BRE Bank SA

Independent Registered Auditor's Opinion on the audit of the financial statements as at and for the year ended 31 December 2003

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's opinion of the above-mentioned Polish company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated opinion has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Independent Registered Auditor's Opinion
to the Shareholders and the Supervisory Board of BRE Bank SA

We have audited the accompanying financial statements of BRE Bank SA (hereinafter called *the Bank*), Warsaw, ul. Senatorska 18, which comprise:

(a) the introduction;

(b) the balance sheet as at 31 December 2003, showing total assets and total equity and liabilities of PLN 26,862,397 thousand;

(c) the statement of off-balance sheet items as at 31 December 2003, showing a total of PLN 192,236,680 thousand;

(d) the income statement for the year ended 31 December 2003, showing a net profit of PLN 1,836 thousand;

(e) the statement of changes in equity for the year ended 31 December 2003, showing an increase in equity of PLN 790 thousand;

(f) the cash flow statement for the year ended 31 December 2003, showing an increase in cash and cash equivalents of PLN 3,670,857 thousand;

(g) additional notes and explanations.

The Bank's Management Board is responsible for preparing financial statements which comply with the applicable regulations. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with the following regulations applicable in the Republic of Poland:

(a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2002, No. 76, item 694 with subsequent changes, hereinafter called *the Act*);

(b) the auditing standards issued by the National Board of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting policies used by the Bank and significant estimates made when preparing the financial statements as well as evaluating the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

Independent Registered Auditor's Opinion
to the Shareholders and the Supervisory Board of BRE Bank SA (cont.)

The information in the Directors' Report for the year ended 31 December 2003 takes account of the provisions of the Decree of the Council of Ministers of 16 October 2001 on current and periodic reporting to be submitted by issuers of securities (Dz.U. of 2001 No. 139, item. 1569) and is consistent with the information presented in the audited financial statements.

In our opinion, and in all material respects, the accompanying financial statements:

(a) have been prepared on the basis of properly maintained accounting records and in accordance with the accounting policies applicable in the Republic of Poland, specified in the above-mentioned Act, the provisions of the Decree of the Minister of Finance of 10 December 2001 on special accounting policies to be applied by banks (Dz.U. of 2001 No. 149, item 1673), the provisions of the Decree of the Minister of Finance of 10 December 2001 on the principles for recording provisions against risk related to banking activities (Dz.U. of 2001 No. 149, item 1672), the provisions of the Decree of the Council of Ministers of 16 October 2001 on current and periodic reporting to be submitted by issuers of securities (Dz.U. of 2001 No. 139, item. 1569), and the provisions of the Decree of the Council of Ministers of 16 October 2001 on special conditions to be met by a prospectus and a mini prospectus (Dz.U. of 2001 No. 139, item 1568);

(b) comply in form and contents with the relevant laws and the Bank's Memorandum of Association;

(c) give a fair and clear view of the Bank's financial position as at 31 December 2003 and of the results of its operations for the year then ended.

On behalf of PricewaterhouseCoopers Sp. z o.o.:

Antoni F. Reczek
Chairman of the Management Board
Registered Auditor
No. 90011/503

Registered Audit Company
No. 144

Warsaw, 27 February 2004

BRE Bank SA

Registered auditor's report on the audit of the financial statements

as at and for the year ended 31 December 2003

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's report of the above-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Registered Auditor's Report on the financial statements to the Shareholders and the Supervisory Board of BRE Bank SA

This report has been prepared in connection with our audit of the financial statements of BRE Bank SA, Warsaw, ul. Senatorska 18 (hereinafter called *the Bank*). The audited financial statements comprise:

(a) the introduction;

(b) the balance sheet as at 31 December 2003, showing total assets and total liabilities & equity of PLN 26,862,397 thousand;

(c) the statement of off-balance-sheet items as at 31 December 2003, showing a total of PLN 192,236,680 thousand;

(d) the income statement for the year ended 31 December 2003, showing a net profit of PLN 1,836 thousand;

(e) the statement of changes in equity for the year ended 31 December 2003, showing an increase in equity of PLN 790 thousand;

(f) the cash flow statement for the year ended 31 December 2003, showing an increase in cash and cash equivalents of PLN 3,670,857 thousand;

(g) additional notes and explanations.

The financial statements were signed by the Bank's Management Board on 27 February 2004. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the Shareholders and the Supervisory Board of BRE Bank SA of 27 February 2004. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

This report contains 37 consecutively numbered pages and consists of:

		Page
I.	General information about the Bank	1
II.	Information on the audit	5
III.	The Bank's results and financial position	6
IV.	Discussion of financial statement components	10
V.	The auditor's statement	36

On basis of PricewaterhouseCoopers Sp. z o.o.:

Antoni F. Reczek
Chairman of the Management Board
Registered Auditor
No. 90011/503

Registered Audit Company
No. 144

Warsaw, 27 February 2004

I. General information about the Bank

(a) The Bank was formed on the basis of Resolution No. 99 of the Council of Ministers of 20 June 1986.

The Bank began operating on 2 January 1987. The Bank was formed on the basis of a Notarial Deed drawn up at the State Notarial Office in Warsaw on 11 December 1986 and registered in Section A I 5919/86. On 23 December 1986, the Bank was entered in the Commercial Register maintained by the District Court in Warsaw, with the reference number 14036.

On 11 July 2001, the District Court in Warsaw, 19th Business Division of the National Court Register, entered the Bank in the Register of Businesses, with the reference number KRS 0000025237.

(b) On 24 June 1993, the Bank was assigned a tax identification number NIP 526-021-50-88 for making tax settlements. For statistical purposes, the Bank was assigned a REGON number 001254524 on 2 June 1998.

(c) The Bank's share capital amounts to PLN 91,882,000.00 and consists of 22,970,500 shares with a nominal value of PLN 4 each.

(d) In the audited year, the Bank's operations comprised the following:

- maintaining bank accounts;
- accepting savings and term deposits;
- clearing cash transactions;
- granting cash loans and consumer loans as defined in other regulations;
- conducting transactions involving bills of exchange and cheques;
- issuing and confirming warranties;
- issuing and confirming banking guarantees and opening letters of credit;
- trading in foreign exchange instruments and financial servicing of cross-border transactions;
- servicing government loans;
- issuing securities, trading in securities, and maintaining security deposit accounts;
- performing commissioned tasks related to issuing securities;
- safeguarding objects and securities and providing safe deposit facilities;
- conducting futures and forward transactions;
- purchasing and selling cash receivables;
- acting as a representative bank as defined in the Act on debentures;
- providing business and financial advice;
- administering funds at the request of State authorities and other persons;
- acquiring shares in banks and commercial companies and partnerships and acquiring units and investment certificates in investment funds in Poland and abroad;
- forming and participating in the formation of banks and commercial companies and partnerships in Poland and abroad;
- canvassing on behalf of pension funds;

I. General information about the Bank (cont.)

- acting as a depositary as defined by the provisions of the Act on the organisation and operations of pension funds;
- acting as a depositary as defined by the provisions of the Act on investment funds;
- conducting activities which consist of accepting orders to acquire, repurchase and subscribe units or investment certificates in investment funds;
- maintaining registers of pension fund members and registers of investment fund participants;
- performing tasks relating to insurance agency services;
- purchasing and selling real estate;
- taking up or purchasing shares and rights arising from shares in other entities;
- exchanging receivables for a debtor's assets on the terms agreed upon with the debtor, with the Bank being obliged to sell the said assets within three years of the date of their being acquired;
- purchasing and selling foreign exchange instruments;
- acting as an intermediary for residents making international money transfers and settling accounts with non-residents in Poland.

(e) The following people were on the Bank's Management Board in the audited year:

- Wojciech Kostrzewa – Chairman of the Management Board;
- Anton M. Burghardt – First Deputy Chairman of the Management Board;
- Krzysztof Kokot – Deputy Chairman of the Management Board;
- Sławomir Lachowski – Deputy Chairman of the Management Board;
- Alicja Kos-Gołaszewska – Member of the Management Board;
- Wiesław Thor – Member of the Management Board;
- Henryk Okrzeja – Deputy Chairman of the Management Board until 21 May 2003;
- Jan Zieliński – Deputy Chairman of the Management Board until 21 May 2003.

(f) The following people were on the Bank's Supervisory Board in the audited year:

- Krzysztof Szwarc – Chairman of the Supervisory Board;
- Andreas de Maiziere – Deputy Chairman of the Supervisory Board;
- Gromosław Czempiński – Member of the Supervisory Board;
- Christian Eisenbeiss – Member of the Supervisory Board;
- Andrzej Książny – Member of the Supervisory Board;
- Teresa Mokrysz – Member of the Supervisory Board;
- Jan Szomburg – Member of the Supervisory Board;
- Nicholas Teller – Member of the Supervisory Board;
- Alberto Crippa – Member of the Supervisory Board until 21 May 2003;
- Michael Schmid – Member of the Supervisory Board since 21 May 2003;
- Gyorgy Suranyi – Member of the Supervisory Board since 21 May 2003.

I. General information about the Bank (cont.)

(g) The Bank had the following related entities as at 31 December 2003:

AMBRESA Sp. z o.o.	- subsidiary
ServicePoint Sp. z o.o.	- subsidiary
Famco S.A.	- subsidiary
Transfinance a.s.	- subsidiary
Centrum Rozliczeń i Informacji CERI Sp. z o.o.	- subsidiary
eCard S.A.	- subsidiary
Polfactor S.A.	- subsidiary
BRELINVEST Sp. z o.o. Fly 1 Sp. komandytowa	- subsidiary
BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	- subsidiary
AMBRESA Sp. z o.o. – BRELLA Sp. komandytowa	- subsidiary
Promes Sp. z o.o.	- subsidiary
Intermarket Bank AG	- subsidiary
Dom Inwestycyjny BRE Banku S.A.	- subsidiary
BRE Leasing Sp. z o. o.	- subsidiary
PTE Skarbiec-Emerytura S.A.	- subsidiary
Rheinhyp – BRE Bank Hipoteczny S.A.	- subsidiary
BRE International Finance B.V.	- subsidiary
BRE Corporate Finance S.A.	- subsidiary
Skarbiec Asset Management Holding S.A.	- subsidiary
BRE.locum Sp. z o. o.	- subsidiary
BRE Finance France S.A.	- subsidiary
Magyar Factor Rt.	- subsidiary
BillBird S.A.	- associate
Tele-Tech Investment Sp. z o. o.	- special purpose associate
TV-Tech Investment 1 Sp. z o.o.	- special purpose associate
Xtrade S.A.	- associate
BREL-AG Sp. z o.o.	- associate, indirectly via BRE Leasing
BREL-AL Sp. z o.o.	- associate, indirectly via BRE Leasing
BREL-BUD Sp. z o.o.	- associate, indirectly via BRE Leasing and Tele-Tech Investment
BREL-FIN Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
BRELIM Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
BRELINVEST Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
BREL-MAR Sp. z o.o.	- associate, indirectly via BRE Leasing, indirectly via Tele-Tech Investment
RAVENNA KATOWICE Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
RAVENNA GDAŃSK Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
RAVENNA KRAKÓW Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
RAVENNA SZCZECIN Sp. z o.o.	- subsidiary, indirectly via BRE Leasing
BREL-RES Sp. z o.o.	- associate, indirectly via Tele-Tech Investment
BMF Capital	- subsidiary, indirectly via BRE Corporate Finance
BRE Agent Transferowy Sp. z o. o.	- subsidiary, indirectly via Skarbiec Asset Management Holding
Skarbiec TFI S.A.	- subsidiary, indirectly via Skarbiec Asset Management Holding

I. General information about the Bank (cont.)

Skarbiec Investment Management S.A.	-	subsidiary, indirectly via Skarbiec Asset Management Holding
Skarbiec Serwis Finansowy Sp. z o.o.	-	subsidiary, indirectly via Skarbiec Asset Management Holding
Serwis Finansowy Sp. z o.o. (w likwidacji)	-	subsidiary, indirectly via Skarbiec Asset Management Holding
Transfinance Slovakia a.s.	-	subsidiary, indirectly via Intermarket and Transfinance
Vartimex s.r.o.	-	associate, indirectly via Transfinance

II. Information on the audit

a) PricewaterhouseCoopers Sp. z o.o. was appointed auditor to the Bank by Resolution No. 29/03 of the Supervisory Board of BRE Bank SA of 21 May 2002, in accordance with paragraph 31 of the Bank's Memorandum of Association.

b) PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit are independent of the audited entity within the meaning of Art. 66, clause 2, of the Accounting Act.

c) The audit was conducted in accordance with an agreement dated 3 June 2002 in the following periods:

- interim audit from 3 November 2003 to 23 December 2003;
- final audit from 5 January 2004 to 27 February 2004.

