Act dated 29 September 1994 (Dz. U. of 1994 no. 121, item 591 and amendments);
- The Banking Law dated 29 August 1997 (Dz. U. of 1997 no. 140, item 939 and amendments);
- Banking Supervisory Commission Resolution dated 3 June 1998 outlining principles applying to accounting in banks and preparation of financial statements with amendments and
- Regulation number 13/94 of the President of the National Bank of Poland (NBP) dated 10 December 1994 outlining principles of establishing provisions against banking risks.

The financial statements have been prepared under the historical cost convention, unless otherwise noted and in accordance with Polish accounting standards.

2.2. Cash and cash equivalents

For the purpose of the cash flow statement the balance of cash and cash equivalents comprises cash in vaults, on hand and balance of nostro accounts with other banks and the NBP.

2.3. Loans and advances

Placements with, and loans and advances to, other banks as well as loans and advances to customers are reported at their nominal amount plus accrued and/or capitalised interest less provision for loan loss reserves.

2.4. Loan loss provisions

Specific loan loss provisions are created in accordance with Regulation number 13/94 of the President of the National Bank of Poland dated 10 December 1994 outlining principles of establishing provisions against banking risks. Loans classified under this regulation are provided for using the following rates (less specific allowance for collateral as detailed in the regulation):

Loan classification	Rate
Normal	0%
Substandard	20%
Doubtfull	50%
Loss	100%

Specific loan loss reserves are shown net of gross loans and advances.

2.5. Securities

The Bank classifies its securities portfolio as trading and investment. The valuation methodologies for each portfolio is as follows:

Trading portfolio:

Debt securities in the trading portfolio consist of short-term Polish government treasury bills and are carried at cost with any discount acquired on the securities amortised on a straight line basis over the life of the security.

Investment portfolio:

Debt securities in the investment portfolio consist of long term Polish government treasury bonds and are carried at cost plus accrued interest and purchased discount or premium. Discounts and premiums are amortised on a straight line basis to the profit and loss account over the

life of the security. A provision against the carrying value of the security is made for any permanent diminution in the value of the security.

2.6. Intangible and fixed assets

Intangible and fixed assets are stated at acquisition cost less provision for depreciation. The cost of the intangible and fixed assets is depreciated on a straight line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	10%
EDP equipment	30%
Office furniture and equipment	20%
Motor vehicles and telecommunication equipment	17%
Software	10-20%

The depreciation rates applied are based on prescribed rates as determined by the Ministry of Finance for taxation purposes and approximate the assets useful life.

Intangible and fixed assets under construction are depreciated from the moment the investment activity has been completed and the asset is installed and ready for use.

2.7. Deferred interest

Accrued interest and overdue and unpaid interest on loans classified as irregular (based on debt service) are shown as liabilities under deferred income. Interest income on these loans is recognised on a cash basis.

2.8. Income and expense recognition

All significant items of income and expenditure are accounted for on an accruals basis. Fee and commission income and expenses are recorded on a cash basis.

2.9. Foreign currencies

Foreign currency transactions are recorded in PLN at the NBP fixing rate at day's end. Foreign currency assets and liabilities at the balance sheet date are translated at the NBP year-end fixing rate of exchange. Both

realised and unrealised foreign exchange differences resulting from the revaluation of foreign currency balances are recognised in the profit and loss account.

2.10. Income taxes

Income tax is calculated on the basis of gross accounting profit adjusted for items of income or expenditure deductible or non deductible in accordance with Polish taxation regulations. Deferred taxes are formed for timing differences using the liability method to the extent that such differences are expected to reverse in the future.

Deferred taxes are recorded at the anticipated rate of tax at the date the timing difference is expected to reverse.

A deferred tax asset is only recognised if it is certain that there will be taxable income in the period the deferred tax asset is realised.

2.11. Valuation of off balance sheet foreign currency transaction

At the balance sheet date the Bank applies the following methodologies in respect to the valuation of off balance sheet foreign currency transactions:

The remaining maturity of foreign exchange contracts are compared with market rates of transactions with similar maturates. The contracted rate is compared with the market rate with negative differences between contracted rates and market rates taken to the profit and loss account as unrealised losses on foreign exchange transactions. Positive differences between contracted and market rates are not recorded until realised.

Revaluation of off balance sheet foreign currency transactions is done on a global currency basis.

