BRE BANK SA

ANNUAL REPORT

2003

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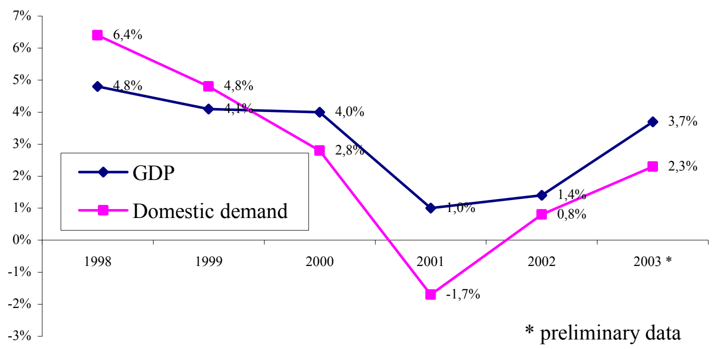
External Environment of BRE Bank SA

I. Macroeconomic Conditions in Poland in 2003

I.1. Economy Driven by Exports

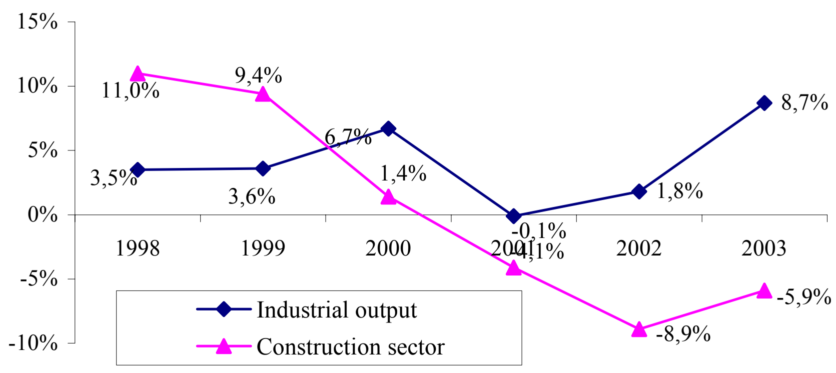
In 2003, the Polish economy was growing faster than in 2002. According to preliminary estimates of the Central Statistical Office [GUS], the GDP growth rate was 3.7%, compared to 1.4% in 2002. The GDP rate was growing quarter by quarter and was 2.2% in Q1, 3.8% in Q2, 3.9% in Q3, and approximately 4.7% in Q4. The upturn was helped by both growing domestic demand and exports. Domestic demand grew 2.3% in 2003, compared to 0.8% in 2002. There were signs of recovery in investments. While gross expenditures for fixed assets fell 0.9% during the year, this was an improvement against 2002 when the decrease was 5.8%.

GDP and Domestic Demand Growth Rate



Industrial output of companies employing more than 9 persons each grew 8.7% year on year in 2003. As the average headcount was lower than in 2002, productivity grew by approximately 12% in industry. The fastest growth in output was recorded in the processing sector (up 10.4%). As investments and repairs were on the decrease, the output of the construction sector fell 5.9%. The situation in the housing construction sector improved: the number of completed apartments was up 67.6% year on year in 2003.

Industrial Output Growth Rate



Improved macroeconomic conditions had a positive impact on the financial standing of companies. The total revenue of the corporate sector was growing faster than costs. As at September 2003, the sector's cost ratio was 96.8% (compared to 98.5% in the same period of 2002), gross return on sales was 3.2% (1.5%), net return on sales 2.0% (0.4%), and current liquidity 21.7% (18.2%).

Despite this economic recovery, the labour market was still weak. The average headcount in the corporate sector was down 3.8% year on year in 2003. The unemployment rate was 20% in December 2003, the same as at the end of 2002. The high unemployment was due to both growing productivity and tight labour market regulation.

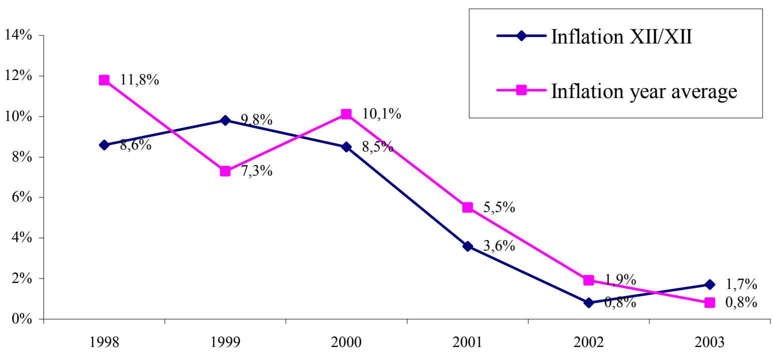
In view of the labour market conditions, growth in wages and salaries was relatively modest and consumer demand was rising slowly. The average gross real monthly salary in the corporate sector was up 2.0% year on year in 2003.

External balance was improving in 2003. As exports were growing much faster than imports, the foreign trade deficit and the current account deficit decreased. The economy was mainly driven by exports. Receipts from exports of goods grew 8.7% year on year while payments for exports grew 1.3%. Exports were growing due to conducive conditions, including the strengthening of the euro against the zloty and the dollar, relatively weak domestic demand, and the restructuring and improved competitiveness of companies. The deficit of payments for goods was EUR 8.6 billion at 31 December 2003, compared to EUR 11.0 billion a year earlier. The current account gap was EUR 3.5 billion, down EUR 3.7 billion year on year. The current account gap was approximately 1.9% of the GDP, compared to 3.6% in 2002.

I.2. Low Inflation

Economic recovery in 2003 was coupled with low inflation, largely attributable to the consistent monetary policy. The average annual CPI was 0.8% in 2003, compared to 1.9% in 2002. Year-on-year inflation grew (1.7% in 2003, 0.8% in 2002), mainly as a result of growing prices of foodstuffs and non-alcoholic beverages, which had decreased in 2002. The CPI was lower in most of the other categories of consumer goods and services.

Inflation



Producer prices grew 3.7% in 2003, compared to 1.4% in 2002. Prices in the construction sector fell 1.5% (up 0.4% in 2002).

I.3. Interest Rate Cuts Put on Hold in H2 2003

In H1 2003, the Monetary Policy Council [RPP] continued the cycle of interest rate cuts. Those were small reductions of 25 basis points every month. The only exception was the Lombard rate, twice slashed by 50 basis points. In mid-2003, the reference interest rates were: intervention rate at 5.25%, rediscounting rate at 5.75%, Lombard rate at 6.75%. The interest rate reductions were encouraged by weak signs of economic recovery in the early months of the year as well as falling consumer prices with CPI remaining below the lower band of the RPP inflation target in 2003.

The interest rates were kept stable in H2 2003. Economic growth stepped up, followed by producer prices and inflation. The stability of prices was at risk due to the weakening of the zloty and concerns with the drafting and approval of the government's long-term savings plan, undermining the stability of the public finance and postponing Poland's adoption of the euro.

I.4. A Weak Zloty

The weakening of the zloty against the currency basket was mainly caused by non-economic factors. Political risks, especially local risk, increased early in the year. Following developments in local politics, including the break-down of the governing coalition, the formation of a minority government, replacement of officials in positions key to the economy, corruption scandals, and lack of confidence in the success of the programme of restructuring of the public finance, the support for the government dwindled and the exchange rate of the zloty was swinging with investor sentiments. In addition, due to large reductions of interest rates and prospects of big additional debt issues aimed to bridge the widening budget gap, foreign portfolio investors had a strong interest in Polish bonds but in view of falling prices of the Treasuries demand for the zloty was not as strong as in previous years.