III. The Bank's results and financial position

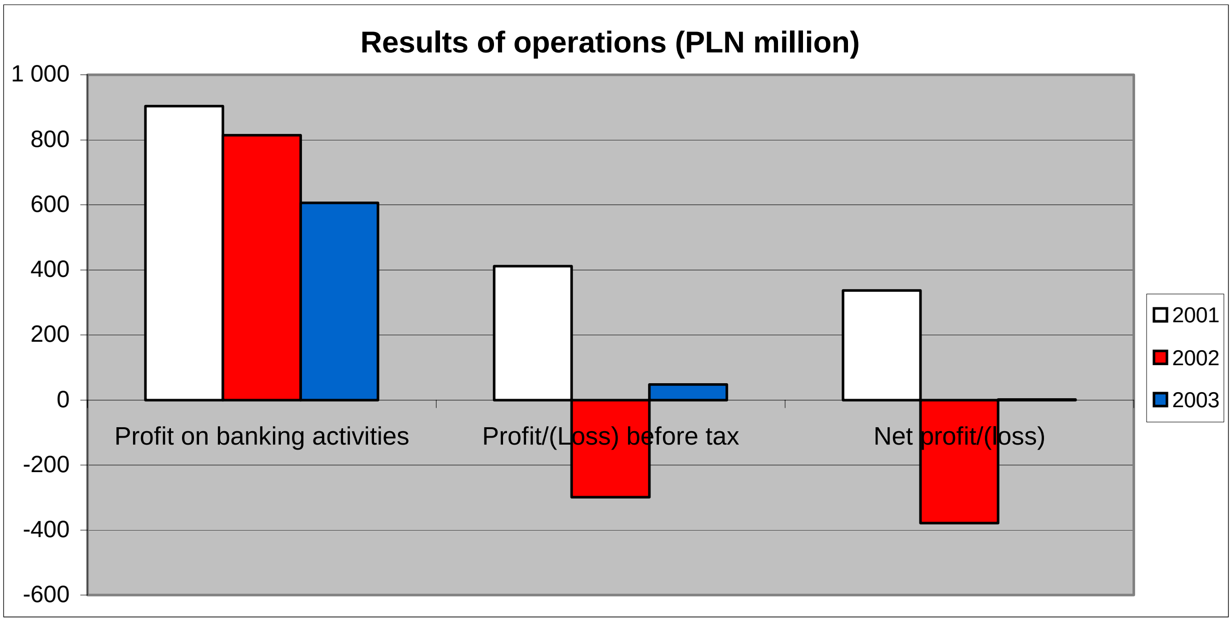
The observations below are based on the knowledge obtained during the audit of the financial statements.

The financial statements do not take account of inflation. The consumer price index (from December to December) amounted to 1.7% in the audited year (0.8% in 2002).

The Bank's results of operations for the year and financial position – summary:

1. In 2003, there was an improvement in the macroeconomic situation in Poland's economy, reflected in the pace of increase in GDP from 1.3% in 2002 to 3.7% (preliminary estimate by GUS – General Statistical Office) in 2003 and the sold production of industry increasing by 8.7% in the corresponding period. Despite this, the profit on banking activities of the entire banking sector declined compared with 2002 (according to data by the NBP) due to the delayed impact of the improvement in the economy on the banks' performance, and the narrowed interest margins following interest rates reductions. In the first half of 2003, the Monetary Policy Board cut NBP interest rates six times, which led to a fall in interest rates on monetary market instruments and reductions in interest rates on the loans and deposits in banks and, consequently, the interest margin. The banking sector's net profit mainly improved due to bad debt provisions going down compared with 2002.

2. In 2003, the Bank's Management Board focused on improving the Bank's results of operations. In particular, the Bank continued its policy of limiting its activity with regard to financial investments. Corporate and investment banking continued to be the Bank's main areas of operations. The Bank also continued to develop retail banking. These activities were accompanied by strict control and streamlining of the Bank's overheads. Pursuing this strategy in the said market conditions was reflected in the Bank's results of operations in 2003.



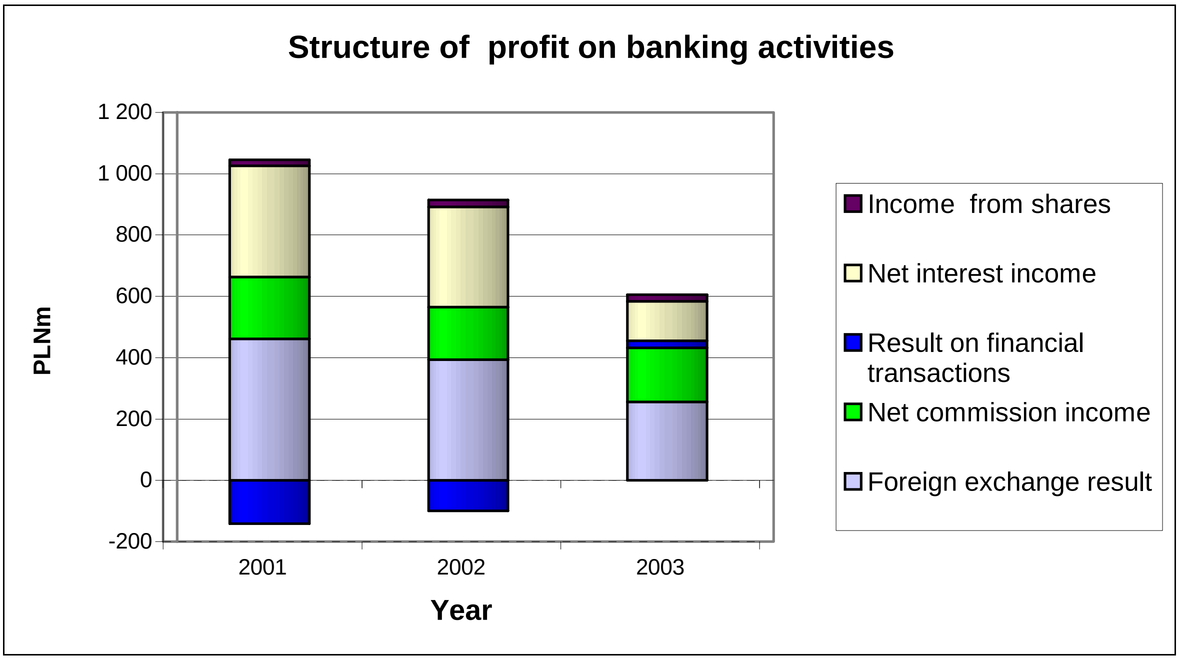
The net profit for the current year amounted to PLN 1,836 thousand compared with the net loss of PLN 379,221 thousand in the previous year.

III. The Bank's results and financial position (cont.)

The said profit was mainly a function of the following components: a profit on banking activities of PLN 605,799 thousand, the Bank's overheads (including depreciation and amortisation) of PLN 598,781 thousand, an excess of provisions released over provisions set up, amounting to PLN 17,095 thousand, and corporation tax charges of PLN 41,892 thousand.

The profit on banking activities declined by PLN 208,226 thousand compared with 2002 as a result of net interest income deteriorating by PLN 198,017 thousand (60.6%) and the foreign exchange result decreasing by PLN 137,546 thousand (35.0%). This negative impact was offset by the result on financial transactions increasing by PLN 121,967 thousand compared with 2002. The Bank made a profit on financial transactions despite the adverse impact of changes in the conditions on the interbank market (in particular, the adverse impact of a decline in the transaction volume and market liquidity) and the said cuts in the NBP interest rates. However, net commission income did not undergo any major changes. In the audited year, it amounted to PLN 177,061 thousand compared with PLN 171,326 thousand in the previous year.

The cost/income ratio significantly deteriorated (as at the end of 2002 it amounted to 57.8% compared with 76.5% as at 31 December 2003). This was due to the fall in the profit on banking activities compared with the previous year, while the Bank's overheads remained at a similar level compared with the prior year.



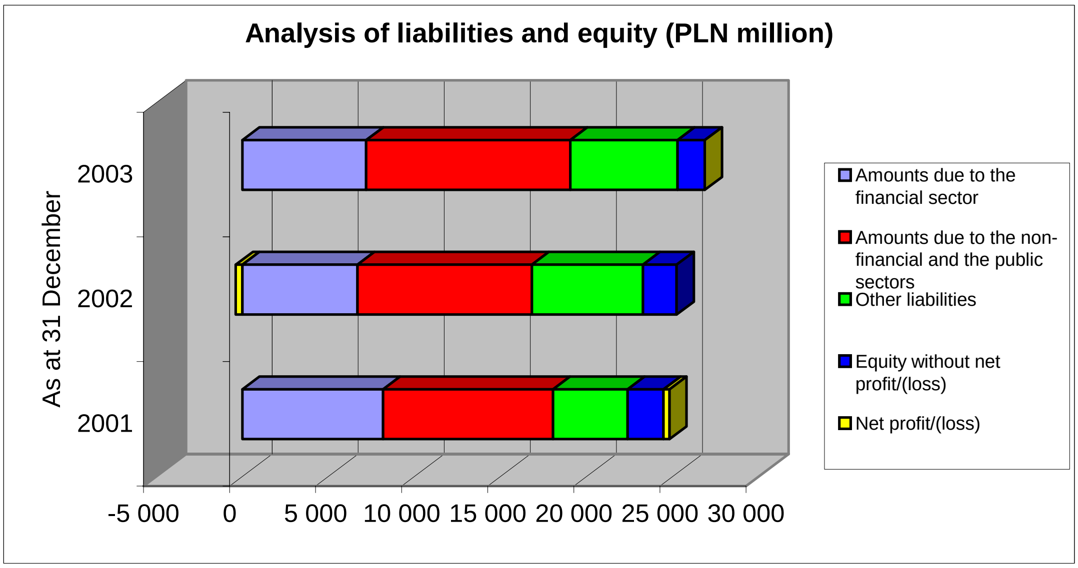
During 2003, the decrease in the profit on banking activities was limited by the trend in provisions set up and released and write-downs, which was much more favourable compared with the previous year. This was mainly due to an improvement in the quality of collateral, accompanied by a small increase in the value of non-performing loans. An increase of PLN 512,015 thousand in net provisions and write-downs enabled the operating profit to be improved by PLN 346,783 thousand compared with the previous year. The operating profit for the 12 months of 2003 amounted to PLN 47,624 thousand.

III. The Bank's results and financial position (cont.)

The increase in the Bank's net profit in the current year compared with 2002 was also due to an improvement in the results of the subordinated entities valued using the equity method, which led to the Bank's shares in these results going up by PLN 175,180 thousand. At the same time, the corporation tax charge increased by PLN 140,860 thousand. Nearly the entire increase could be attributed to an increase in the deferred tax charge, following the decline in the deferred tax rate from 27% to 19%, while the Bank's deductible temporary differences exceeded the taxable differences.