2.12. Changes in the financial statements disclosure

The following changes in the presentation of the 1998 financial statements compared with 1997 occurred:

Presentation of amounts due from NBP has changed its meaning in 1998. In previous year there were separated sub-account called Obligatory

reserve, which was bearing interest. In 1998 obligatory reserve is no more divided on interest bearing or not. Whole amount of obligatory reserve is maintained on current account in NBP and presented as Current in Assets and Note No.1.

In the off balance sheet items schedule position named Currency transaction presents only Buy side instead Buy and Sale sides as in previous years.

2.13. Change in accounting policies

There were no changes in the Bank's accounting policies during the year.

3. Subsequent events

The following events took place subsequent to 31 December 1998:

On 3 February 1999 a conditional agreement concerning the acquisition of the purchase of 100% of the capital of the brokerage house Dom Maklerski Pro Capital S.A. by the Bank. Permission for the acquisition of the shares was given by the KPWiG on 26 March 1999; and,

The Bank signed an agreement with AIG Bank Polska S.A. in March 1999 to act as the sole agent on AIG's PLN 700 million Certificate of Deposit Programme.

4. Year 2000 risk

In order to avoid problems connected with year 2000 Deutsche Bank Polska S.A. undertook following steps:

- The Committee co-ordinating the 2000 project according to NBP directives has been called. The Committee is under the control of Banking Supervisory Commission.
- In 1998 many consultations with direct suppliers of different media for Bank have been made. Suppliers submitted to the Bank some positive opinions concerning security of deliveries in 2000.
- It is planned that all the suppliers to the Bank will submit safety certificates till the end of the first half of year.
- The Bank as the user of DB-Internet IT system, serviced by the IT Head Office of Deutsche Bank AG, has been equipped in the new version of

the system which takes into consideration the problem of the year 2000 and introduction of EURO as a currency for settlements. The end of the June 1999 is settled as the maturity date for the Head Office to end all tests on IT systems submitted (including DB-Internet).

– Together with some local IT companies the range of adjustment works and indispensable investments connected with realisation of the project have been settled. June 1999 is the date when series of local tests on IT applications including settlements with NBP and other banks – ELIKSIR, SORBNET are to be run.

– The Bank is explaining to the clients some facts concerning the risk of the year 2000.

– The Bank anticipate preparing continuity plan for the Bank's operations in respect to the year 2000 issue by June 1999, which is to minimise eventual loses connected with unforeseeable halt of the Bank's operations post 31 December 1999.

It should be noticed, that according to expectations of other institutions around the world, despite of well-prepared projects connected with the year 2000 the appearance of some problems can not be excluded. There can be no assurance that the Year 2000 Project will be successful nor that the Bank will not be affected by the inability of third parties including its suppliers and customers to manage the year 2000 problem.

Notes to the financial statement

1. Cash and amounts due from NBP

	31.12.97 PLN	31.12.98 PLN
Current	25,180,350.52	119,360,629.00
Obligatory reserve – interest bearing	1,354,890.00	—
Other	3,155,711.80	1,618,593.00
Total	29,690,952.32	120,979,222.00

Other represents cash balance held in the Bank's vault, which includes in 1998 and 1997 as well PLN 400,000.00 of minimum declared amount of cash treated as part of Obligatory reserve.

2. Due from other financial institutions

Due from other financial institutions	31.12.97 PLN	31.12.98 PLN
Current	24,307,197.07	28,838,468.38
Term		
less than 3 months	322,929,378.25	439,601,048.98
Accrued interest	2,545,930.27	2,174,676.86
Total	349,782,505.59	470,614,194.22

Due from other financial institutions by currency exposure	31.12.97 PLN	31.12.98 PLN
In PLN	82,314,520.03	417,224,403.20
In convertible currencies	267,467,985.56	53,389,791.02
Total net	349,782,505.59	470,614,194.22

3. Due from clients and the budget sector

Due from clients net	31.12.97 PLN	31.12.98 PLN
Due from clients and the budget sector, gross	229,690,450.97	656,832,454.64
Less: Specific provisions	(42,815.91)	(2,049,393.00)
Total net	229,647,635.06	654,783,061.64

The majority of the granted loans are in the Warsaw region.