The Polish currency market was affected by the weakening of the dollar to the euro. The exchange rate of the euro to the zloty was on the increase while that of the dollar was swinging rather than following clear trends as it remained between 3.8 and 4.0 PLN to the dollar throughout the year. The average euro rate was 4.3965 PLN, up 14.1% year on year in 2003. The average dollar rate was 3.8891 PLN, down 4.7%. The euro stood at 4.7170 PLN at the end of 2003, up 17.3% year on year, and the dollar stood at 3.7405 PLN, down 2.6% year on year.

I.5. Bullish Stock Market

Following the difficult first half, especially the first quarter of the year, the Warsaw Stock Exchange was bullish in H2 2003, culminating in the third quarter. Clear signs of economic recovery helped the profitability of companies and in view of interest rate cuts investors turned to the stock market in search of higher returns. The WIG-20 index fell to 1,069 points in March only to reach its annual high at over 1,700 points at the turn of September.

Almost all stock market statistics improved considerably. Total capitalisation grew 51.7% year on year and reached PLN 167,717 million, approximately 21% of GDP. The volume of stock trading grew 25.3%, trading in bonds grew 96.7%, trading in forwards and futures was up 50.3%. New instruments were launched: options with the WIG-20 index as underlying instrument were traded as of September. The first foreign company, Bank Austria Creditanstalt, was floated in October.

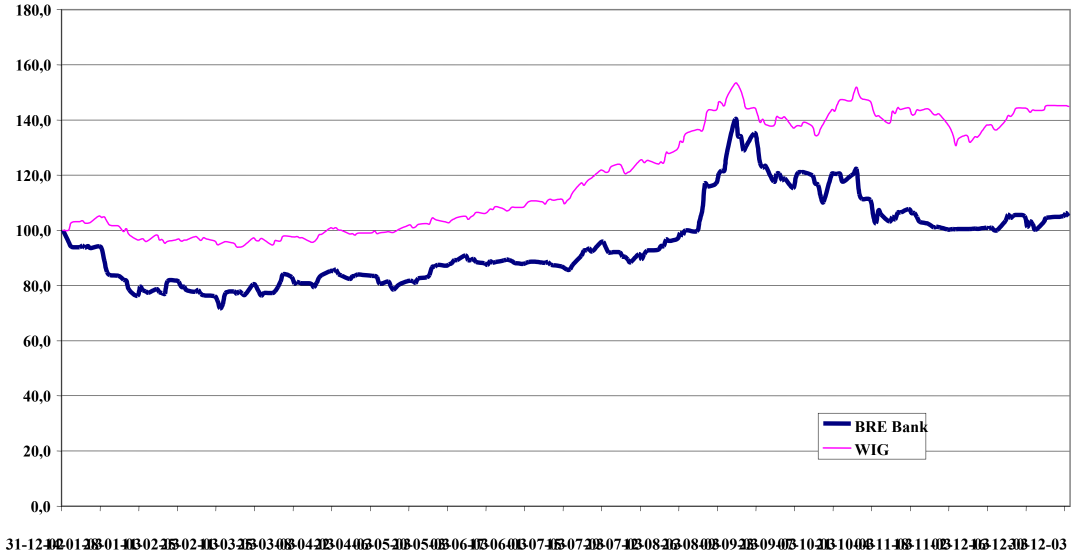
There were 203 listed companies at the end of 2003, 13 less than in 2002 despite 6 IPOs. Over 150 companies were profitable investments, only 32 saw their stock price fall. The WIG index gained 45%, the WIG-20 index grew 34%, and the parallel market index WIRR over 100%. Only the NIF index lost 1.8% during the year.

The deep crisis of high-tech companies ended in 2003 as the TechWIG index grew 61%. Sector indices suggest that the fastest growing were the food industry (up 48.8%) and the IT sector (42.6%), while banks gained the least (9.3%).

I.6. BRE Bank's Stock Price

The BRE Bank stock price was PLN 92.5 at the last session in 2003, compared to PLN 88.0 at the end of 2002. It must be emphasised that the stock price was growing as of late February 2003 and the upward trend continued until early September 2003 when the price was PLN 123.5. The BRE Bank stock prices compared to the WIG trend in 2003 are traced in the chart below.

BRE Bank stock prices and WIG trend in 2003
(31.12.2002 =100)



II. Developments in the Banking Sector in 2003

II.1. Little Improvement in the Financial Standing of Banks

The financial standing of banks did not enjoy a material improvement in 2003. While the total assets of banks grew 3.7% in January-September 2003 (compared to an 0.7% decrease in 2002), yet the growth was mainly due to the depreciation of the zloty against foreign currencies.

Lending did not grow as much as expected. Corporate loans grew only 2.9%. Loans to households were growing faster, by 14% in 2003, mainly driven by housing loans.

Household deposits were still on the decrease: while the fall stopped in H2 2003, household deposits were down 2% year on year. As traditional bank deposits did not offer attractive interest rates, retail clients were looking for alternative instruments, including investment funds. Assets managed by investment funds were PLN 33.2 billion at 31 December 2003, up PLN 10 billion year on year. Banks were actively trying to prevent the attrition of deposits and they were issuing bonds available to retail clients. Banks' debt under such bonds grew two-fold in January-September 2003 and stood at PLN 7.2 billion.

Commercial banks reported net profits of PLN 2.7 billion in Q1–3 2003, up 13.7% year on year. However, the growth in profits was due to net provisions which fell by half while the banks' profit on banking operations was down 9.5% year on year, mainly due to a 37.7% decrease in fx gains, a 4.9% decrease in net interest income, and a 43% decrease in profits on financial transactions. On the other hand, the net commission income grew 15.6%.

II.2. Changes in the Banking Sector

New entrants include Eurobank SA, formed through a merger of Bank Wschodni SA and Bank Społem SA early in the year, Nykredit Bank Hipoteczny SA, the fourth mortgage bank in Poland, and HSBC Bank Polska, a retail bank developed from Polski Kredyt Bank acquired from Kredyt Bank SA. Bank Częstochowa was merged with BRE Bank and LG Petro Bank SA was taken over by Nordea Bank Polska. As a result, the number of commercial banks in Poland fell from 62 at the end of 2002 to 60 at the end of 2003; the number of operating banks fell from 59 to 57.

The year 2003 was a fourth consecutive year of decrease of headcount in the banking sector. The headcount was down by close to 5.5 thousand people year on year at 31 December 2003. Banks were restructuring their branch networks; as a result, the number of outlets of commercial banks fell by nearly 650 during the year.

As the stocks of Bank Częstochowa SA and LG Petro Bank SA were withdrawn from stock trading, the number of banks listed on the Warsaw Stock Exchange fell to 13. The banks' contribution to the capitalisation of the stock market was 39.6% at the end of 2003, down 8.8 percentage points year on year. The first foreign company, Bank Austria Creditanstalt AG, a shareholder of BPH BK, was floated on the Warsaw Stock Exchange on 14 October 2003.

Investors representing 15 countries were active in the banking sector at the end of September 2003. The total value of foreign investment in the banking sector was PLN 6.85 billion at 30 September 2003, up PLN 109 million compared to 31 December 2002. The contribution of foreign investors to the share capital of banks was 59.9% in the sector, 62.7% for commercial banks.

II.3. Development of Retail Banking

Retail clients remained the most attractive segment for banks. The banks were mainly developing alternative distribution channels. All large banks and a growing number of small banks, including co-operative banks, offer e-banking service; three banks: BRE Bank, PKO BP SA and Volkswagen Bank Polska SA, operate virtual banks (mBank, Inteligo, and Volkswagen Bank Direct, respectively). At the end of 2003, banks operated over 2.7 million accounts with internet functionality, up 135% year on year. The number of e-banking accounts operated by virtual banks was over 820 thousand.