The low net profit of PLN 1,836 thousand led to the Bank's profitability ratios achieving the low levels of 0.12% (return on equity) and 0.18% (return on assets).

3. In the financial year ended 31 December 2003, the Bank's total assets increased by PLN 2,012,831 thousand (i.e. 8.1%). Funds acquired in the form of deposits from the financial and non-financial sectors, as well as loans and funds obtained from financial institutions, remained the main source of funding in 2003. Compared with 31 December 2002, the balance of amounts due to the financial sector increased by PLN 514,788 thousand, and the balance of amounts due to the non-financial sector increased by PLN 1,770,557 thousand, mostly due to a growth in the deposits of mBank's and MultiBank's clients. This growth resulted from the Bank steadily pursuing its strategy, which consisted of increasing the share of the retail sector in the funding structure. This contributed to a slight change in the structure of the Bank's equity and liabilities, as a result of which, the share of the amounts due to the non-financial sector in the Bank's total assets increased from 40.3% as at the end of 2002 to 43.9% as at 31 December 2003.

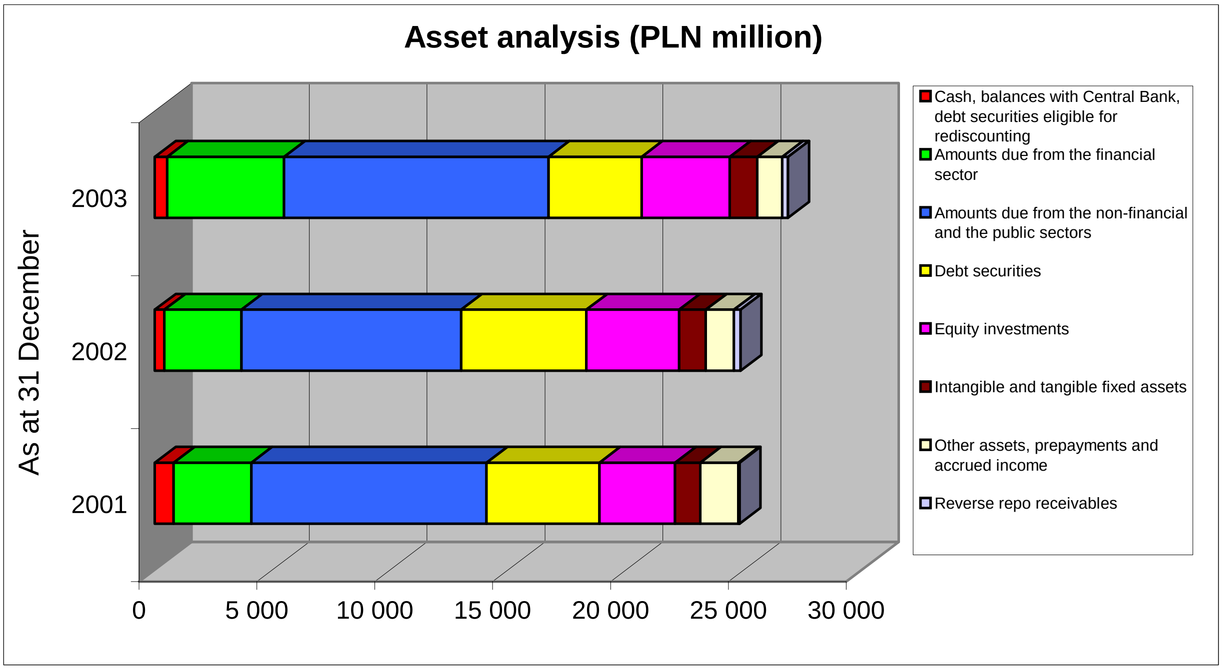


The Bank invested the funds raised in working assets, which increased by PLN 1,889,136 thousand compared with 31 December 2002. In particular, there was an increase in the Bank's short-term deposits on the interbank market in order to maintain adequate liquidity levels.

III. The Bank's results and financial position (cont.)

An increase in current liabilities in respect of the inflow of retail funding during 2003 (up PLN 1,814 thousand) required, in order to maintain an appropriate maturity structure, an increase in the balance of short-term assets. As a result, the current ratio decreased by 0.03 p.p., from 0.86 as at the beginning of the year to 0.83 as at the end of the year.

Due to a fall in the market prices, the Bank reduced its exposure to Treasury bonds and Treasury bills – the balance of debt securities declined by PLN 1,367,138 thousand (i.e. by 25.7%) compared with 31 December 2002, and the related available excess funds enabled the Bank to increase the non-financial sector credit exposure.



During the year, gross amounts due from the non-financial and the public sector increased by a total of 18.7% which, with the portfolio of non-performing loans increasing by 13.9%, led to a slight improvement in the structure of the loan portfolio. The share of classified loans in the whole of the portfolio of "Amounts due from the non-financial and the public sectors" declined from 22.0% as at 31 December 2002 to 21.1% as at 31 December 2003. The changes in the structure of the portfolio were mainly due to a loan being granted to a large entity in the public sector (PLN 1,500 mln). This loan is classified as a normal loan. If the said loan had not been taken into consideration, the share of the non-performing loans in the Bank's portfolio at the year-end would have increased to 24.2%, reflecting a further deterioration in the quality of the Bank's portfolio during 2003.

Compared with 31 December 2002, the Bank's equity increased by PLN 790 thousand and amounted to PLN 1,583,287 thousand. The structure of the equity changed, followed by the net loss for 2002 (PLN 379,221 thousand) and accumulated losses (PLN 228,772 thousand) being offset. Offsetting the losses in full against other reserves, in accordance with the decision of the General Shareholders' Meeting of the Bank, led to the decline in the other reserves balance by PLN 607,993 thousand.

IV. Discussion of financial statement components

BALANCE SHEET as at 31 December 2003

	Note	31.12.2003 PLN'000	31.12.2002 PLN'000	Change PLN'000	Change (%)	31.12.2003 Structure (%)	31.12.2002 Structure (%)
ASSETS							
Cash and balances with the Central Bank	1	473,243	360,538	112,705	31.3	1.8	1.5
Debt securities eligible for rediscounting at the Central Bank		52,765	49,021	3,744	7.6	0.2	0.2
Amounts due from the financial sector	2	4,957,906	3,265,405	1,692,501	51.8	18.5	13.2
Amounts due from the non-financial sector	3	9,635,845	9,275,400	360,445	3.9	35.9	37.3
Amounts due from the public sector	3	1,585,554	50,367	1,535,187	3 048.0	5.9	0.2
Receivables in respect of the purchase of securities with a repurchase clause		254,318	283,731	(29,413)	(10.4)	1.0	1.1
Debt securities	4	3,945,658	5,312,796	(1,367,138)	(25.7)	14.7	21.4
Shares in subsidiaries	5	899,270	871,089	28,181	3.2	3.3	3.5
Shares in co-subsidiaries		0	0	0	0.0	0.0	0.0
Shares in associates	6	358	3,924	(3,566)	(90.9)	0.0	0.0
Shares in other entities	7	9,287	12,830	(3,543)	(27.6)	0.0	0.1
Other securities and other financial assets	8	2,833,777	3,040,788	(207,011)	(6.8)	10.5	12.2
Intangible assets	9	226,632	259,258	(32,626)	(12.6)	0.8	1.0
Tangible fixed assets	10	939,710	874,989	64,721	7.4	3.5	3.5
Other assets	11	381,355	278,569	102,786	36.9	1.4	1.1
Prepayments and deferred costs	12	666,719	910,861	(244,142)	(26.8)	2.5	3.7
Total assets		**26,862,397**	**24,849,566**	**2,012,831**	**8.1**	**100.0**	**100.0**

IV. Discussion of financial statement components (cont.)

BALANCE SHEET as at 31 December 2003 (cont.)

	Note	31.12.2003 PLN'000	31.12.2002 PLN'000	Change PLN'000	Change (%)	31.12.2003 Structure (%)	31.12.2002 Structure (%)
LIABILITIES AND EQUITY							
Amounts due to the Central Bank		0	1,532	(1,532)	(100.0)	0.0	0.0
Amounts due to the financial sector	13	7,205,743	6,690,955	514,788	7.7	26.8	26.9
Amounts due to the non-financial sector	14	11,779,674	10,009,117	1,770,557	17.7	43.9	40.3
Amounts due to the public sector	14	65,480	118,554	(53,074)	(44.8)	0.2	0.5
Liabilities in respect of the sale of securities with a repurchase clause		1,464,997	1,942,315	(477,318)	(24.6)	5.5	7.8
Issue of debt securities	15	165,298	25,286	140,012	553.7	0.6	0.1
Other liabilities in respect of financial instruments	16	2,346,443	2,233,465	112,978	5.1	8.7	9.0
Special funds and other liabilities	17	113,393	98,957	14,436	14.6	0.4	0.4
Accruals, deferred income and suspended income	18	282,711	222,392	60,319	27.1	1.1	0.9
Provisions	19	675,896	918,972	(243,076)	(26.5)	2.5	3.7
Subordinated liabilities	20	1,179,475	1,005,524	173,951	17.3	4.4	4.0
Share capital	21	91,882	91,882	0	0.0	0.3	0.4
Supplementary capital	21	748,739	748,738	1	0.0	2.8	3.0
Revaluation reserve	21	(1,636)	(3,045)	1,409	(46.3)	0.0	0.0
Other reserves	21	744,922	1,352,915	(607,993)	(44.9)	2.8	5.4
Accumulated losses		(2,456)	(228,772)	226,316	(98.9)	0.0	(0.9)
Net profit/(loss)		1,836	(379,221)	381,057	(100.5)	0.0	(1.5)
Total liabilities and equity		**26,862,397**	**24,849,566**	**(2,012,831)**	**8.1**	**100%**	**100%**

IV. Discussion of financial statement components (cont.)

INCOME STATEMENT for the year ended 31 December 2003

	Note	31.12.2003 PLN'000	31.12.2002 PLN'000	Change PLN'000	Change (%)	31.12.2003 Structure (%)	31.12.2002r. Structure (%)
Interest income		865,812	1,472,137	(606,325)	(41.2)	49.2	59.9
Interest expense		(737,056)	(1,145,364)	408,308	35.6	(43.0)	(41.6)
Net interest income	22	**128,756**	**326,773**	**(198,017)**	**(60.6)**		
Commission income		266,135	227,000	39,135	17.2	15.1	9.2
Commission expense		(89,074)	(55,674)	(33,400)	(60.0)	(5.2)	(2.0)
Net commission income		**177,061**	**171,326**	**5,735**	**3.3**		
Income from shares, other securities and other financial instruments with variable yield		22,540	22,905	(365)	(1.6)	1.3	0.9
Result on financial transactions	23	21,745	(100,222)	121,967	121.7	1.2	(3.6)
Foreign exchange result	24	255,697	393,243	(137,546)	(35.0)	14.5	16.0
Profit on banking activities		**605,799**	**814,025**	**(208,226)**	**(25.6)**		
Other operating income	25	48,221	31,915	16,306	51.1	2.7	1.3
Other operating expenses	26	(24,710)	(53,697)	28,987	54.0	(1.4)	(1.9)
Bank's overheads	27	(463,657)	(470,607)	6,950	1.5	(27.0)	(17.1)
Depreciation and amortisation		(135,124)	(125,875)	(9,249)	(7.3)	(7.9)	(4.6)
Provisions and write-downs	28	(265,362)	(804,350)	538,988	67.0	(15.5)	(29.2)
Release of provisions and reversal of write-downs		282,457	309,430	(26,973)	(8.7)	16.0	12.6
Net provisions and write-downs		17,095	(494,920)	512,015	103.5		
Operating profit/(loss)		**47,624**	**(299,159)**	**346,783**	**115.9**		
Net extraordinary gains		68	114	(46)	(40.4)	0.0	0.0
Profit/(Loss) before tax		**47,692**	**(299,045)**	**346,737**	**115.9**		
Corporate income tax	29	(41,892)	98,968	(140,860)	(142.3)		
Share in net profits/(losses) of subordinated entities valued using the equity method	30	(3,964)	(179,144)	175,180	97.8		
Net profit/(loss)		**1,836**	**(379,221)**	**381,057**	**100.5**		
Total income		1,762,787	2,456,989	(694,202)	(28.3)	100.0	100.0
Total costs		(1,715,095)	(2,756,034)	1,040,939	37.8	(100.0)	(100.0)
Profit/(Loss) before tax		**47,692**	**(299,045)**	**346,737**	**115.9**		