Loans granted to employees as of 31.12.1998 amounted to PLN 3,625,355.55. There were no loans granted to the members of Management Board nor to Supervisory Board.

Guarantees granted to employees amounted to PLN 1,154,880.20.

Due from clients and the budget sector by currency exposure	31.12.97 PLN	31.12.98 PLN
In PLN	117,627,932.63	410,429,391.80
In convertible currencies	112,062,518.34	246,403,062.84
Total net	229,690,450.97	656,832,454.64

Due from clients and the budget sector shown in split for principal and accrued interest	31.12.97 PLN	31.12.98 PLN
Principal due	228,921,949.55	653,635,104.64
Accrued interest receivable	768,501.42	3,197,350.00
Total net	229,690,450.97	656,832,454.64

Due from clients and the budget sector shown by maturities	31.12.97 PLN	31.12.98 PLN
Less than 3 months	187,824,607.00	568,931,595.54
More than 3 months but less than 1 year	24,979,290.19	31,999,555.60
More than 1 but less than 5 years	13,738,640.14	36,932,264.53
More than 5 years	2,379,412.22	15,771,688.97
Overdue principal	—	—
Accrued interest	768,501.42	3,197,350.00
Total	229,690,450.97	656,832,454.64

Due from clients and the budget sector shown by type of clients	31.12.97 PLN	31.12.98 PLN
Private individuals	3,749,384.51	5,765,451.72
Corporate customers	225,172,565.04	647,869,652.92
Accrued interest	768,501.42	3,197,350.00
Total	229,690,450.97	656,832,454.64

Due from the largest customers shown by industry type	Credit facilities as of 31.12.98 PLN	facilities volume to share capital % PLN	facilities volume to own funds % PLN
Trading	378,800,230.00	165%	85%
Machinery and energy industry	155,926,710.00	68%	35%
Telecommunication	125,372,500.00	55%	28%
Building and construction	118,397,850.00	51%	27%
Leasing	82,866,000.00	36%	19%
Food industry	51,292,790.00	22%	11%
Total	912,656,080.00	397%	205%

Credit facilities includes loans, undrawn lines of credit, guarantees.

Due from customers and the budget sector shown by risk category	31.12.1997 PLN	31.12.1998 PLN
Regular	188,071,923.59	598,512,122.52
Substandard	41,601,803.94	21,683,448.56
Doubtfull	—	36,620,103.56
Lost	16,723.44	16,780.00
Total	229,690,450.97	656,832,454.64

Specific provisions for due from customers and the budget sector shown by risk category	31.12.1997 PLN	31.12.1998 PLN
Regular	—	—
Substandard	26,035.91	11,096.05
Doubtfull	—	2,021,516.57
Lost	16,780.00	16,780.00
Total	42,815.91	2,049,392.62

4. Debt securities

	31.12.1997 PLN	31.12.1998 PLN
Treasury bills	33,433,805.83	31,716,924.54
Accrued discount on Treasury bills	2,417,269.76	359,570.46
Treasury bonds	5,000,000.00	5,000,000.00
Accrued interest on Treasury bonds	250,400.00	243,700.10
Total	41,101,475.59	37,320,195.10

The balance of debt securities include treasury bonds with nominal value of PLN 700,000.00 held to secure future contribution to the Bank

Guarantee Fund as required by the resolution no. 33/97 of the Board of Bank Guarantee Fund dated 20 November 1997.

Treasury Bonds are held by the Bank in its Investments portfolio, and Treasury Bills are held in its trading portfolio.

5. Investments in associates

	31.12.1997 PLN	31.12.1998 PLN
Shares	2,200,000.00	—

Investments in associates at 31.12.1997 were sold in March 1998.

6. Intangible assets

	Cost at 01.01.1998 PLN	Increase PLN	Decrease PLN	Cost at 31.12.1998 PLN
Formation costs	62,245.00	—	—	62,245.00
Licenses	5,328,124.35	664,558.42	—	5,992,682.77
Software	58,671.94	218,418.03	3,072.43	274,017.54
Total at cost	5,449,041.29	882,976.45	3,072.43	6,328,945.31

	Accumulated depreciation at 01.01.1998 PLN	Increase PLN	Decrease PLN	Accumulated depreciation at 31.12.1998 PLN
Formation costs	20,054.08	12,448.75	—	32,502.83
Licenses	909,370.81	647,271.63	31,539.19	1,525,103.25
Software	7,606.52	28,743.17	746.75	35,602.94
Total accumulated depreciation	937,031.41	688,463.55	32,285.94	1,593,209.02

	Net book value at 01.01.1998 PLN	Net book value at 31.12.1998 PLN
Intangible assets, net	4,512,009.88	4,735,736.29

Increases were caused by purchases of intangibles only, and decreases represents effect of sales of them.