There were 14.8 million bank cards issued by commercial banks in use at 30 September 2003. The majority were debit cards (89%) but the share of credit cards was growing (from 4.8% at the end of 2002 to 6.4%) and that of charge cards is falling (from 6.1% to 4.4%). Over 138 million transactions totalling over PLN 34 billion were made with cards in January-September 2003. Banks and Euronet launched over 800 new ATMs in 2003; there are over 7.8 thousand operative ATMs.

Report of the Management Board on the Business of BRE Bank SA in 2003

I. Factors and Events Affecting BRE Bank's Results in 2003

BRE Bank SA ("BRE Bank") closed the year 2003 at a pre-tax profit of PLN 47.7 million, compared to a loss of PLN 299.0 million in 2002. Its net profit was PLN 1.8 million, a radical improvement compared to a loss of PLN 379.2 million in 2002.

The Bank has identified the reasons for its weak performance last year and taken a range of active measures to restore profitability satisfactory to the shareholders. As a result of these measures, the existing lending policy was tightened, the portfolio of proprietary investments was restructured, and the existing investments and credit exposures were reviewed based on conservative assumptions. The Bank also undertook reorganisation to reinforce supervision of relevant areas and to restructure the workforce. Systematic measures were continued in the following fields:

- amendment of the Bank's strategy;
- intensified efforts of the business lines;
- reorganisation, cost rationalisation, operational improvements.

In addition, in order to ensure continued growth of the Bank and achievement of its investment plans, BRE Bank plans to increase its equity through an issue of new stocks scheduled in mid-2004. The relevant decision will be adopted by the General Shareholders' Meeting to be held on 21 April 2004.

The outcome of undertaken measures had a positive impact on the Bank's financial standing, including in particular:

- **Reduction and restructuring of the proprietary investments portfolio** – following an amendment of the Bank's strategy mitigating the exposure of the Bank's business to the volatility of macroeconomic conditions, the proprietary investments portfolio was reduced (including disposal of stocks in Elektrim, Szeptel, Telbank, Polcard) and restructured (mainly investment in ITI in implementation of agreements executed in early 2003). These transactions are discussed in detail in the section on proprietary investments. This was helped by improving stock market conditions and a stronger valuation of stocks. As a result, the profitability of proprietary investments improved considerably. The profit of the portfolio was PLN 29.7 million, compared to a large loss in 2002, contributing to the profitability of the Bank.

- **Less need of additional provisions** – provisions set up in 2002 were sufficient to cover the Bank's portfolio of loans and investments. Consequently, the balance of provisions showed a PLN 17.1 million surplus of provisions released over those set up in 2003, compared to PLN 494.9 million net in additional provisions set up in 2002. This was also helped by economic recovery in 2003 as the financial standing of many companies improved and the Bank did not need to set up new provisions.

Due to these developments, the Bank recorded profits after H1 2003 and Q3 2003 at PLN 54.0 million and PLN 66.2 million, respectively. Unfortunately, external factors in H2 2003 had an adverse impact on the financial standing of the Bank, including:

- **Growing yields and fast falling prices of Treasury bonds** – the weakening of the zloty which started in Q3 and reached its peak in Q4, resulting from concerns related to disputes over the public finance and the budget policy as well as Minister Hausner's savings plan, caused the **Treasury prices to drop** sharply. The holders of Treasuries, including BRE Bank, were selling their securities. Those remaining in their portfolios had a negative impact on profitability as their market price was falling. This affected the net profits of the investment banking line, which fell to PLN 98.0 million, compared to PLN 224.5 million in 2002.

- **Negative impact of the CIT rate reduction on the Bank's results** in 2003 – the reduction of the CIT rate from 27% to 19% as of 2004, while very beneficial to corporates, including banks, had a one-off (2003 year-end) adverse effect on the results of those banks which set up large specific provisions, BRE included. The CIT rate reduction forced the banks to revaluate their tax assets (not all provisions are allowed tax-deductible costs immediately when set up) and to adjust their deferred tax in the financial statements at the end of 2003. The negative impact of the revaluation at BRE Bank was PLN 31.8 million, which considerably reduced the Bank's profits. As a result, the income tax charged against the Bank's gross profit was 87.8%.

At the same time, under other regulations planned for 2004 and applicable to the tax treatment of specific provisions, the tax charged from banks on a one-off basis in 2004 may be considerably reduced. According to preliminary conservative estimates, the reduction of the corporate income tax (tax-deductible amount) available under the draft law in 2007–2009 will be PLN 20.1 million. This amount would significantly reduce the one-off negative reduction of the CIT rate at the end of 2003. However, pursuant to the auditor's opinion and the International Financial Reporting Standards (IFRS), the amount of future tax benefits (tax-deductible amount) is not recognised in the Bank's financial statements as at 31 December 2003. The tax benefits may be recognised on the adoption of the EU Guarantee Fund Law by the Polish Parliament (relevant tax changes will be enacted together with the Law), scheduled before 1 May 2004. The tax-deductible amount available in 2007–2009 can be recognised in the Bank's balance sheet as of the date of the adoption of the Law.

Despite the factors which reduced the profit generated in Q4 2003, there were several positive business trends in 2003, which ensure a good outlook of profitability in 2004 and going forward, including:

- **Dynamic growth and improved quality of the loan portfolio** – loans to clients and the public sector grew 20.3% in 2003, compared to the average growth of 8.6% in the banking sector. The share of irregular loans (as disclosed in report SAB R 2003) fell from 22.0% in 2002 to 21.1%. Including mortgage loans granted by BRE Bank's subsidiary RHEINHYP-BRE Bank Hipoteczny (other banks record mortgage loans in their portfolios), the share of irregular loans was 17.6%, compared to 18.4% in 2002. The share of the default portfolio (loans not repaid for over 90 days and loss loans) was at 4.1%, similar to 2002.

- **Growth of retail banking** – retail banking was growing very actively in 2003. Both mBank and MultiBank received many awards and distinctions for their product offering, quality of service, state-of-the-art technologies, and friendly customer orientation. Retail deposits grew by PLN 1,028 million and reached PLN 2,987 million in 2003. The portfolio of retail loans grew fast and stood at PLN 1,130 million, compared to PLN 144 million in 2002. mBank addressed clients' growing interest in investment funds by launching the Investment Fund Supermarket which offers shares in several funds available to clients over the internet. The development of the retail banking service in 2003 involved very heavy investment.

- **Improved corporate banking operation** thanks to reorganisation of the sales force, active acquisition of SME customers, and special SME product packages EFEKT and EFEKT Plus. In addition, economic recovery helped the standing of companies and consequently the results of the corporate banking service, especially in late 2003.

- **Reorganisation and outsourced settlement functions** – reorganisation and operational improvements included the merger of IT departments of mBank, MultiBank and BRE Bank and outsourcing of some retail and corporate settlement functions to the newly formed company Centrum Rozliczeń i Informacji Sp. z o.o. (CERI). Combined with the effects of workforce restructuring initiated in H2 2002, this helped to reduce the headcount of the Bank from 2,948 FTEs in December 2002 to 2,582 FTEs at 31 December 2003 (including a 10% growth in headcount in retail banking and a 20% reduction in other businesses).

- **Cost savings** – the reorganisation mentioned in the preceding paragraph and cost saving efforts helped to reduce the Bank's operating costs by 1.5% (paralleled by continued heavy investment in the development of retail banking) and its payroll costs by 10.8%.