IV. Discussion of financial statement components (cont.)

Presentation of the Bank's financial position and results of operations

	31.12.2003	31.12.2002
Profit/(Loss) before tax	47,692 thousand	(299,045) thousand
Total assets	26,862,397 thousand	24,849,566 thousand
Net assets	1,583,287 thousand	1,582,497 thousand
Equity according to KNB (*Banking Supervision Commission*) Resolution No. 6/2001	1,795,920 thousand	1,883,046 thousand
Total capital requirement, including the requirement concerning the risk of excessive capital exposure (total regulatory capital requirement according to KNB Resolution No. 5/2001)	1,562,326 thousand	1,555,291 thousand
Capital adequacy ratio according to KNB Resolution No. 5/2001	9.45%	10.01 %
ROE (net profit / average equity) (1)	0.12%	(18.89%)
ROA (profit before tax / average assets) (1)	0.18%	(1.20%)
Working assets (debt securities, gross normal, watch and substandard loans – net of interest)	18,806,239 thousand	16,917,103 thousand
Cost / income ratio (Bank's overheads / result on banking operations)	76.54%	57.81%
Gross profitability (profit before tax / total income)	2.71%	(12.17%)
Return on loans (interest from the non-financial and public sectors and commissions on loans / average total gross loans to the non-financial and the public sectors)	5.43%	8.27%
Cost of borrowings (interest expense / average deposits) (1)	5.43%	8.39%
Equity to equity & liabilities (average equity / average total equity and liabilities) (1)	6.12%	8.09%
Loans to assets (average gross loans to the non-financial and the public sectors / average total assets) (1)	42.15%	40.67%
Classified loans to total loans (gross non-performing loans to the non-financial and the public sectors / total gross loans to the non-financial and the public sectors) (1)	21.15%	22.47%
Working assets to total assets	70.01%	68.08%
Liquidity I (assets due within 1 month / liabilities due within 1 month) (2)	0.83	0.86
Liquidity II (assets due within 3 months / liabilities due within 3 months) (2)	0.87	0.85
(Loss) / Earnings per share	PLN 0.08	PLN (16.51)
Book value per share	PLN 68.93	PLN 68.89

(1) Average balances were calculated on the basis of the individual balances as at the beginning and the end of the current and previous year.
(2) Liquidity ratios include the entire balance of marketable debt securities as amounts which mature within 1 month.
(3) Individual ratio levels may differ from those presented in the financial statements due a different method of calculation being applied.

IV. Discussion of financial statement components (cont.)

Balance sheet as at 31 December 2003

1. Cash and balances with the Central Bank

As at 31 December 2003, "Cash and balances with the Central Bank" amounted to PLN 473,243 thousand (PLN 360,538 thousand as at the end of 2002).

The 31.3% increase in "Cash and balances with the Central Bank" in the current year was mainly due to the balance of the current account with the NBP increasing by PLN 106,011 thousand compared with 31 December 2002.

The average balance of cash in the current account with the NBP in December 2003 amounted to PLN 420,489 thousand (PLN 511,260 thousand in December 2002), which met the requirements posed by the regulations concerning the mandatory reserve deposit. As at the balance sheet date, the required mandatory reserve deposit with the NBP decreased compared with the prior year as a result of the Monetary Policy Council reducing the mandatory reserve rate from 4.5% to 3.5% (MPC Resolution No. 14/2003 of 30 September 2003) and amounted to PLN 403,421 thousand (PLN 515,741 thousand as at 31 December 2002).

2. Amounts due from the financial sector

As at the balance sheet date, the net balance of "Amounts due from the financial sector" amounted to PLN 4,957,906 thousand which, compared with PLN 3,265,405 thousand as at the end of 2002, represented a 51.8% increase (in gross terms, the increase amounted to 50.5%, from PLN 3,328,860 thousand to PLN 5,010,068 thousand). The increase in the value of this component was accompanied by an increase in the share of "Amounts due from the financial sector" in total assets. This share increased from 13.2% as at 31 December 2002 to 18.5% as at the end of 2003.

Current amounts due, net of interest and provisions, increased by PLN 1,208,827 thousand (i.e. by 131.1%), whereas term amounts due increased by PLN 467,425 thousand (i.e. by 19.6%). The increase in the term amounts due mainly resulted from an increase in gross loans, deposits and borrowings (up PLN 547,156 thousand). The increase in the balance was mainly due to an increase in the amount of funds raised as a result of the Bank's increased activity on the market for 'sell buy back' transactions in securities, which was the result of a department for cooperation with financial clients being established at the end of 2002. An increased inflow of cash as part of these transactions is invested in the form of PLN deposits placed with other banks.

3. Amounts due from the non-financial and the public sectors

As at 31 December 2003, the balance of "Amounts due from the non-financial and the public sectors amounted to PLN 11,221,399 thousand (PLN 9,325,767 thousand as at 31 December 2002), which represented a 20.3% increase. Compared with 2002, the proportion of "Amounts due from the non-financial and the public sectors" in the structure of assets as at 31 December 2003 went up from 37.5% to 41.8%.

IV. Discussion of financial statement components (cont.)

3. Amounts due from the non-financial and the public sectors (cont.)

The increase in the balance of this component was mainly due to a loan of PLN 1,500,000 thousand being granted to a large entity in the public sector, which accounts for 97.7% of the increase in the amounts due from the public sector. The portfolio of "Amounts due from the non-financial sector" increased by PLN 360,445 thousand (i.e. by 3.9%) in the audited year. The gross value of the amounts due from the non-financial sector was PLN 10,247,169 thousand as at 31 December 2003 compared with PLN 9,915,165 thousand as at the end of 2002, which represents a 3.3% increase in the value of the portfolio. As a result of the balance of provisions recorded declining by 4.4% to PLN 611,324 thousand, the rate of increase in net amounts due from the non-financial sector as at 31 December 2003 is higher than the rate of increase in the gross balance. The amounts due from non-financial institutions also comprise the debt securities of non-financial entities purchased on the primary market (and, consequently, classified as "originated loans") with a total carrying value of PLN 112,995 thousand. The closing balance of these debt securities was lower by PLN 145,086 thousand compared with the end of 2002, mainly due to a part of ITI Holdings S.A.'s bonds with a value of USD 42,500 thousand being redeemed (PLN 158,971 thousand at the NBP mid-exchange rate as of 31 December 2003).

The currency structure of gross amounts due from the non-financial and the public sectors as at 31 December 2003 showed an excess of domestic currency exposure (59.3%) over foreign currency exposure (40.7%) compared with a fairly even spread of exposures in domestic currency (51.4%) and foreign currencies (48.6%) as at 31 December 2002. The change in the currency structure of the amounts due from non-financial entities mainly resulted from more loans being granted in PLN than in foreign currencies, which was associated with an increase in foreign exchange risk due to fluctuations in the exchange rates of USD and EUR. Moreover, the change in the currency structure of the amounts due from non-financial entities resulted from a large PLN loan being granted to a large entity in the public sector (PLN 1,500,000 thousand). During the current financial year, there was a decrease in the share of the US dollar and the euro in the amounts due from the non-financial and the public sectors denominated in foreign currencies. As at 31 December 2003, it was the euro and the US dollar which had the largest shares in the foreign currency exposure (17.8% and 12.4% respectively of gross amounts due from the non-financial and the public sectors). By way of comparison, as at 31 December 2002 the shares of the euro and the US dollar in the portfolio of the amounts due from non-financial and public sector entities amounted to 22.5% and 19.2% respectively. It was the Swiss franc whose share showed the largest increase (9.3% of gross amounts due from the non-financial and the public sectors as at the end of 2003 and 4.3% as at the end of 2002).

IV. Discussion of financial statement components (cont.)

3. Amounts due from the non-financial and the public sectors (cont.)

The structure of the loan portfolio in terms of risk (net of interest accrued) was as follows:

Loans	**31.12.2003**		**31.12.2002**	
	Balance PLN'000	**Share (%)**	**Balance PLN'000**	**Share (%)**
Normal	8,239,526	69.6%	6,946,325	69.7%
Watch	859,580	7.3%	630,114	6.3%
Classified	2,502,159	21.1%	2,196,409	22.1%
Including:				
substandard	799,640	6.7%	767,324	7.7%
doubtful	1,005,309	8.5%	894,844	9.0%
loss	697,210	5.9%	534,241	5.4%
Interest	231,458	2.0%	192,684	1.9%
Total (gross)	**11,832,723**	**100.0%**	**9,965,532**	**100.0%**
Specific provisions	**(611,324)**	**5.2%**	**(639,765)**	**6.4%**
Total (net)	**11,221,399**		**9,325,767**	

The above analysis shows that, compared with the previous year, in the audited year there was both a decrease in the ratio of provisions to total gross loans (from 6.4% to 5.2%) and a decrease in the coverage of classified loans with specific provisions (from 29.1% to 24.4%). If the loan granted to the large entity in the public sector (PLN 1,500,000 thousand) in 2003 were excluded, the ratio of provisions to total gross loans would have amount to 5.9% and would be lower than in the previous year. The said fall was mainly due to the fact that in 2003 there was a reduction in the Bank's exposure to companies for which it did not have collateral that enabled the provisioning base to be reduced in accordance with the provisions of the Finance Minister's Decree of 10 December 2001 concerning principles for setting up general banking risk provisions (*Journal of Laws* No. 149, item 1672).

4. Debt securities

The balance of "Debt securities" amounted to PLN 3,945,658 thousand as at 31 December 2003, which accounted for 14.7% of the Bank's total assets. Compared with 31 December 2002, this component decreased by PLN 1,367,138 thousand (which represented a 25.7% decline).

The decrease in "Debt securities" as at 31 December 2003 compared with the end of the previous financial year was mainly due to the portfolio of debt securities issued by the State Budget going down by PLN 1,450,142 thousand (i.e. by 31.7%), with the value of Treasury bills decreasing by PLN 1,194,777 thousand (down 43.7%), whereas the value of Treasury bonds went down by PLN 255,365 thousand (down 13.9%). This fall was mainly due to the Bank's current liquidity being adjusted and the prices of debt securities decreasing in the audited year.

IV. Discussion of financial statement components (cont.)

4. Debt securities (cont.)

As at 31 December 2003, debt securities were classified into securities available for sale and securities held for trading. The portfolio of the debt securities available for sale comprised Treasury bills blocked by virtue of the requirements of the Bank Guarantee Fund. The total carrying value of the bills shown as part of the debt securities was PLN 20,940 thousand. In addition, the portfolio of debt securities available for sale comprised Brady bonds with a carrying value of PLN 193,087 thousand and the commercial debentures of a non-financial entity with a total carrying value of PLN 45,353 thousand. Other debt securities were shown in the portfolio of debt securities held for trading.

5. Shares in subsidiaries

As at 31 December 2003, the balance of "Shares in subsidiaries" amounted to PLN 899,270 thousand and increased by 3.2% (i.e. by PLN 28,181 thousand) compared with 31 December 2002. The increase in this component was the result of the Bank purchasing and selling shares during 2003 and changes in the value of companies valued using the equity method.