There were no cases of liquidation of intangibles.

7. Tangible fixed assets

	Cost at 01.01.1998 PLN	Increase PLN	Decrease PLN	Cost at 31.12.1998 PLN
Equipment	3,354,388.89	2,594,179.80	46,855.43	5,901,713.26
Minor value equipment	—	179,607.59	—	179,607.59
Motor vehicles	650,006.90	598,176.30	69,270.38	1,178,912.82
Other fixed assets	1,668,542.87	1,470,487.52	39,675.48	3,099,354.91
Furniture and fittings	2,838,946.45	2,998,745.84	48,550.22	5,789,142.07
Leasehold improvements	10,908,735.18	2,760,843.25	39,839.68	13,629,738.75
Assets under construction	1,938,102.16	178,677.54	1,938,102.16	178,677.54
Tangible fixed assets at cost	21,358,722.45	10,780,717.84	2,182,293.35	29,957,146.94

	Accumulated depreciation at 01.01.1998 PLN	Increase PLN	Decrease PLN	Accumulated depreciation at 31.12.1998 PLN
Equipment	1,441,365.18	1,182,735.45	15,251.54	2,608,849.09
Minor value equipment	—	179,607.59	—	179,607.59
Motor vehicles	144,729.38	158,028.75	11,780.85	290,977.28
Other fixed assets	510,746.91	386,823.04	20,577.33	876,992.62
Furniture and fittings	793,417.60	619,591.72	12,010.60	1,400,998.72
Leasehold improvements	2,162,041.00	1,186,052.53	10,975.48	3,337,118.05
Total accumulated depreciation	5,052,300.07	3,712,839.08	70,595.80	8,694,543.35

	Net book value 01.01.1998 PLN	Net book value 31.12.1998 PLN
Tangible assets, net	16,306,422.38	21,262,603.59

Increases were caused by purchases of tangibles only, and decreases represents effect of sales of them.

There were no cases of liquidation of tangibles assets.

In 1998 there were no unexpected depreciation provisions.

The Bank performed a physical stock count of fixed assets at 31.12.1998. No shortages or surpluses were identified.

Future capital expenditures

List of planned investments in tangible and non tangible items in 1999 year.

Branches development and additional investments	2,700,000.00 PLN
Refurnishment of existing leashold and new office adaptation	1,050,000.00 PLN
Purchase of new IT equipment, software and other IT projects	3,300,000.00 PLN
Others	1,050,000.00 PLN
Total	8,100,000.00 PLN

8. Other assets

	31.12.1997 PLN	31.12.1998 PLN
Inter bank settlements	369,545.39	484,369.29
Cheques settlement	95,628.48	281,479.54
cash deposit – collateral	114,300.00	545,746.25
Settlement with suppliers and other creditors	100,000.00	104,137.89
Receivables from Income Tax Authorities	—	292,345.51
Other	128,938.55	4,654.87
Total	808,412.42	1,712,733.35

9. Due to other financial institutions

Due to other financial institutions	31.12.1997 PLN	31.12.1998 PLN
Current	3,479,656.67	5,838 002.00
Term		
less than 3 months	188,335,550.00	140,788,450.00
more than 3 months but less than 1 year	81,005,700.00	—
more than 1 but less than 5 years	11,539,162.28	24,701,308.85
more than 5 years	—	14,086,121.07
Accrued interest	4,021,114.17	1,362,468.08
Total	288,381,183.12	186,776,350.00

Due to other financial institutions include balances due to Deutsche Bank A.G. group companies of PLN 99,344,100.79.