- **Growth of the BRE Bank Group** – in January 2003, the Bank acquired 50% of stocks of Magyar Factor Rt, consolidating its presence in the factoring market of Central and Eastern Europe. The subsidiaries of the Skarbiec Asset Management Holding SA (SAMH) were growing successfully. Their assets under management grew 19.2% and stood at PLN 4,578 million at 31 December 2003. The three largest subsidiaries of the Holding reported net profits: TFI Skarbiec at PLN 6.9 million (PLN 1.3 million in 2002), PTE Skarbiec-Emerytura at PLN 17.8 million (a loss of PLN 29.6 million in 2002), and Skarbiec Investment Management at PLN 2.18 million (a loss of PLN 1.39 million in 2002). RHEINHYP-BRE Bank Hipoteczny and BRE Leasing also reported profits. As the performance of the subsidiaries of the Group improves, the share in the profits of companies consolidated on the equity accounting basis contributes to the Bank's result. The share was still at a negative PLN 4 million at 31 December 2003, but it improved compared to the loss of PLN 179.1 million in 2002. A preliminary agreement with Eurohypo AG was signed providing for the acquisition of the remaining 50% of stocks of RHEINHYP-BRE Bank Hipoteczny (RHB) scheduled for 2004, which will consolidate the position in the fast growing mortgage loan market.

The major events of 2003 which provided the Bank with financing and growth opportunities included:

- **Syndicated loan** – in June 2003, the Bank received a EUR 250 million three-year syndicated loan from a consortium of 20 European and US banks.
- **Euronotes** at EUR 200 million were issued by the newly formed company BRE Finance France in October 2003.
- The Securities and Exchange Commission [KPWiG] admitted into public trading unsecured bearer bonds to be issued under a programme capped at PLN 3 billion of par value. The Bank will start to raise those funds in 2004.

Other important events in 2003 include the drafting of the Restructuring Programme following the loss reported in 2002. Pursuant to Art. 142 of the Banking Law, a bank which incurs a loss shall submit a restructuring programme to the banking regulator. The Programme for 2003–2005 was drafted in 2003, approved by the Supervisory Board, and submitted to the Banking Supervision Commission [KNB]. It provides for an increase of the Bank's equity through a new issue of stocks in order to raise the Bank's solvency ratio to 12%.

An important development of 2003 was the decision of the strategic investor Commerzbank AG to increase its equity investment from 50% to 75%. The decision confirms the investor's confidence in BRE Bank and its huge growth potential and opens the way to long-term co-operation. In September 2003, the Banking Supervision Commission and the Securities and Exchange Commission gave Commerzbank their regulatory approvals. After the acquisition of stocks in a public call, Commerzbank held 72.16% of BRE Bank stocks at 31 December 2003. Its increased investment proves BRE Bank's important role in Commerzbank's strategy in Central and Eastern Europe.

II. Strong Market Position of BRE Bank

BRE Bank remains a leading Polish bank in terms of total assets, equity, and the scale of operations. The position of the Bank and its subsidiaries in the market of banking and other financial services is presented in the table below.

Business		Market position	Market share
Corporate banking			
Corporate loans			5.9%
Corporate deposits			7.0%
Mortgage loans (granted by mortgage banks)		1	
Mortgage bonds issued		1	91.0%
Foreign trade service		2	18.6 %
Leasing		3	9.0 %
Factoring			
	Poland	5	12%
	Austria	1	56%
	Hungary	1	33%
	Czech Rep.	1	28%
Retail banking			
Retail loans			1.5%
Retail deposits			2.6%
Internet bank accounts [‘000] (number of clients using internet bank accounts)		1 (2)*/	20.4%
Investment banking			
Trading in T-bills		1	
Debt commercial papers			
	Amount issued in 2003 [PLN M]	5	9.8%
	Debt outstanding at 31 December 2003 [PLN M]	2	11.9%
	Number of issuers	4	10.3%
Municipal bonds – outstanding debt [PLN M]		3	6.8%
Brokerage service			
	Trading in stocks	6	6.9%
	Trading in bonds	10	3.4%
	Derivative transactions	3	11.6%
	Options	2	25.0%
Asset Management			
Pension funds	Number of clients		6%
	Assets under management [PLN M]		4%
Investment funds	Assets under management [PLN M]	4	6.5%

Source: Own calculations based on BRE Bank and NBP data and press reports
*/ first position among internet banks

III. The Image of the Bank

III.1. Financial Rating

The Bank holds ratings assigned by leading world agencies.

Moody's Investors Service – In October 2003, Moody's raised its long-term rating of BRE Bank's deposits and debt **to A3** (from Baa1, a seventh rate on a scale of 19) and changed the outlook of the rating of financial strength D- (on a scale from A to E; the rating takes account of external risk factors, including economic conditions and the financial system environment) from stable to **positive**. The debt rating (short-term deposits) remained unchanged at P-2 (second best rate in a scale of 4).

The rating was raised in relation to the increased investment of Commerzbank in the equity of BRE Bank and its expected positive impact on risk management as well as expected synergies due to closer co-operation between the two banks.

BRE Bank subsidiaries are also rated by Moody's.

BRE International Finance BV – rating of non-subordinated regular debt was raised from A3 to Baa1 (seventh rate in a scale of 19) in October 2003; subordinated debt was rated Baa1 at the end of 2003.

BRE Finance France SA – the euronotes issued by the newly formed company BRE Finance France hold the same rating as the notes issued by BRE International Finance: A3 for non-subordinated debt, Baa1 for subordinated debt, and indicative rating A3 for EUR 200 million of debt maturing in 2006.

The rating of **RHEINHYP-BRE Bank Hipoteczny** was raised from A3 to Baa1 for mortgage bonds (seventh rate on a scale of 19). Its short-term deposit rating remained unchanged at P-2 and its rating of financial strength remained at D-.

Intermarket Bank AG was first rated in January 2004: A3 for long-term deposits, P-2 for short-term deposits, and C for financial strength.

Fitch Ratings sustained its rating of BRE Bank in 2003, including:

- long-term rating BBB+, the outlook of long-term rating remained stable;
- short-term rating F2 (second best rate of six);
- individual rating D (on a scale of A to E).

The support rating was changed from 3 to 2 (on a scale of five) in July 2003, solely due to a change of methodology. Support rating 2 means a high probability of external support if necessary.

III.2. Corporate Governance

The Supervisory Board and the Management Board of BRE Bank adopted a joint resolution concerning corporate governance which came into force on 30 June 2003. The resolution accepted all 53 rules of corporate governance (with provisos for 2 rules concerning independent Members of the Supervisory Board and proceeding with issues on the agenda of the General Meeting, where partial compliance is declared for procedural reasons) set out in The Best Practices of Public Companies 2002 adopted by the Board of the Warsaw Stock Exchange as a code of core principles of business ethics to be followed by listed companies.

In its work on the adoption of the rules of corporate governance, the Bank started to amend its internal documents which regulate the work of the Bank's authorities (new rules of the Supervisory Board and the Management Board as well as Standing Rules of the General Meeting were elaborated), adjusting relevant procedures to the requirements of corporate governance proposed by the Warsaw Stock Exchange.

BRE Bank's declared full compliance with the business code of ethics, including inherent respect for the rights of all shareholders and compliance with a universal code of ethics, ascertains the Bank's long-time policy of transparency in business operations. This was acknowledged by BRE Bank's leading position in the ranking of entrepreneur-friendly companies 2003 (second position among banks) published by the Polish Corporate Governance Forum (*Rzeczpospolita*, 26 January 2004) which appreciated the Bank's top quality corporate governance. The Bank was rated B+ (second best rate of five).