The increase in the balance was due to shares being taken up in Centrum Rozliczeń i Informacji CERI Sp. z o. o. ("CERI") for a total of PLN 12,065 thousand, shares being purchased in Magyar Factor Rt. ("Magyar Factor") for PLN 9,380 thousand, and shares being taken up in BRE Finance France S.A. ("BFF") for PLN 1,061 thousand. Moreover, the Bank increased the share capital of PTE Skarbiec-Emerytura S.A. ("PTE") by PLN 14,000 thousand.

The value of this component was also impacted by decreases in the Bank's investments in its subsidiaries, with the major falls including the following: the withdrawal of a part of the investment in AMBRESA Sp. z o.o. – BRELLA Sp. k. with a value of PLN 4,645 thousand, the investment in BRELINVEST Sp. z o.o. Fly 1 Sp. k. with a value of PLN 2,518 thousand, and the investment in BRELINVEST Sp. z o.o. Fly 2 Sp. k. with a value of PLN 2,494 thousand. Moreover, as a result of 5.6% of shares in BillBird S.A. ("BillBird") being sold, the Bank's interest in the company's capital decreased to 45.4%. Therefore, the remaining shares in this company were reclassified to "Shares in associates" in the Bank's portfolio. The carrying value of BillBird's shares amounted to PLN 3,608 thousand as at the beginning of the financial year. In the current financial year, there was also a merger with Bank Częstochowa S.A., whose shares were shown as shares in subsidiaries with a carrying value of PLN 15,705 thousand as at 31 December 2002.

Moreover, the balance of the portfolio of shares in subsidiaries was also significantly affected by the adopted valuation method. In accordance with the binding provisions, the Bank calculated the value of this portfolio using the equity method. The carrying value of the companies valued using the equity method increased mainly due to an increase in the carrying value of the shares in Intermarket Bank AG (up PLN 14,208 thousand), PTE (up PLN 8,422 thousand), Skarbiec Asset Management Holding S.A. (up PLN 4,825 thousand), and Transfinance a.s. (up PLN 3,107 thousand). The details of the valuation using the equity method are presented in Note 30 to this report.

IV. Discussion of financial statement components (cont.)

6. Shares in associates

The balance of "Shares in associates" amounted to PLN 358 thousand as at the balance sheet date (PLN 3,924 thousand as at 31 December 2002). As at 31 December 2003 the balance of this component decreased by 90.9% compared with 31 December 2002. In the current financial year, the Bank reclassified Transfinance a.s. and Polfactor S.A. from associates to subsidiaries, which was reflected in comparable data being adjusted accordingly.

As with its shares in the subsidiaries, the Bank performed an appropriate valuation of its shares in the associates as at the end of the financial year, using the equity method. The change in the carrying value of "Shares in associates" was due to Xtrade S.A. ("Xtrade") and Tele-Tech Investment Sp. z o.o. ("Tele-Tech") being valued using the equity method. The carrying value of Xtrade amounted to PLN 5,449 thousand as at the beginning of the year and declined to PLN 1,424 thousand as at the end of the year, whereas the carrying value of Tele-Tech amounted to PLN (4,801 thousand) and decreased by PLN 3,276 thousand compared with the beginning of the financial year due to the company incurring a loss and its unrealised gains being adjusted. Moreover, in 2003 BillBird's shares were reclassified from "Shares in subsidiaries" to "Shares in associates". The carrying value of BillBird's shares amounted to PLN 3,687 thousand as at 31 December 2003.

7. Shares in other entities

The balance of "Shares in other entities" amounted to PLN 9,287 thousand as at the balance sheet date (PLN 12,830 thousand as at 31 December 2002) and decreased by 27.6% compared with 31 December 2002. The decrease in the balance was mainly due to DESA Unicum Sp. z o.o.'s shares being sold, whose carrying value amounted to PLN 3,289 thousand as at the beginning of the year.

The decrease in "Shares in other entities" was also due to a fall in the value of shares in foreign funds: Poland Investment Fund, Polish PRE-IPO Fund LP, and Prospect Poland UK LP, which amounted to PLN (291 thousand). This decrease resulted from changes in the value of the net assets of these funds.

IV. Discussion of financial statement components (cont.)

8. Other securities and other financial assets

As at the balance sheet date, "Other securities and other financial assets" amounted to PLN 2,833,777 thousand (PLN 3,040,788 thousand as at 31 December 2002), which accounted for 10.5% of the value of all of the Bank's assets. During 2003, the balance of this component went down by PLN 207,011 thousand (i.e. by 6.8%). This decrease was due to a fall in the value of the portfolio, which was partially compensated for by an increase in unrealised gains on valuation of derivatives.

As at 31 December 2003, the positive fair value of derivatives amounted to PLN 2,418,529 thousand and increased by PLN 7,040 thousand (0.3%) compared with the end of 2002. There was a change in the structure of the underlying instruments – as at the balance sheet date, interest rate derivatives with a fair value accounted for 55% of the whole portfolio, FX based derivatives – 43%, and equity derivatives – 2%. In 2002, these proportions amounted to 67.5%, 32% and 0.5%.

Such a large balance of derivatives disclosed in the balance sheet is partly due to the related fair valuation being presented on a gross basis, rather than on a net basis. Derivatives with a positive fair value are presented in "Other securities and other financial assets" on the assets side of the balance sheet, whereas derivatives with a negative fair value are disclosed in "Other liabilities in respect of financial instruments" on the equity and liabilities side of the balance sheet.

The balance of "Other" in "Other securities and financial assets" fell by PLN 214,051 thousand, which represented a 34.0% decrease in value. The fall in the said item was mainly due to the Bank limiting the portfolio of its own investments. During the financial year analysed, the Bank sold the following shares which reduced the balance by the following amounts:

- Elektrim S.A.'s shares – PLN 97,751 thousand (as at the beginning of the year, their carrying value amounted to PLN 110,906 thousand and fell to PLN 13,155 thousand as at 31 December 2003);
- BPT TELBANK S.A.'s shares – PLN 53,005 thousand;
- PKN Orlen S.A.'s shares – PLN 59,939 thousand;
- Optimus S.A.'s shares – PLN 10,290 thousand (as at 31 December 2002, their carrying value amounted to PLN 13,297 thousand and went down to PLN 3,007 thousand as at the end of the financial year).

Moreover, in 2003 the Bank purchased shares in Optimus IC S.A. and invested the loan received from the Bank Guarantee Fund in Wschodni Bank Cukrownictwa S.A.'s shares. The carrying value of these shares amounted to PLN 7,849 thousand and PLN 8,430 thousand, respectively.

IV. Discussion of financial statement components (cont.)

9. Intangible assets

As at the balance sheet date, the balance of "Intangible assets" amounted to PLN 226,632 thousand compared with PLN 259,258 thousand as at 31 December 2002, which represented a 12.6% decrease.

The gross book value of the "Intangible assets" amounted to PLN 383,276 thousand as at 31 December 2003 and increased by PLN 11,248 thousand compared with the end of 2002. The largest additions represented the purchase of concessions, patents, licences, and similar assets (PLN 12,359 thousand) and the transfer of assets from fixed assets under construction to intangible assets (e.g. the BRE-Link system), whose value amounted to PLN 7,270 thousand upon being transferred. The fall in net intangible assets mainly resulted from the amortisation charge, which amounted to PLN 57,869 thousand.

The wear and tear of the intangible assets defined as the ratio of accumulated amortisation to the gross book value of the intangible assets amounted to 40.9% as at 31 December 2003. The same ratio amounted to 30.3% as at 31 December 2002.

10. Tangible fixed assets

As at the balance sheet date, the balance of "Tangible fixed assets" amounted to PLN 939,710 thousand compared with PLN 874,989 thousand as at 31 December 2002, which represented a 7.4% increase.

The largest additions related to fixed assets under construction whose value increased by PLN 100,294 thousand in the course of 2003. This increase was connected with the continuation of the construction of IT systems, mainly the financial and accounting system "Globus" definitely being the largest project.

The wear and tear of the tangible fixed assets defined as the ratio of accumulated depreciation to the gross book value of the tangible fixed assets amounted to 32.8% and went up compared with the corresponding ratio as at 31 December 2002, which amounted to 27.9%.

IV. Discussion of financial statement components (cont.)

11. Other assets

The balance of "Other assets" increased from PLN 278,569 thousand as at 31 December 2002 to PLN 381,355 thousand as at the end of the audited year (i.e. by 36.9%). This growth was mainly due to the increase in the balance of "Debtors" by PLN 168,101 thousand (i.e. by 94.7%), overpaid corporate income tax balances of PLN 62,515 thousand.

The "Debtors" balance of PLN 345,649 thousand was the main component of "Other assets". The "Debtors" balance mainly comprised prepayments for the purchase of shares in the following companies:

Prepayments for purchase of shares	**31.12.2003 PLN'000**
TVN Sp. z o.o.	158,971
cable.com S.A.	32,348
BRE.locum Sp. z o.o.	23,959
Optimus S.A.	15,786
Other	10,449
Total	**241,513**

The "Debtors' balance included also PLN 54,988 thousand due from Polsat Media S.A. in respect of the difference between the prevailing market price and the contractual price of Elektrim S.A.'s shares. In accordance with the agreement, disposal of the respective Elektrim share tranches is settled based on the prevailing market prices on the respective disposal dates. The difference between the prevailing market price and contractual price for the respective tranches is to be paid by Polsat Media S.A. by 30 June 2004.

Moreover, the increase in the balance of "Debtors" during 2003 was mainly due to a prepayment to TV-Tech Investment 1 for the purchase of TVN Sp. z o.o.'s shares, amounting to USD 42,500 thousand (i.e. PLN 158,971 thousand).

In "Other assets", the Bank also shows capital contributions to BRE.locum Sp. z o.o. of PLN 21,611 thousand (PLN 30,263 thousand as at 31 December 2002) and BRE Leasing Sp. z o.o. of PLN 8,998 thousand.

12. Prepayments and deferred costs

The balance of "Prepayments and deferred costs" amounted to PLN 666,719 thousand as at 31 December 2003 compared with PLN 910,861 thousand as at 31 December 2002. With regard to deferred tax of PLN 634,802 thousand, this component is discussed in detail in Note 29 of this Report. The remaining portion of the balance constituting "Other prepayments and deferred costs" increased from PLN 6,625 thousand to PLN 31,917 thousand (i.e. by 381.8%) in 2003. This was mainly due to the Bank deferring the cost of commissions (PLN 7,431 thousand) on a syndicated loan that was granted in 2003 and the cost of purchasing benefits on securities (PLN 13,896 thousand).

IV. Discussion of financial statement components (cont.)

13. Amounts due to the financial sector

As at 31 December 2003, the balance of "Amounts due to the financial sector" was PLN 7,205,743 thousand (PLN 6,690,955 thousand as at 31 December 2002), which represents a 7.7% increase. This was mainly due to an increase in liabilities in respect of accepted cash collateral, which increased by PLN 1,204,087 thousand (i.e. by 97.2%). The vast majority of this change related to a security deposit paid by BRE Finance France S.A. in connection with the Bank underwriting an issue of debt securities of this entity. Moreover, in the audited year the balance of cash in bank accounts and deposits, as well as loans received, fell by PLN 503,660 thousand and PLN 268,825 thousand, respectively. Due to the Bank's total assets increasing in the audited year, the share of the amounts due to financial institutions in its equity and liabilities remained unchanged and amounted to 26.8%.

The share of amounts due to the financial sector denominated in foreign currencies increased from 57.6% as at the end of 2002 to 65.2% as at 31 December 2003.

14. Amounts due to the non-financial and the public sectors

As at the balance sheet date, the balance of "Amounts due to the non-financial and the public sectors" was PLN 11,845,154 thousand (PLN 10,127,671 thousand as at 31 December 2002). As at the end of 2003, the balance of "Amounts due to the non-financial sector" amounted to PLN 11,779,674 thousand (PLN 10,009,117 thousand as at 31 December 2002), whereas amounts due to the public sector amounted to PLN 65,480 thousand (PLN 118,554 thousand as at the end of 2002).