Due to other financial institutions shown by currencies	31.12.1997 PLN	31.12.1998 PLN
In PLN	188,599,070.20	78,723,150.31
In convertible/ foreign currencies	99,782,112.92	108,053,199.69
Total	288,381,183.12	186,776,350.00

10. Due to customers and the budget sector

Due to customers and the budget sector shown by type of customers	31.12.1997 PLN	31.12.1998 PLN
Private individuals	62,850,802.66	158,863,172.01
Other non financial customers	168,553,038.46	476,034,576.94
Budget sector	—	199,597.03
Total	231,403,841.12	635,097,345.98

Due to customers and the budget sector shown by currencies	31.12.1997 PLN	31.12.1998 PLN
In PLN	60,613,983.84	410,897,450.83
In convertible/ foreign currencies	140,789,857.28	224,199,895.15
Total	201,403,841.12	635,097,345.98

Due to customers and the budget sector shown by maturities	31.12.1997 PLN	31.12.1998 PLN
Current	82,746,785.10	132,407,289.98
Term		
less than 3 months	142,249,974.52	498,036,122.98
more than 3 months but less than 1 year	5,518,351.88	3,052,700.02
more than 1 but less than 5 years	354,537.12	140,160.00
Accrued interest	534,192.50	1,461,073.00
Total	231,403,841.12	635,097,345.98

11. Special funds and other liabilities

	31.12.1997 PLN	31.12.1998 PLN
Inter bank settlements	16,117,374.47	14,735,335.10
Money transfers to be allocated to the customers accounts	95,128.48	281,479.54
Social Fund	36,020.15	121,513.66
Other	3,841,894.66	3,382,702.26
Total	20,090,417.76	18,521,030.56

12. Interperiod settlements and deferred income

Deferred income	31.12.1997 PLN	31.12.1998 PLN
Factoring discount	674,171.70	284,835.76
Bills discount	3,125.99	4,131.57
Suspended interest	185,742.51	—
Total	863,040.20	288,967.33

Inter period settlements	31.12.1997 PLN	31.12.1998 PLN
Audit fee accrual	107,505.86	298,387.60
Employee holiday pay accrual	110,000.00	260,000.00
Total	217,505.86	558,387.60

13. Subordinated borrowings

On 28 August 1996 Deutsche Bank Polska S.A. received from Deutsche Bank Luxembourg S.A. a long term loan amounting to 14,000,000 DEM. The interest rate is equal to 6 months LIBOR rate for DEM plus a margin 0.7%. The loan is repayable on 26 February 2002. Interest is paid semi annually. According to an NBP decision the Bank may include a part of the loan as tier III capital (that part is equal to the PLN equivalent of the loan translated at a rate of PLN/DEM 1.8425).

The amount presented in the financial statements includes the amount of interest payable and equals the PLN equivalent of the loan at NBP mid rate PLN/DEM at the balance sheet date.

According to the NBP decision the Bank has to exclude from its own funds 1/3 part of original PLN denominated loan every year beginning of 27 February 1999. It means decrease of the portion of subordinated debt used in the calculation of the Banks capital adequacy ratio by PLN 8,598,333.33 every next year.

14. Share capital

Date	Shares Series	Description	Change in the share capital PLN	Cumulative share capital PLN
21.07.1995	A	Establishment of the Bank	20,000,000.00	20,000,000.00
20.11.1995	B	Increase of share capital	10,000,000.00	30,000,000.00
21.08.1996	C	Increase of share capital	40,000,000.00	70,000,000.00
07.07.1998	D	Increase of share capital	80,000,000.00	150,000,000.00
16.10.1998	E	Increase of share capital	80,000,000.00	230,000,000.00

The sole shareholder of the Bank is Deutsche Bank A.G. As a result of the share capital increases Deutsche Bank A.G. holds 230 shares with a nominal value per share of PLN 1 milion.

Deutsche Bank AG holds 100% voting power on the General Assembly.

15. Reserve capital

The reserve capital represents premium on share issues.

The changes in reserve capital account since the Bank's incorporation were as follows:

Date	Description	Change in the share capital PLN	Cumulative share capital PLN
21.07.1995	First issue of shares	5,000,000.00	5,000,000.00
20.11.1995	Second issue of shares	10,000,000.00	15,000,000.00
21.08.1996	Third issue of shares	25,000,000.00	40,000,000.00
07.07.1998	Fourth issue of shares	80,000,000.00	120,000,000.00
16.10.1998	Fifth issue of shares	75,000,000.00	195,000,000.00

16. Accumulated profit /loss from previous years

Accumulated loss from previous years (4,596,131.98)

The Banks Management Board plans to cover accumulated loses from current years income. The remaining surplus of current years profits will be retained by the Bank.