III.3. Awards and Distinctions

In 2003 BRE Bank received many awards, especially for its successfully growing retail banking business. The awards and distinctions included:

- BRE Bank ranked as the second most popular bank of Polish exporters (*Gazeta Bankowa* ranking);
- BRE Bank won the ten-year summary of *Gazeta Bankowa* Best Bank rankings and was named the Bank of the Decade;
- BRE Bank received an honorary distinction and the logo of an Entrepreneur-Friendly Bank and MultiBank was a winner of the competition organised by the National Chamber of Commerce and the Polish-American SME Advisory Foundation;
- BRE Bank came sixth in the *Rzeczpospolita* ranking of the 100 Biggest Financial Institutions;
- JP Morgan Chase Quality Recognition Award 1999-2002 to BRE Bank;
- MultiBank products WWJ and Business Financial Plan were named the Best Bank Products in the 2003 competition of *Business Week Polska*;
- MultiBank won the Indicator Research Centre ranking of best new car loans;
- MultiBank won the *Profit* Best Bank ranking and came second in the *Newsweek* Friendly Bank ranking;
- mBank awarded for the E-Banking Product of the Year by the journalists and readers of PC World Computer and IDG experts;
- mBank's eKonto was named the most attractive clearing account of modern people (*Rzeczpospolita*), the best internet bank account (*CHIP*), and the most attractive student account (*Student News*).

III.4. The Bank's Social Responsibility Mission: Sponsoring

BRE Bank SA is a sponsor of Polish culture and arts, supporting many educational, social, and charitable projects. The Bank believes in the growing importance and effectiveness of non-profit activities it undertakes. BRE Bank has helped to promote artistic and cultural events and supported social institutions (orphanages, hospitals), creating its image of a socially responsible institution.

The Bank's activities as a sponsor and supporter of charitable initiatives are co-ordinated by the **BRE Bank Foundation** established in 1994 to help educational, scientific, cultural, health care and environmental projects.

The BRE Bank staff actively assist the Bank's charitable initiatives. In 2003, for a second consecutive year, the Bank's employees offered Christmas presents to children in need via the Neptune Association for Children in Gdańsk.

In view of Poland's approaching accession to the European Union, the year 2003 was a time of BRE Bank's focused efforts promoting the united Europe. The Bank supported the Citizens' Initiative for a Yes Vote in the EU Referendum. With its commitment to Poland's EU accession, BRE Bank sponsored seven documentary films broadcast by TVN in the series "St. Patrick's Europe" presenting EU issues, in particular the experience of new EU members.

BRE Bank's work as a sponsor has for years focused on **initiatives promoting culture and the arts**. The Bank supports contemporary art and promotes high culture, in particular projects of value appreciated by a more elite audience, less likely to make a commercial success. This orientation is based on the understanding of the fact that high culture needs to be supported by large and strong institutions, without whose contribution many valuable initiatives and projects could not materialise.

The Bank is a sponsor of institutions of historic importance, e.g., the Museum and Palace in Wilanów, and organisers of a wide range of exhibits and events, e.g., the National Museum. BRE Bank was the Main Sponsor of both these institutions in 2003.

The Bank also co-operates regularly with the Musical Theatre ROMA in Warsaw. In 2003 BRE Bank was the Main Sponsor of the musical "Cats" which premiered at ROMA in December 2003. The show has performed to a full audience and enthusiastic reviews. BRE Bank has assisted ROMA in releasing the soundtrack of "Cats" on CD.

BRE Bank is also very active in **educational projects**. In 2003, the Bank co-operated with the Aleksander Zelwerowicz Theatre Academy, the Leon Koźmiński University of Business and Management, and the Centre for Research on Transformation, Integration and Globalisation TIGER.

Since their inception, **mBank and MultiBank** also work as sponsors and supporters of charitable initiatives. mBank collaborates with foundations in large-scale projects. mBank has co-organised several initiatives including the programme mClients for People in Need, We Make Children's Dreams Come True, We Make Your Christmas Dreams Come True, and the Big Orchestra of Christmas Aid, where mBank clients could contribute their support for orphanages, hospitals and other institutions. MultiBank was also an active supporter of social, sports, cultural and educational initiatives in 2003. It sponsored the Women Cross-Country Race, the programme Let's All Read to Our Children, and the Big Charity Action MultiChristmas.

BRE Bank's work to promote culture and the arts and to support charitable initiatives for those in needs takes account of the growing importance of social responsibility. The Bank's efforts as a sponsor brings more than titles and recognition. Supporting culture, the arts, education, and charitable initiatives, the Bank undertakes efforts well understood, promoted, and helped by its shareholders and clients. This enables BRE Bank to be a good citizen and to fulfil social needs.

IV. BRE Bank and EU Accession

BRE Bank continues its work in education, information, and communication on widely understood EU issues initiated in 2002 through the intranet EU service as well as group and one-on-one meetings. In 2003, the Bank mainly focused on active participation in financing projects supported by EU funds, including pre-accession funds and forthcoming structural funds.

The pre-accession funds PHARE, SAPARD and ISPA and financing in their framework are actively supported by the Bank. In addition to staff training and development of guidelines, the Bank has offered a free-of-charge training programme on availability of SME financing open to existing and prospective clients in all cities where BRE Regional Branches are located. Over 200 clients participated in training, which helped to grow the number of submitted credit applications. In addition, each Branch works with the electronic database AXIO listing assistance funds available in Poland. The database supports the sales force in advisory functions and is regularly updated.

The Bank is also preparing to effectively participate in the absorption of structural funds by granting loans refinancing and co-financing EU projects, including the following initiatives taken in 2003:

- Active participation in the Structural Funds Task Force of the Polish Bank Association as a consultant in preparing manuals for operating programmes;

- Co-operation with the Polish Agency for Enterprise Development [PARP] in the implementation of principles and procedures of initiatives (involving banks) to support SMEs with investment subsidies under the operating programme Growing the Competitiveness of Companies based on the status of Accredited Bank;

- Preliminary in-house training and system training for dedicated groups of Bank staff on EU structural funds and procedures;

- Formation of the EU Division in the Sales and Trade Transactions Department to operate as of early 2004.

Another important initiative of BRE Bank was to prepare documentation for a tender opened by the European Commission for the bank to operate the account of the Commission in Poland. BRE Bank fulfilled all tender requirements and was the only bank in Poland to submit the complete documentation within the required timeframe. The bid is pending. On 16 February 2004, the Bank was given the invitation to negotiate.

Major activities planned in 2004 include the development of an electronic library of all documents concerning operating programmes and applicable forms, in particular applicant manuals, co-ordination of updates of bank procedures (mainly lending procedures) to finance projects supported by structural funds, and development of a product offering for beneficiaries of EU funds.

V. Financial Performance of the Bank in 2003

V.1. Change in the Bank's Balance Sheet

V.1.1. Growth in Assets

The assets of the Bank amounted to PLN 26,862.4 million at 31 December 2003, up 8.1% year on year. The break-down of the assets and the change in individual lines are shown in the table below.