The increase of PLN 1,770,557 thousand in "Amounts due to the non-financial sector" (i.e. 17.7%) was mainly due to a growth in the amount of funds accumulated in the accounts of mBank's clients (up PLN 1,028,376 thousand compared with the end of 2002, i.e. up to PLN 2,987,016 thousand). This was consistent with the Bank's policy of increasing the retail sector's share in the Bank's funding structure.

Moreover, there was a change in the structure of the "Amounts due to the non-financial and the public sectors". In 2003, there was a further decrease in the share of term deposits from 51.9% as at 31 December 2002 to 49.9% as at 31 December 2003. The change in the structure of the amounts due to clients in the non-financial sector was mainly due to interest rates reductions and a substantial amount of funds being accumulated in the accounts of mBank's clients, mainly on current accounts.

As at 31 December 2003, the share of amounts due to the non-financial and the public sectors, denominated in the Polish currency, was much larger than the share of amounts due denominated in foreign currencies (80.7% and 19.3% respectively), as was the case as at 31 December 2002 (80.5% and 19.5% respectively). During the current financial year, there was a decrease in the share of amounts due denominated in US dollars compared with other foreign currencies. As at 31 December 2003, it was the euro and the US dollar that represented the largest share of the amounts due denominated in foreign currencies (10.4% and 8.5% respectively of the amounts due to the non-financial and the public sectors compared with 8.5% and 10.6% as at 31 December 2002).

IV. Discussion of financial statement components (cont.)

15. Issue of debt securities

As at 31 December 2003, the balance of liabilities in respect of debt securities issued was PLN 165,298 thousand. This amount mainly comprised certificates of deposit issued by the Bank, whose maximum value (according to the Debt Security Issue Programme Agreement concluded on 24 September 2002) may amount to PLN 1,000,000 thousand.

In 2003, the Bank issued long-term certificates of deposit and bonds with a total nominal value of PLN 58,200 thousand. The balance of short-term certificates of deposit went up by PLN 80,932 thousand during the audited year (i.e. by 320.1%) and amounted to PLN 106,218 thousand as at 31 December 2003.

16. Other liabilities in respect of financial instruments

As at 31 December 2003, "Other liabilities in respect of financial instruments" amounted to PLN 2,346,443 thousand compared with PLN 2,233,465 thousand as at 31 December 2002. 99.8% of the balance represented the negative fair value of derivatives. Interest rate contracts constituted the largest portion of this amount (59% of the balance). FX based financial instruments accounted for 41% of the balance.

The increase in the balance of other liabilities in respect of financial instruments as at 31 December 2003 compared with 31 December 2002 resulted mainly from the increase of the negative fair valuation of fx based derivative instruments by PLN 344,801 thousand. This effect was partly offset by a decrease in the negative fair valuation of interest rate swaps by PLN 183,703 thousand.

17. Special funds and other liabilities

As at 31 December 2003, "Special funds and other liabilities" amounted to PLN 113,393 thousand (PLN 98,957 thousand as at 31 December 2002).

The increase of PLN 14,436 thousand (i.e. 14.6%) in the balance was mainly due to the balance of interbank settlements increasing by PLN 8,692 thousand, which mainly resulted from increased activity on the part of the Bank's retail clients (an increase in the number of transfers ordered in 2003 and made in 2004).

18. Accruals, deferred income and suspended income

As at 31 December 2003, "Accruals, deferred income and suspended income" amounted to PLN 282,711 thousand (PLN 222,392 thousand as at 31 December 2002), which represents an increase of PLN 60,319 thousand (i.e. 27.1%). The increase in the balance was mainly due to the balance of "Suspended interest" going up from PLN 173,908 thousand to PLN 231,144 thousand, due to a 13.9% increase in gross classified loans to the non-financial and the public sectors.

IV. Discussion of financial statement components (cont.)

19. Provisions

As at the balance sheet date, "Provisions" amounted to PLN 675,896 thousand (PLN 918,972 thousand as at 31 December 2002). The balance comprised a deferred tax provision and other provisions. The balance of "Deferred tax provision" amounted to PLN 559,356 thousand as at the balance sheet date (PLN 789,122 thousand as at 31 December 2002). Detailed information on this provision is presented in Note 29 of this Report.

The balance of "Other provisions" amounted to PLN 116,540 thousand as at the end of 2003 (PLN 129,850 thousand as at 31 December 2002). It relates to off-balance-sheet credit risk (PLN 13,418 thousand) and the general banking risk provision (PLN 103,122 thousand). The level of the general banking risk provision was consistent with Art. 130 of the Banking Law.

20. Subordinated liabilities

As at 31 December 2003, subordinated liabilities amounted to PLN 1,179,475 thousand, which represents a 17.3% increase compared with the previous year. The increase in the balance as at the end of 2003 was mainly due to changes in the exchange rate of the euro.

The PLN 1,179,475 thousand comprises two subordinated loans of PLN 1,179,250 thousand and accrued interest of PLN 225 thousand. The subordinated liabilities arose from notes of EUR 250,000 thousand issued in 2002.

In 2003, the holder of the subordinated debentures changed. The notes were purchased by ATBRECOM Ltd., Great Britain (a member of the Commerzbank AG Group) from the existing holder – Atlas-Vermogensverwaltungs-Gesellschaft mbH, Germany. The Bank was granted permission by the Banking Supervision Commission to include the funds obtained in its supplementary funds. Therefore, as at 31 December 2003, PLN 724,520 thousand was recorded as part of the supplementary funds, which is consistent with the provisions of the Banking Law and Resolution No. 6/2001 of the Banking Supervision Commission.

IV. Discussion of financial statement components (cont.)

21. Equity

The analysis of changes in equity in 2003 is presented below:

	31.12.2002	Loss offset	Other changes	31.12.2003
	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	91,882	-	-	91,882
Supplementary capital	748,738	-	1	748,739
Revaluation reserve	(3,045)	-	1,409	(1,636)
Other reserves	1,352,915	(607,993)	-	744,922
Retained earnings/(Accumulated losses)	(228,772)	228,772	(2,456)	(2,456)
Net profit/(loss)	(379,221)	379,221	1,836	1,836
Total	**1,582,497**	**0**	**790**	**1,583,287**

As at 31 December 2003, the Bank's equity calculated in accordance with Resolution No. 6/2001 of the Banking Supervision Commission (KNB) amounted to PLN 1,795,920 thousand, whereas the total capital requirement reached PLN 1,291,421 thousand, and the capital requirement concerning excess capital exposure risk amounted to PLN 270,905 thousand. The Bank's capital adequacy ratio amounted to 9.45% as at 31 December 2003.

As at 31 December 2003, the Bank's share capital amounted to PLN 91,882,000 and consisted of 22,970,500 registered shares and bearer shares with a nominal value of PLN 4 each. All the shares had been paid up in full. There were no preference shares. During the period from 1 January to 31 December 2003, the share capital remained unchanged, whereas the supplementary capital went up by PLN 1 thousand, which was due to a gain being made on the sale of the Treasury shares which remained after the acquisition of Bank Częstochowa.

As at 31 December 2003, "Other reserves" amounted to PLN 744,922 thousand compared with PLN 1,352,915 thousand as at the end of the previous year. This represents a decrease of PLN 607,993 thousand (i.e. 44.9%) in the other reserves. This fall was connected with the net loss for 2002 (PLN 379,221 thousand) and accumulated loss of (PLN 228,772 thousand) being offset.

In the audited year, there was also an increase in the revaluation reserve (up PLN 1,409 thousand). It was mainly due to foreign exchange gains on the valuation of available-for-sale securities of PLN 2,915 thousand, a gain on the revaluation of non-current financial assets of PLN 2,213 thousand and changes in deferred tax of PLN 1,863 thousand. The decrease in the revaluation reserve was only due to the available-for-sale securities being revalued and amounted to PLN 5,582 thousand.

The accumulated losses of PLN 2,456 thousand was mainly due to the adjustment in the financial statements of Xtrade, which the Bank valued using the equity method.

IV. Discussion of financial statement components (cont.)

Income statement for the year ended 31 December 2003

22. Net interest income

In the current year, net interest income amounted to PLN 128,756 thousand (PLN 326,773 thousand in the previous year), which represents a decrease of PLN 198,017 thousand (i.e. 60.6%) compared with the previous year.

An important factor that affected the Bank's income and costs was the fact that in 2003 the Monetary Policy Council decreased the basic interest rates six times. The reference rate went down from 6.75% to 5.25%, the bill-of-exchange rediscounting rate decreased from 7.5% to 5.75%, and the Lombard rate fell from 8.75% to 6.75%.

In the current year, interest income fell by 41.2% to PLN 865,812 thousand, whereas interest expense decreased by 35.6% to PLN 737,056 thousand. The fact that the pace of decrease in the interest income was higher than the pace of decrease in the interest expense was mainly due to an increase in competition on the market and the Bank pursuing a strategy which consisted of conducting an active search for retail clients and offering them banking products at competitive prices, as well as a considerable fall in return on debt securities. The interest margin (the ratio of the net interest income to the interest income) declined from 22.2% in the previous year to 14.9% in the audited year.

The net interest income from loans and borrowings amounted to PLN 82,528 thousand in the audited year (which accounts for 64.1% of the total balance), whereas the net interest income from debt securities amounted to PLN 46,228 thousand (35.9% of the total balance).

23. Result on financial transactions

The result on financial transactions for the audited year amounted to PLN 21,745 thousand, whereas the loss for the previous year amounted to PLN 100,222 thousand. It comprised PLN 34,365 thousand in profit on transactions in securities and other financial instruments and a loss on other financial transactions of PLN 12,620 thousand.

The Bank generated a profit on transactions in securities mainly due to gains on the sale of shares in Szeptel S.A. (PLN 1,936 thousand), Elektrim S.A. (PLN 7,908 thousand), and PKN Orlen S.A. (PLN 1,240 thousand). In the period analysed, the Bank also incurred a loss on the sale of BPT Telbank S.A.'s shares, amounting to PLN 7,254 thousand. Moreover, the Bank made a gain on transactions in debt securities, amounting to PLN 27,720 thousand, of which PLN 9,828 thousand represented the release of the provisions set up for debt securities of non-financial entities as a result of an increase in exposure. In addition, the Bank made a gain of PLN 24,201 thousand on the valuation of forward contracts relating to debt securities. At the same time, the losses realised in the course of 2003 on transactions in State Treasury securities amounted to PLN 4,478 thousand.

Losses on other financial transactions (in interest rate derivatives and shares derivatives) amounted to PLN (12,620) thousand in the current year and decreased nearly tenfold compared with 2002, when they reached PLN (120,601) thousand. This change accounted for 88.5% of the total improvement in the result on financial transactions compared with the previous year. The Bank also made a profit in respect of the premium on the sale of a call option for BPT Telbank S.A.'s shares (PLN 22,648 thousand) and incurred a loss on interest rate swaps and exchange futures, totalling PLN (36,462) thousand. These losses mainly resulted from the Bank's incorrect predictions in respect of interest rate decreases in the second half of the year.

IV. Discussion of financial statement components (cont.)

24. Foreign exchange result

In the audited year, the Bank made a foreign exchange gain of PLN 255,697 thousand (down 35.0% compared with the previous year).

In the audited year, there was a fall in the volume of transactions on the FX transaction market and a decrease in the activity of the Bank's clients with regard to the purchase and sale of foreign currencies. The fall in the volume of the Bank's foreign exchange transactions was due to, among other things, a decrease in the number of transactions which involved managing the interest rate risk of individual currencies (e.g. by FX swaps). As a result, the Bank's realised foreign exchange gains decreased by 7% and the foreign exchange margin decreased by 39%.