17. Corporate income tax

Calculation of corporate income tax	Year ended 31.12.1997 PLN	Year ended 31.12.1998 PLN
Revenues reported by the Bank	83,477,339.32	144,842,358.46
Decreased by:		
accrued interest receivable	5,982,078.16	6,161,039.35
unrealised foreign exchange income	—	1,779,554.33
Increased by		
interest accrued in 1997	4,587,559.09	5,982,078.16
Revenues for tax	82,082,820.25	142,883,842.94
Expenses reported by the Bank	71,925,517.26	114,997,778.95
Decreased by:		
accrued interest payable	4,948,982.63	3,232,827.71
unrealised foreign exchange losses	1,181,815.39	—
depreciation of items over 10,000 ECU	70,802.12	81,359.45
other items	2,210,857.12	3,323,542.42
Increased by		
accrued interest in 1997	1,759,615.03	4,948,982.63
other	452,684.86	393,802.60
Expenses for tax	65,725,359.89	113,702,834.60
Taxable loss	—	—
Taxable income	16,357,460.36	29,181,008.34
Profit deductions	2,329,906.24	2,192,632.03
tax loss from previous period	2,177,466.24	2,177,466.24
donations	152,440.00	15,165.79
Income subject to tax	14,027,554.12	26,988,376.31
Tax charge for 1997 (38%) and 1998 (36%)	5,330,471.00	9,715,815.47
Overprovision of Income Tax from prior year	—	(464,616.79)
Deferred Income Tax expense	—	932,425.65
Corporate Income Tax	5,330,471.00	10,183,624.33

Deferred Income Tax Calculation

	Year ended 31.12.1998 PLN
Positive timing differences	7,754,851.17
Unrealised foreign exchange income	1,779,554.33
Interest accrued in 1998 to be received in 1999 y	5,975,296.84
banks	2,174,676.86
customers	3,197,349.43
papers	603,270.56
Negative timing differences	(5,012,422.78)
Accrued interest in 1998 payable in 1999 y	(3,232,827.71)
banks	(1,362,467.50)
customers	(1,461,073.16)
subordinated debt	(409,287.05)
Tax loss from previous period	(1,221,207.47)
Accruals	(558,387.60)
Net of differences	2,742,428.39
Tax charge for 1999 (34%)	932,425.65

18. Interest income

	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Received from:		
Financial Institutions	50,553,207.69	43,221,644.80
Clients and the budget sector	18,396,290.14	59,874,747.08
Securities		
fixed income	9,449,988.48	12,630,427.38
floating income		
Interest income	78,399,486.31	115,726,819.26

19. Interest expense

	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Paid to:		
Financial Institutions	26,354,334.61	21,895,935.70
Clients and the budget sector	21,073,628.66	42,813,174.94
Other	1,022,950.06	399,029.34
Interest expense	48,450,913.33	65,108,139.98

20. Income on financial transactions

	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Net profit/(loss) on trading securities	(475,982.86)	221,100.00
Other	—	—
Income on financial transactions	(475,982.86)	221,100.00

21. Income/(loss) on foreign exchange position

	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Income on foreign exchange position	5,722,573.05	24,929,378.92
Loss on foreign exchange position	(1,584,444.64)	(6,438,000.63)
Net income/(loss) on foreign exchange position	4,138,128.41	18,491,378.29

22. General expenses

	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Payroll	7,702,827.37	13,680,051.64
Surcharges on payroll	3,158,224.67	5,844,301.53
Other, including:	11,934,172.84	20,857,035.86
services	3,574,400.00	7,188,890.00
leashold expenses	1,671,920.00	4,782,260.00
members fees/participation fees	647,710.00	645,400.00
Total	22,795,224.88	40,381,389.03

Payroll for Management Board in 1998 amounted to PLN 1,792,072.00. During 1998 there were no payments for members of Supervisory Board.

The number of employees increased from 110 at the beginning of January to 164 at the end of 1998.