	2003		2002		change
	PLN thousand	structure	PLN thousand	structure	2003/2002
Total assets	26 862 397	100.0%	24 849 566	100.0%	8.1%
Cash in hand and in the NBP	473 243	1.8%	360 538	1.5%	31.3%
Receivables from financial institutions	4 957 906	18.5%	3 265 405	13.1%	51.8%
Receivables from non-financial institutions	9 635 845	35.9%	9 275 400	37.3%	3.9%
Receivables from public institutions	1 585 554	5.9%	50 367	0.2%	3048.0%
Debt securities	3 945 658	14.7%	5 312 796	21.4%	-25.7%
Shares	908 915	3.4%	887 843	3.6%	2.4%
Other securities and financial assets	2 833 777	10.5%	3 040 788	12.2%	-6.8%
Intangible fixed assets	226 632	0.8%	259 258	1.0%	-12.6%
Tangible fixed assets	939 710	3.5%	874 989	3.5%	7.4%
Other assets	381 355	1.4%	278 569	1.1%	36.9%
Prepayments	666 719	2.5%	910 861	3.7%	-26.8%
Other assets	307 083	1.1%	332 752	1.3%	-7.7%

The major changes in the assets in 2003 included the following:

The **loan portfolio** grew significantly: total receivables from clients and the public sector increased by PLN 1,895.6 million (up 20.3%).

The **portfolio of debt securities decreased** by more than a fourth (down PLN 1,367.1 million), mainly due to a reduction of the Treasury bond portfolio by PLN 1,194.8 million to PLN 1,541.3 million. The balance sheet value of Treasury bonds went down by PLN 255.4 million year on year to PLN 1,582.5 million at 31 December 2003, but during the year the value was much higher.

Receivables from financial institutions grew by PLN 1,692.5 million (up 51.8%) at 31 December 2003, mainly due to the Bank's high liquidity during the year. The Bank had sizeable funds (mainly in the zloty) raised in the disposal of securities; in addition, the liabilities grew considerably during the year, in particular in foreign currencies (syndicated loan, issue of euronotes – see "Sources of Financing"). Those funds were placed on the interbank market, especially in late December when liquidity was very high. Credits and loans to such financial intermediaries as leasing companies, factors and brokerage houses also grew.

The amount of **stocks and shares** (including stocks and shares in subsidiaries and affiliates, i.e., where the Bank held at least 20% of equity, and in other limited liability companies) grew 2.4% in 2003. The balance sheet value of the portfolio increased mainly due to improving results of the BRE Bank Group subsidiaries and thanks to their growing valuation.

Other securities and other financial assets, including stocks and shares in other companies (where the Bank holds less than 20% of equity) and derivative rights, fell 6.8% year on year, mainly due to a decrease of the portfolio of stocks and shares in investment funds (down PLN 214.1 million). Derivative rights stood at PLN 2,418.5 million at 31 December 2003, up 0.3% year on year.

Intangible fixed assets fell mainly due to the fact that the Bank's settlement functions, including retail banking settlements, were outsourced to CERI.

V.1.2. Liabilities and Change in Sources of Financing

The growth in the Bank's liabilities in 2003 was mainly due to a growth in retail deposits by PLN 1,037 million to PLN 2,983 million (up 53.3% while household deposits fell 2.0% in the banking sector).

	2003		2002		Growth
	PLN thousand	structure	PLN thousand	structure	2003/2002
Total liabilities	26 862 397	100%	24 849 566	100%	8,1%
Liabilities to financial institutions	7 205 743	26,8%	6 690 955	26,9%	7,7%
Liabilities to non-financial and public institutions	11 845 154	44,1%	10 127 671	40,8%	17,0%
Liabilities due to sold securities with buy-back clause	1 464 997	5,5%	1 942 315	7,8%	-24,6%
Liabilities due to issue debt securities	165 298	0,6%	25 286	0,1%	553,7%
Other liabilities due to financial instruments	2 346 443	8,7%	2 233 465	9,0%	5,1%
Reserves	675 896	2,5%	918 972	3,7%	-26,5%
Subordinated liabilities	1 179 475	4,4%	1 005 524	4,0%	17,3%
Bank's equity (without current year result)	1 581 451	5,9%	1 961 718	7,9%	-19,4%
Current year result	1 836	0,0%	-379 221	-1,5%	-100,5%
Other liabilities	396 104	1,5%	322 881	1,3%	22,7%

The Bank's liabilities to clients and the public sector grew 17.0%. Their share in the Bank's sources of financing increased and stood at 44.1% of total liabilities. mBank and MultiBank deposits accounted for 25% of liabilities to clients and the public sector at 31 December 2003 (compared to 19.5% in 2002), and total retail funds (including private banking funds at PLN 2,103 million) were 43.2% (40.9% in 2002).

Liabilities to financial institutions grew 7.7%. This was mainly due to the cash deposit [*kaucja*] placed by BRE Finance France SA. In November 2003, under the EUR 1.5 billion Euronote Issue Programme, the company issued EUR 200 million three-year euronotes. As the guarantor of the issue, the Bank received a cash deposit in the amount of issue less the cost of issue. Coupled with another cash deposit placed earlier by BRE International Finance, liabilities in respect of cash security (a substitute for funds raised through issues of own securities) stood at PLN 2,470.6 million.

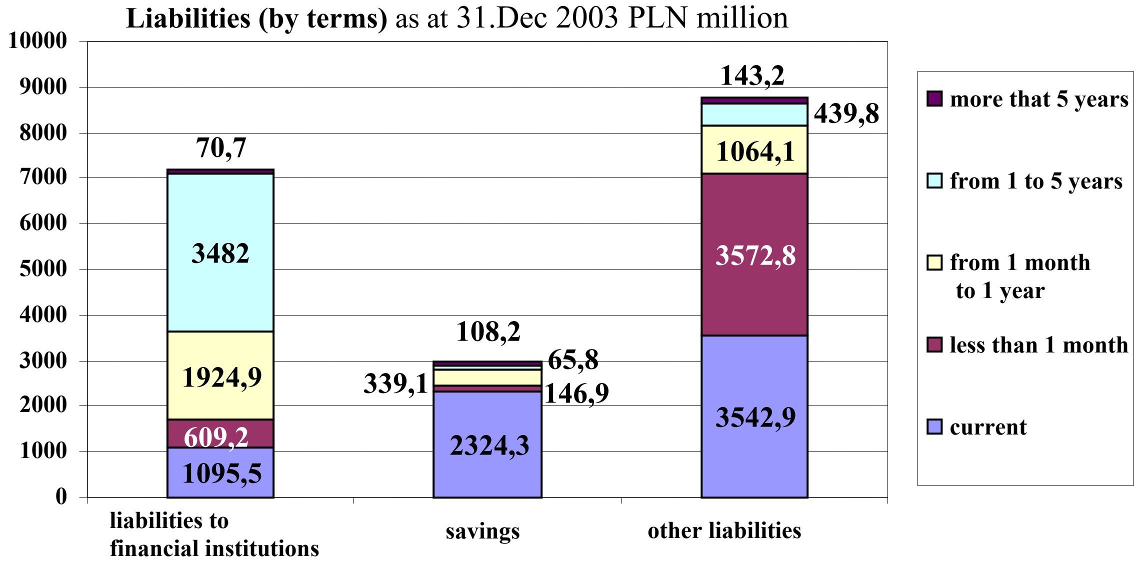
Liabilities under securities sold with a buy-back clause decreased as the Bank reduced its sell-buy-back transactions with clients made through the Bank's liquidity portfolio in late 2003.

In 2003, the importance of funds raised through **issues of debt securities** (certificates of deposit, BRE Bank bonds) as a source of financing grew. The Bank's issue programme provides for up to PLN 1 billion of securities. Funds raised through debt issues stated in the Bank's liabilities at 31 December 2003 were PLN 165.3 million, compared to PLN 25.3 million in 2002.

The **Bank's equity** (excluding this year's profit/loss) fell PLN 19.4%. The change is discussed at length under "Shareholders and Change in Equity." The **Bank's book value**, i.e., equity including this year's profit/loss, was PLN 1,583.3 million at 31 December 2003, more than at the end of 2002 (PLN 1,582.5 million).