The drop in the result on the foreign exchange position was also due to the deterioration of results on foreign currency derivatives. The total result on the foreign currency derivatives for the audited year fell by 70% compared with 2002 and amounted to PLN 33,942 thousand and related to gains on foreign currency options (PLN 95,226 thousand) and CIRS contracts (PLN 25,374 thousand) and a loss on forward exchange contracts of PLN 86,657 thousand.

25. Other operating income

Other operating income amounted to PLN 48,221 thousand and grew by PLN 16,306 thousand (i.e. by 51.1%) compared with the previous year. The largest increase (PLN 9,359 thousand) related to compensation, penalties, and fines received. This amount included the reimbursement of penalty interest on corporation income tax for 1996 and 1997.

There was also an increase of PLN 6,950 thousand in "Other", which mainly arose on the release of provisions for future liabilities and the reimbursement of corporation income tax.

26. Other operating expenses

Other operating expenses declined from PLN 53,697 thousand in 2002 to PLN 24,710 thousand in 2003 (i.e. by 54.0%). The decrease was due to a fall in charges to provisions for future liabilities (down PLN 21,975 thousand). In the previous year, charges of PLN 22,891 thousand related to provisions for a prepayment for the purchase of shares in a listed company.

The largest components of other operating expenses included the costs of selling or scrapping fixed assets and assets held for resale (PLN 11,001 thousand) and other (PLN 7,743 thousand) which comprised, among other things, a provision for amounts not withheld in respect of personal income tax on private clients' revenue from forward exchange contracts, futures, and options being settled (PLN 3,000 thousand in total).

IV. Discussion of financial statement components (cont.)

27. Overheads

In 2003, the Bank's overheads amounted to PLN 463,657 thousand compared with PLN 470,607 thousand in the previous year, which represents a 1.5% decrease. In the current year, the largest components of the Bank's overheads included running costs of PLN 259,502 thousand in total, which accounted for 60.0% of the balance, as well as wages and salaries of PLN 143,502 thousand, which accounted for 31.0% of the balance.

The decrease in the Bank's overheads in the current year was mainly due to the costs of wages and salaries falling by PLN 17,320 thousand, which was accompanied by an increase of PLN 9,021 thousand in the Bank's running costs.

The table below presents selected data on the Bank's employment levels and the costs of wages and salaries:

	12 months to 31.12.2003	12 months to 31.12.2002	Change	Change (%)
Average number of employees	2,811	2,846	-35	-1.2
Bank's overheads per employee (in PLN'000)	164.9	165.4	-0.5	-0.3
Bank's overheads to total revenues (%)	26.3	19.2		
Net profit/(loss) per employee (in PLN'000)	0.7	(133.2)	133.9	100.5

During 2003 799 employees left the Bank, 748 new employees were hired, with some of them being employed on a part-time basis. During the year, the number of full-time equivalent decreased from 2,774 to 2,582.

The changes in the employment levels fallowed a transfer of two departments from the Bank to a newly established subsidiary – Centrum Rozliczeń i Informacji Sp. z o.o. (CERI Sp. z o.o.).

The decrease in the costs of wages and salaries was connected with the reduction in the number of full-time positions during the year and the costs of the wages and salaries of the employees working on the new financial and accounting system "Globus" being deferred in the balance sheet as assets under construction.

IV. Discussion of financial statement components (cont.)

27. Overheads (cont.)

Running costs comprised the following items:

	12 months to 31.12.2003 (PLN'000)	Structure (%)	12 months to 31.12.2002. (PLN'000)	Structure (%)
Rent and use of premises	64,013	24.7	57,220	22.8
IT and telecommunications costs	40,237	15.5	51,097	20.4
Other administrative expenses	55,970	21.6	39,117	15.6
Advertising, promotion and information	19,780	7.6	37,516	15.0
External services	24,168	9.3	29,977	12.0
Business trips	2,706	1.0	3,103	1.2
Security	13,963	5.4	15,738	6.3
Other	38,665	14.9	16,713	6.7
Total running costs	**259,502**	**100.0**	**250,481**	**100.0**

The largest increase in the said costs in the current year compared with the comparable data related to "Other" (up PLN 21,952 thousand) and resulted from the purchase of services from CERI Sp. z o.o. for PLN 18,408 thousand, which had previously been provided as part of the Bank's operations. Establishing CERI Sp. z o.o. and purchasing services from it also involved a decrease in the costs of wages and salaries and other movements in the cost structure.

28. Net provisions and write-downs

In the current year, the excess of proceeds from the release of provisions and the impairment of financial assets over the costs of provisions and write-downs amounted to PLN 17,095 thousand compared with the net change of PLN 494,920 thousand in the previous year. The high level of provisions in 2002 was associated with a significant deterioration in the quality of the Bank's loan portfolio. In the audited year, PLN 265,362 thousand in provisions was recorded, and PLN 282,457 thousand in provisions was released. The additional provisions were mainly associated with a further deterioration in the quality of the portfolio of amounts due from non-financial and public sector entities, which is reflected in the share of non-performing loans growing from 22.0% to 24.2% of the total gross portfolio (net of the loan of PLN 1,500,000 thousand to the large entity in the public sector) during 2003. The release of provisions was mainly due to a decrease in the Bank's credit exposure to those companies, for which the Bank did not have collateral, what enabled the Bank to lower the basis for recording the provisions in accordance with the Finance Minister's Decree of 10 December 2001 concerning the principles for setting up provisions for banking risk (*Journal of Laws* No. 149, item 1672).
The excess of provisions recorded over provisions released in connection with the impairment of financial assets amounted to PLN 275 thousand in the current year compared with PLN 62,959 thousand in the previous year, when provisions were set up for impairment of shares in the following companies Szeptel S.A., Pozmeat S.A., Optimus S.A., and BRE Fundusz Kapitałowy Sp. z o.o.

IV. Discussion of financial statement components (cont.)

29. Corporate income tax

	12 months to 31.12.2003 (PLN'000)	12 months to 31.12.2002 (PLN'000)	Change (PLN'000)
Corporate income tax due	550	534	16
Deferred income tax	41,342	(99,502)	140,844
- including tax loss carryforwards	(24,044)	(59,324)	(32,738)
Charge to the income statement	**41,892**	**(98,968)**	**140,860**

During the current year, corporate income tax due was calculated using the rate of 27% of the profit before tax calculated on the basis of accounting regulations, adjusted for exempt income and non-deductible costs. The Bank did not withhold corporate income tax during 2003 due to incurring tax losses. The Bank recovered the amount receivable in respect of overpaid income tax of PLN 62,515 thousand as at 31 December 2002 during 2003.

	12 months to 31.12.2003 (PLN'000)	12 months to 31.12.2002 (PLN'000)
Profit/(Loss) before tax	**47,692**	**(299,045)**
Change in positive timing differences (future increase in taxable base increasing deferred tax)	(21,303)	(379,527)
Change in negative timing differences (future decrease in taxable base decreasing deferred tax)	(7,961)	812,647
Other changes to tax base provided for in tax regulations (positive or negative amount)	(144,974)	(353,792)
Taxable base	**(126,546)**	**(219,717)**
Deferred tax relating to tax loss (19%/27%)	**(24,044)**	**(59,324)**

The increase in changes in positive timing differences of PLN 21,303 thousand was mainly due to an increase in unrealised net gains on the valuation of derivatives.

The decrease in changes in negative timing differences of PLN 7,961 thousand was mainly due to a decrease in the decline in the value of securities and an increase in the tax loss carryforwards recorded accompanied by an increase in unrealized losses on derivatives.

IV. Discussion of financial statement components (cont.)

29. Corporate income tax (cont.)

A detailed analysis of deferred income tax reflected in the financial results for 2003 and 2002:

	2003	2002
As at the end of the period:	(PLN'000)	(PLN'000)
Deferred tax on negative timing differences	(634,802)	(904,236)
Deferred tax on positive timing differences	559,356	789,122
Deferred tax on total net timing differences (a)	(75,446)	(115,114)
Deferred tax as at the end of the previous year	(115,114)	(12,564)
Opening balance adjustment	0	(1,732)
Deferred tax as at the beginning of the year (b)	(115,114)	(14,296)
Deferred tax difference (a-b)	39,668	(100,818)
Deferred tax reflected in revaluation reserve	1,864	1,316
Other	(190)	0
Deferred tax reflected in the results for the current year	**41,342**	**(99,502)**

The balance of deferred income tax in respect of negative timing differences comprised mainly decreases relating to unrealised result on the valuation of derivatives (67.9% of the balance), a decrease in the value of securities (3.6% of the balance), a provision for "loss" loans not previously treated as tax deductible costs, provisions for loans and guarantees classified as doubtful, substandard, watch and loss (12.4% of the balance), and tax loss carryforwards (10.5% of the balance).

The balance of deferred income tax in respect of positive timing differences comprised mainly increases due to unrealised result on the valuation of derivatives (79.8% of the balance) and the investment relief (9.4% of the balance).

In 2003, all the positive and negative timing differences were recognised using the tax rate applicable in 2004, which was set at 19%.

In the current financial year, the Bank began recording provisions for loans and guarantees classified as watch and normal under deferred tax. Including these categories resulted in negative timing differences growing by PLN 4,428 thousand and, consequently, an increase in the deferred tax included in the income statement (up PLN 841 thousand).

In the current year and the previous year, the structure of the effective tax rate was as follows:

	12 months to 31.12.2003	12 months 31.12.2002
Effective corporate income tax rate (CIT)	1.15%	(0.18)%
Effective deferred income tax rate	86.69%	33.28%
- including tax loss carryforwards	(50.42%)	19.83%
Total	**87.84%**	**33.10%**

IV. Discussion of financial statement components (cont.)

29. Corporate income tax (cont.)

The high effective tax rate resulted first and foremost from the considerable decrease in the net deferred tax asset as at 31 December 2003 compared with 31 December 2002, which was mainly due to the tax rate used for calculating the deferred tax being changed from 27% to 19% and an increase in taxable temporary differences, with the deductible temporary differences remaining rather unchanged.

30. Shares in net profits/losses of subordinated entities valued using the equity method

The Bank's share in the net profits/losses of its subordinated entities valued using the equity method for 2003 amounted to PLN (3,964) thousand (PLN (179,144) thousand in 2002). Apart from the Bank's share in the profits/losses of its subordinated entities, this item comprises the amortisation of goodwill and the recognition of the negative goodwill of these entities, as well as the elimination of unrealised gains/losses on transactions between the Bank and the said entities.

In 2003 and 2002, the total share in the net losses of the subordinated entities valued using the equity methods was mainly affected by the following:

	12 months to 31.12.2003 (PLN'000)	**12 months to 31.12.2002 (PLN'000)**
Intermarket Bank AG	5,986	1,214
Skarbiec Asset Management Holding S.A.	2,907	(44,048)
Dom Inwestycyjny BRE Banku S.A.	2,320	(2,417)
PTE Skarbiec – Emerytura S.A.	(5,369)	(38,107)
eCard S.A.	(4,061)	-
Tele-Tech Investment Sp. z o.o.	(3,276)	(1,525)
RHEINHYP - BRE Bank Hipoteczny S.A.	(2,694)	3,843
BillBird S.A.	(2,397)	-
BRE Fundusz Kapitałowy Sp. z o.o.	-	(45,774)
Szeptel S.A.	-	(33,368)
Bank Częstochowa S.A.	-	(13,701)
Other companies	2,620	(5,261)
Total	**(3,964)**	**(179,144)**

The Bank's share in the net profits/(losses) of the subordinated entities valued using the equity method improved in 2003 compared with 2002 mainly due to its shares in BRE Fundusz Kapitałowy Sp. z o.o. and Szeptel S.A. being sold, as well as the Bank having merged with Bank Częstochowa S.A. Moreover, the loss incurred on shares in net profits of PTE Skarbiec – Emerytura S.A. (reduced by amortisation of goodwill) declined, and Skarbiec Asset Management Holding S.A. and Intermarket Bank AG earned net profits.