23. Charge and release of provisions

	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Charge of provisions	(238,315.91)	(3,765,608.67)
Provisions release	95,500.00	1,758,871.29
Net charge to provisions	(142,815.91)	(2,006,737.38)

24. Off balance sheet items

Contingencies granted	For the year ended 31.12.1997 PLN	For the year ended 31.12.1998 PLN
Contingent liabilities granted to financial institutions	62,665,261.13	58,474,068.63
Contingent liabilities granted to non financial institutions	195,011,629.98	324,942,360.24
credit facilities	148,588,607.07	265,445,603.48
letters of credit	1,848,368.16	605,622.20
guarantees	44,574,654.75	58,891,134.56
Total contingent liabilities granted	257,676,891.11	383,416,428.87
Contingent assets received		
Contingencies received:	229,055,626.00	385,098,776.68
from financial institutions	160,606,388.00	328,149,302.50
from non financial institutions	68,449,238.00	56,949,474.18
Currency transactions	729,997,605.50	866,528,615.00

25. Currency structure of Assets and Liabilities

Currency	Balance sheet and off balance sheet Assets PLN	Balance sheet and off balance sheet Liabilities PLN	Long position (+)/ Short position (-) PLN
ATS	364,007.60	325,940.72	38,066.88
AUD	21,879.50		21,879.50
BEF	152,455.99	50.59	152,405.40
CAD	62,234.68		62,234.68
CHF	1,768,121.04	1,556,140.32	211,980.72
DEM	457,796,736.20	454,021,201.37	3,775,534.83
DKK	80,989.72	7.01	80,982.71
ECU	1,941,165.57	1,760,823.05	180,342.52
ESP	24,525.87		24,525.87
FIM	6,712.80		6,712.80
FRF	735,366.46	637,627.06	97,739.40
GBP	2,855,636.29	2,824,857.35	30,778.94
IEP	17,910.84		17,910.84
ITL	384,455.80	16,052.16	368,403.64
JPY	61,250.38	15,699.60	45,550.78
NLG	15,085,429.79	14,893,789.67	191,640.12
NOK	597,628.17	537,854.73	59,773.44
PTE	15,416.30		15,416.30
SEK	216,812.26	157,738.61	59,073.65
USD	499,720,141.91	485,324,866.54	14,395,275.37
Total	981,908,877.17	962,072,648.78	19,836,228.39

Auditor's Opinion to the General Meeting of Shareholders of Deutsche Bank Polska S.A.

Translation of document originally issued in Polish

We have audited the Financial Statements of Deutsche Bank Polska S.A. located in Warsaw, Plac Grzybowski 12/14/16, that consists of:

- 1) the balance sheet as at 31 December 1998 with assets and liabilities amounting to PLN 1,311,478,935.21;
- 2) off-balance sheet items of contingencies granted amounting to PLN 383,416,428.87, contingencies received amounting to PLN 385,098,776.68 and currency operations amounting to PLN 866,528,615.00;
- 3) profit and loss account for the year ended 31 December 1998 with a net profit of PLN 19,225,270.07;
- 4) cash flow statement for the year ended 31 December 1998 with a net inflow of cash amounting to PLN 89,913,215.86; and,
- 5) supplementary information to the financial statements;

The Board of Directors is responsible for a true and fair presentation of the Bank's financial statements including all other information contained therein. Our responsibility is to express an opinion on these financial statements based on our audit.

We have carried out the audit in compliance with:

- 1) chapter 7 of the Accounting Act dated 29 September 1994, (Official Journal No. 121, item 591 with further amendments);
- 2) auditing standards issued by the National Council of Chartered Accountants.

In our opinion, the attached financial statements comply in all material respects with the accounting principles defined in the above mentioned Accounting Act and the Banking Supervision Commission Resolution No. 1/98 dated 3 June 1998, regarding the special rules for bank accounting and the notes to the financial statement (The Official Journal No. 14, item 27 with amendments), applied consistently on the basis of properly kept accounting books.

The financial statements comply with the form and content requirements of the law and the Bank's Statute and present a true and fair view of all information relevant to the assessment of profitability and results of operations for the year ended 31 December 1998, and of the Bank's financial position as at 31 December 1998.

The Management Report on the Bank's Activities is consistent with the audited financial statements

signed on the Polish originals

Chartered Accountant
No 4979/2575

Hanna Fludra

signed on the Polish originals

On behalf of KPMG Polska
Audyt Sp. z o.o.

Richard Cysarz, Partner

Warsaw, 12 April 1999