The balance sheet value of the subordinated loan grew 17.3%, solely due to the growing exchange rate of the euro to the zloty as no new subordinated loans were taken in 2003.

In client deposits by currency, the majority were PLN funds at 80.6%, followed by other currencies, mainly the euro (10.4%) and the US dollar (8.5%). The break-down of liabilities to financial institutions, retail clients (savings loans format) and other clients by currency is shown in the chart below.



V.2. Shareholders and Change in Equity

Commerzbank AG remained BRE Bank's major shareholder in 2003 while its stake grew significantly. On 11 September 2003, the Banking Supervision Commission [KNB] authorised Commerzbank to exercise more than 66% but not more than 75% of votes at the General Shareholders' Meeting; on 15 September 2003, the Securities and Exchange Commission [KPWiG] granted its approval. Following a call for BRE Bank stocks, Commerzbank acquired 19.5% of stocks and raised its stake to 69.6%. In a stock exchange transaction closed on 17 December 2003, Commerzbank acquired another 588.8 thousand stocks and its stake in the share capital and votes grew to 72.16%. At 31 December 2003, Commerzbank was the only shareholder with a stake bigger than 5%.

The change in equity is shown in the table below.

PLN thousand	**31.12.2003**	**31.12.2002**	**Change 2002=100%**
Share capital	91 882	91 882	100,0%
Supplementary capital	748 739	748 738	100,0%
Revaluation reserve	-1 636	-3 045	
Oter reserve capital	744 922	1 352 915	55,1%
Profit (loss) from previos years	-2 456	-228 772	1,1%

Equity (without current year result)	1 581 451	1 961 718	80,6%
Net profit (loss) current year	1 836	-379 221	
Equity (including current year result)	1 583 287	1 582 497	100,0%
Subordinated liabilities*/	724 520	754 789	96,0%
Total Bank's equity including subordinated liabilities	2 307 807	2 337 286	98,7%

*/ only the amount included in the calculation of equity according to the solvency ratio formula

The Bank's **equity** (under the definition used in reporting to the Securities and Exchange Commission, own funds include previous years' and this year's profit/loss) grew year on year at 31 December 2003. Their structure changed: the Bank's reserves were down 44.9% as those were used to cover the losses of previous years; a net profit replaced last year's loss.

It must be emphasised that the Bank uses a subordinated loan which will remain in its liabilities until 2012. Only PLN 724.5 million of the subordinated loan (50% of the first-tier capital less deductions) was included under own funds in the calculation of the solvency ratio under the methodology of the National Bank of Poland [NBP], but the entire amount of the loan serves as quasi-equity. The balance sheet value of the loan was PLN 1,179.5 million at 31 December 2003.

BRE Bank's own funds, a term used in the calculation of the solvency ratio (first-tier capital plus supplementary capital less 60% of intangible fixed assets and equity investment in financial companies plus subordinated loan) were **PLN 1,795.9 million** at 31 December 2003, much above the total capital requirement (capital required to cover all risks of the banking business) which was PLN 1,292.0 million at 31 December 2003. The solvency ratio was at a safe 9.45%, compared to the regulatory 8% required under the Banking Law.

The Bank intends to increase its equity in view of the planned acquisition of 50% of stocks of RHEINHYP-BRE Bank Hipoteczny from Eurohypo. The increase is also necessitated by the fast growing lending. The decision to issue stocks will be made by the General Shareholders' Meeting scheduled for 21 April 2004.

In addition, the equity may increase in 2004–2008 under the Management Stock Option Programmes implemented pursuant to the resolutions of the General Shareholders' Meeting of May 2000 and May 2003. On 16 December 2003, the Securities and Exchange Commission admitted to public trading 979.5 thousand bearer common stocks worth PLN 4 at par to be issued under the two Programmes.

V.3. Financial Results of the Bank in 2003

V.3.1. The Bank's Revenue

Due to the squeeze of interest margins, the net interest income fell sharply and accounted for only 21.3% of the profit on banking operations in 2003. The low net interest income was also affected by the structure of the Bank's assets and liabilities, with interest-bearing PLN liabilities (annual average PLN 10.6 billion) much higher than the interest-earning PLN assets (annual average PLN 8.7 billion), which drives down the interest margins.

The Bank's interest margins were 0.5% in 2003, compared to 1.35% in 2002. Including net interest income on swaps at PLN 99.3 million in 2003, shown under the fx result in the profit and loss account, the interest margin was higher and stood at 1.0%, compared to 2.1% in 2002.

	2003		2002 r.		Growth
	PLN thousand	structure	PLN thousand	structure	
Interest income	865 812		1 472 137		-41,2%
Interest expense	737 056		1 145 364		-35,6%
Result on expense	128 756	21,3%	326 773	40,2%	-60,6%
Result on commission income	177 061	29,2%	171 326	21,0%	3,3%
Income from stocks, shares	22 540	3,7%	22 905	2,8%	-1,6%
Result on financial transactions	21 745	3,6%	-100 222	-12,3%	-121,7%
Result on FX gains/losses	255 697	42,2%	393 243	48,3%	-35,0%
Result on banking activity	**605 799**	100,0%	**814 025**	**100,0%**	-25,6%

The **net commission income** at PLN 177.1 million was higher than PLN 171.3 million earned in 2002.

Income from stocks, shares and other rights at PLN 22.5 million, including dividend and gains on the disposal of stocks and shares in subsidiaries, was similar to that earned in 2002.

Like in 2002, the largest share in income was that of the **fx result** (even though the item fell by a third year on year) at PLN 255.7 million, including:

- fx margin of PLN 80.0 million generated on fx transactions with clients of the Bank;
- fx gains and losses at PLN 175.7 million. The largest item of PLN 99.3 million was the above mentioned net interest income and cost on fx swaps recorded at the Bank as two separate fx transactions. In fact, such revenue is interest income. Compared to 2002 (PLN 180 million), this item fell, mainly due to the shrinking differential in interest rates in PLN and in other currencies including EUR, US$, CHF. Other income includes mainly the result on the Bank's fx position.

The **result on financial transactions** at PLN 21.8 million includes a profit on transactions in securities and other financial instruments at PLN 34.4 million and losses on trading in derivatives at PLN (12.6 million).

V.3.2. The Bank's Operating Costs and Provisions

PLN thousand	2003	2002	Growth
Bank's Operating Costs	463 657	470 607	98,52%
including payrolls	143 502	160 822	89,23%
insurance	47 290	47 179	100,2%
maintenance costs	259 502	250 481	103,6%
other	13 363	12 125	110,2%
Depreciation	135 124	125 875	107,3%

The cost regime pursued in 2003 helped to bring the Bank's operating costs down 1.5% year on year. This was mainly due to payroll costs, down 10.8%. While the MultiBank branch network was growing fast, maintenance costs grew only 3.6%. "Other costs" which grew the most includes taxes and fees to the Bank Guarantee Fund [BFG].

The past year saw radical improvement in provisions. Provisions had been one of the main reasons for losses generated in 2002, but the net balance of provisions set up and released was at a positive PLN 17.1 million in 2003.