IV. Discussion of financial statement components (cont.)

31. Assets put up as collateral

As at 31 December 2003, Treasury bills with a carrying value of PLN 47,788 thousand were deposited in a separate account with the NBP as collateral for liabilities to the Guaranteed Deposit Protection Fund as required by the Bank Guarantee Fund. The Bank's ability to make use of the said assets is not restricted.

32. Off-balance-sheet items

As at the balance sheet date, "Off-balance-sheet items" amounted to PLN 192,236,680 thousand (PLN 153,150,315 thousand as at 31 December 2002).

As at 31 December 2003 and 31 December 2002, "Commitments arising from purchase/sale transactions" relating to derivatives, amounting to PLN 184,177,234 thousand and PLN 145,902,647 thousand respectively, constituted the principal component of "Off-balance-sheet liabilities".

The increase in "Commitments arising from purchase/sale transactions" resulted mainly from an increase in the nominal value of open positions in respect of concluded IRS and FRA transactions (up PLN 15,141,238 thousand and PLN 14,934,497 thousand respectively), which was accompanied by the nominal value of open FX options going down by PLN 7,504,291 thousand.

For the purpose of this disclosure, the Bank adopted an approach used for reporting to the NBP and presented the balance of open swap contracts and spot & forward currency contracts on a gross basis (i.e. by showing separately the "pay" and "receive" legs). However, it should be pointed out, that these amounts did not reflect the Bank's actual risk associated with the preceding transactions as they only represented the nominal value of the contracts concluded. The related risk (as at the balance sheet date) is reflected in the fair valuation of those instruments disclosed on the balance sheet.

Effective 1 January 2000, the Bank began including in its balance sheet and income statement the market value of open derivatives as at the balance sheet date.

IV. Discussion of financial statement components (cont.)

33. Contingent liabilities

a) On 23 May 2001 "Art-B Export-Import w likwidacji" filed a law suit with the Regional Court in Warsaw, which was hearing the case, in which it calculated the losses incurred as a result of transferring USD 43.4m to Israel at the request of Art-B Export-Import. The loss calculations amounted to PLN 20,262 thousand in total and represented just over 1/10 of the amount specified in the claim. A proxy of "Art-B Export-Import w likwidacji" confirmed these calculations during a hearing on 22 August 2001, which means that if a decision is issued which is unfavourable to the Bank, the court will not adjudge an amount higher that the one calculated by "Art-B Export-Import w likwidacji" as being the total amount. At the request of the LEUMI LE ISRAEL bank, BRE Bank SA was served a third-party notice to participate in the proceedings taking place in Jerusalem, instituted by "Art-B Export-Import w likwidacji". The reason for the Israeli bank's request was that BRE Bank SA participated in the transfer of the amount being claimed. Based on the opinion of its legal advisors, the Bank's Management Board has reason to believe that the official receiver's claims are groundless.

b) In accordance with the agreement to sell shares in "cable.com" S.A., the Bank has an option to re-purchase the shares in "cable.com" from four entities that originally bought the shares from the Bank. At the same time, these entities have an option to re-sell the shares to the Bank.

c) The Bank analysed the regulatory risk of infringement of the requirements of Art. 189, § 2 of the Code of Commercial Companies, relating to the Bank's settlements and its related limited liability companies. In accordance with the provisions of Art. 189, § 2 of the Code, shareholders shall not receive, on any basis, any payments from the Company's assets that would invade share capital. On the basis of a legal analysis, the Bank came to the conclusion that it did not have in its portfolio any shares in companies in the case of which payments to the shareholder (BRE Bank SA) would violate the provisions of this article. According to the Bank, a payment to the shareholder must not result in the value of all of the company's assets being lower than its share capital. The registered auditor has received legal opinions according to which the provisions of Art. 189, § 2 of the Code are violated as soon as a company with invaded net assets makes payments to its shareholder. If the said regulations should be interpreted in this way, they would have been violated during the year 2003 in CERI Sp. z o.o.'s case. The Company has invaded net assets, and during the year it paid over PLN 2m to the Bank. In accordance with Art. 189, § 2 of the Code, as a result of the said regulations being violated, the shareholder who received the payment has an obligation to return it. During the year, the Bank paid CERI Sp. z o.o. a total of PLN 16,229 thousand for the services rendered.

d) In 2003, the court of first instance adjudged a client of the Bank's subsidiary – Dom Inwestycyjny BRE Banku S.A. (DI BRE) damages of PLN 19,715 thousand (including penalty interest). The ruling is not final, and DI BRE has filed an appeal with a court of higher instance. Based on the agreement with DI BRE, the Bank is responsible for entire liability. According to the Bank's legal advisors, there is a slight risk of the unfavourable decision being sustained by the court of appeal, because the justification for the ruling was based on doubtful assumptions. Therefore, according to the Bank's Management Board there are no grounds for charging a provision for contingent liabilities to the income statement for 2003.

IV. Discussion of financial statement components (cont.)

34. Post balance sheet events

a) On 15 January 2004, BRE Bank SA signed a master agreement with a prospective investor in Zakłady Mięsne Pozmeat SA, Poznań, specifying the terms and conditions of cooperation in restructuring the Company's liabilities.

b) On 29 January 2004, BRE Bank SA and Eurohypo AG signed a conditional, preliminary agreement for the sale of shares, related to BRE Bank SA purchasing 50% of shares in Rheinhyp - BRE Bank Hipoteczny S.A. ("Rheinhyp – BRE") with a par value of PLN 67,500,000. BRE Bank SA and Eurohypo AG agreed that they would conclude the final agreement for the sale of Rheinhyp – BRE's shares after the terms and conditions specified in the conditional, preliminary agreement for the sale of shares had been met. If the preceding terms and conditions are not met by 31 July 2004, the conditional, preliminary agreement for the sale of shares will expire. BRE Bank SA and Eurohypo AG will also take all the necessary measures as a result of which BRE Bank SA will take over Eurohypo AG's receivables in respect of a subordinated loan granted to Rheinhyp - BRE on the terms and conditions approved by the Banking Supervision Commission.

c) On 26 January 2004, the Supervisory Board of BRE Bank adopted a resolution to appoint Mr. Rainer Ottenstein a Member of the Management Board of BRE Bank SA and a Director of the Bank. The appointment will come into effect on the date of the Ordinary General Shareholders' Meeting of BRE Bank SA being held in 2004, and will remain valid until the Management Board's current term in office runs out.

d) On 26 January 2004, BRE Bank SA issued 479,500 registered A series bonds with a par value of 1 (one) grosz each and with a pre-emptive right to take up ordinary bearer shares in BRE Bank SA, which are redeemable on 3 July 2006. The bond issue will enable the management option plan to be implemented.

e) On 29 January 2004, Tele-Tech Investment Sp. z o.o., instead of BRE Bank, purchased from Elektrim Telekomunikacja Sp. z o.o. (ET Sp. z o.o.) 100% of shares in El-Net SA and 100% of shares in EL Sp. z o.o. Tele-Tech Investment Sp. z o.o. purchased the said shares as part of the execution of the preliminary agreement concluded on 30 June 2003 by and between BRE Bank SA and ET Sp. z o.o. On the basis of the agreement concluded on 23 January 2004, on 29 January 2004 the Bank, along with Tele-Tech Investment Sp. z o.o., sold its receivables from El-Net S.A., EL Sp. z o.o. and Telefonia Regionalna Sp. z o.o. and the shares in El-Net SA and EL Sp. z o.o. and Telefonia Regionalna Sp. z o.o. to Netia Ventures Sp. z o.o. and Tedec Sp. z o.o.

V. The auditor's statement

(a) The Bank's Management Board provided all the information, explanations and representations required by us in the course of our audit and provided us with a letter of representation confirming the completeness of the information in the accounting records and the disclosure of all the contingent liabilities and post balance sheet events which occurred up to the date of the letter of representation being signed.

(b) The scope of the audit was not limited in any way.

(c) The Bank has up-to-date documentation of its accounting policies. The Bank's accounting policies were tailored to its needs and ensured the specification of all the events material to the assessment of its financial position and results, taking into consideration the prudence principle. Changes in the accounting policies were correctly disclosed in the notes to the financial statements.

(d) The closing balances as at the end of the prior year were correctly brought forward as the opening balances of the current financial year in all material respects.

(e) We have verified the operations of the accounting system and related internal control system. Our assessment covered in particular:

- the accuracy of the documentation relating to business transactions;
- the fairness, accuracy and verifiability of the books of account, including computerized books of account;
- the methods used for controlling access to data and computerized data processing systems;
- the safeguarding of accounting documentation, books of accounts and the financial statements;
- the accuracy of the functioning of internal controls.

Based on the above assessment, together with our verification of individual items of the financial statements, we noted that the accounting system and related internal control system are a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said systems.

(f) The notes to the financial statements, which include the introduction and additional notes and explanations, present all the significant information specified in the Decree of the Council of Ministers of 16 October 2001 on current and periodic information to be submitted by issuers of securities (*Journal of Law* No. 139, item 1569).

(g) The Directors' Report includes all the information required by the Accounting Act. The financial information presented therein is consistent with that presented in the financial statements.

(h) The counts of assets and liabilities were carried out and reconciled in accordance with the Accounting Act, and their results were included in the books and records for the audited year.

V. The auditor's statement (cont.)

(i) With regard to the income statement components, the Bank did not translate transactions concluded in foreign currencies into Polish zloties, making use of the mid-exchange rate determined for a given currency by the NBP President, being in force as at the transaction date, which was not in compliance with Art. 30, clause 2, of the Accounting Act. All the transactions concluded by BRE Bank SA were translated into Polish zloties and included in the income statement for the audited year at the mid-exchange rate as at 31 December 2003. Using a method for translating foreign currency transactions other than the one specified in the Accounting Act may materially affect the presentation of data in the income statement for the audited year. However this has no effect on the total revenues and total cost figures or on the net profit or loss. However, the Bank's Management Board is unable to determine to what degree individual income and cost items may be impacted.

(j) On 29 January 2004, the Bank received a report on the comprehensive inspection conducted by GINB (General Inspectorate for Banking Supervision) at the Bank in the period from September to November 2003. In accordance with the applicable laws, within one month of the date of receiving the said inspection report, the Bank intends to present the Banking Supervision Commission with a detailed timetable for work connected with the implementation of post-inspection recommendations, including events after the date of the inspection which might affect the final scope of the required recommendations (also relating to the classification of certain assets into individual risk groups).

(k) We determined materiality ratios at the planning stage. Materiality levels are the limits up to which inconsistencies identified may be left unadjusted without detriment to the quality of financial statements and the accuracy of the underlying books and records, because even if such adjustments are not made, the reader of the financial statements will not be misled. Materiality illustrates both the quantitative and qualitative aspects of the audited components, and therefore it is different for different components of the balance sheet and the income statement. Due to the materiality ratios used in the audit being complex and numerous, they are included in the audit working papers.

(l) The total regulatory requirement, along with the requirement concerning the risk of excessive capital exposure, amounted to PLN 1,562,326 thousand as at the balance sheet date. The capital adequacy ratio was 9.45% as at 31 December 2003. As at the balance sheet date, the Bank complied with the applicable prudence standards in all material respects.

(m) The financial statements for the prior financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

(n) The Bank's financial statements as at and for the year ended 31 December 2002 were approved by Resolution No. 1 of the 16th General Shareholders' Meeting of 21 May 2003, filed with the National Court Register in Warsaw on 1 July 2003, and published in *Monitor Polski B* No. 368 on 19 September 2003.