PLN thousand	2003	2002
Write-offs for provisions and revaluation	-265 362	-804 350
Termination of provisions and diminution	282 457	309 430
Balance of provisions	17 095	**-494 920**

The net balance of provisions included:

- net specific provisions for loans and guarantees PLN 1.5 M
- net provisions against permanent diminution (PLN 0.3 M)
- net general risk provisions PLN 15.9 M

V.3.4. Financial Result

The Bank closed the year 2003 with a stand-alone pre-tax profit of PLN 47.7 million, compared to a loss of nearly 300 million in 2002. A very high effective income tax rate of 87.8% consumed most of the profit. This was due to the reduction of the CIT rate from 27% to 19% as of 2004. This forced the Bank to revaluate its tax assets (not all provisions are allowed tax-deductible costs immediately when set up) and to revaluate the deferred tax in the financial statements as at 31 December 2003. The negative result of the revaluation was PLN 31.8 million, which sharply reduced the Bank's bottom line.

PLN thousand	2003	2002
Gross profit	47 692	-299 045
Tax profit	41 892	-98 968
current part	550	534
postponed part	41 342	-99 502
Net profit wihout acquisition accounting	5 800	-200 077
Profit/loos in subordinated entities priced using acquisition accounting	-3 964	-179 144
Net profit	1 836	-379 221

It must be emphasised that the profitability of the subsidiaries improved. Their contribution to the overall profitability, though still negative (as some companies continued to make losses), was much better than in 2002.

The Bank's main performance indicators were as follows:

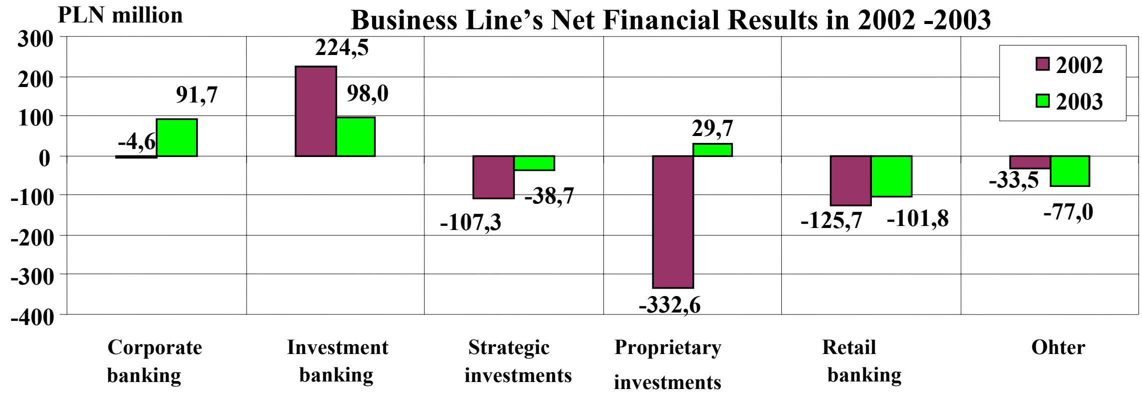
- Solvency ratio 9.45%
- ROE (net profit/average equity) 0.1%
- ROA (net profit/average assets) 0.01%
- Cost/income ratio (Bank's operating costs + depreciation / profit on banking operations + net other operating income and costs) 95.1%
- Interest margin (interest income including swaps / average net assets) 1.0%

VI. The Bank's Net Financial Result by Business Line

The table below shows the contribution of the Bank's businesses to the profit and loss account. All costs were allocated to the businesses, including both direct and indirect costs (costs of cost centres, costs of management) as well as the cost of equity and the cost of provisions of each business line. Strategic and proprietary investments are assigned with the cost of financing their portfolios. "Other" includes unallocated costs, such as the BFG fee and leasing fees.

	Corporate Banking	Investment Banking	Strategic Investments	Proprietary Investments	Retail Banking	Other	TOTAL
Result on banking activity (plus adjustment for provisions on credit risk)	**329 193**	**207 638**	**(55 955)**	**71 221**	**72 391**	**(1 595)**	**622 893**
Other income/costs	**(414)**	**1 138**	**44**	**4 177**	**485**	**18 079**	**23 511**
Bank's operating costs, depreciation	**203 159**	**74 521**	**8 761**	**17 632**	**212 398**	**82 310**	**598 781**
Result on operational activity	**125 620**	**134 256**	**(64 672)**	**57 767**	**(139 522)**	**(65 826)**	**47 624**
Gross profit (loss)	**125 620**	**134 256**	**(64 672)**	**57 767**	**(139 522)**	**(65 758)**	**47 692**
Tax profit	**33 917**	**36 249**	**(17 462)**	**15 597**	**(37 671)**	**11 261**	**41 892**
Net profit (loss) without acquisition accounting	**91 703**	**98 007**	**(47 211)**	**42 170**	**(101 851)**	**(77 018)**	**5 800**
Participation in profit (net loss) of subordinated priced using acquisition accounting	**0**	**0**	**8 536**	**(12 500)**	**0**	**0**	**(3 964)**
BRE Banks net profit (loss)	**91 703**	**98 007**	**(38 675)**	**29 670**	**(101 851)**	**(77 018)**	**1 836**

The chart below shows the change in the contribution of the businesses to the Bank's results compared to 2002. To ensure comparability, 2002 figures were converted in line with the principles used in business line allocation 2003 (full cost allocation, cost of financing portfolios allocated to strategic and proprietary investments). Private banking is shown under retail banking.



All business lines noted improvement except investment banking which was hit by losses on bonds in H2 2003 and by lower swap income.

The biggest improvement was noted in proprietary investments which recorded a profit of PLN 29.7 million, compared to last year's loss.

VI.1. Corporate Banking

The net profit of the line was PLN 91.7 million in 2003, much better than the 2002 profitability based on the same methodology (full cost allocation). This was mainly due to much lower provisions as income lines did go down. The costs of the business were down 9.7%. The major improvements affecting the performance of the Bank's corporate banking business in 2003 and the years to come include:

- Modification of the decision-making system concerning credit risk products and a more conservative credit policy, resulting in improved quality of the portfolio combined with its dynamic growth (more information in the section "Loan Portfolio");
- Continued improvement of the effectiveness of corporate banking advisors in acquiring new profitable clients for the Bank by way of training and through an effective incentive system based on planning and assessment of individual financial targets;
- Distribution of the Bank's product offer for small and medium-sized enterprises through electronic channels (corporate portal, internet banking used by 9.3 thousand users at 31 December 2003) and new SME Packages. The SME packages "EFEKT" and "EFEKT Plus" are offered as of January 2003; 1,100 packages were sold in 2003;
- Developing the Bank's offer for local governments and their associates in the area of day-to-day service, financing, and co-financing of projects using EU assistance funds;
- Implementation of an Autodealing system enhancing the Bank's competitiveness, mainly by facilitating the servicing of fx transactions using reference market rates.

VI.1.2. Fast Growing Volume of Foreign Trade Transactions Serviced

Servicing foreign trade transactions is an important segment of corporate banking. The Bank is one of the market leaders: its share in servicing foreign trade transactions (in goods and services) was 18.6% in 2003.

The Bank's product offer for corporates trading with foreign partners includes short-term loans as well as a range of more secure financial instruments: factoring, forfaiting, loans secured with KUKE insurance policies, letters of credit, bank guarantees, stand-by letters of credit, guarantee carnets (single transit guarantees: EUR 7,000 carnets obligatory in the EU). Clients are also offered instruments hedging against fx risk, consulting on risk assessment, and intelligence concerning the standing of trade partners.

Both the product offering and the quality of service are appreciated by clients. BRE Bank ranked second in a *Gazeta Bankowa* survey (3 November 2003) concerning the leading banks servicing exporters.

The value of foreign trade transactions serviced by the Bank in 2003 was US$ 19,802.6 million, compared to US$ 15,409.0 million in 2002 (up 28.5%). Export transactions grew 33.3% to US$ 9,996.9 million, while import transactions at US$ 9,805.7 million were up 23.9% year on year.

VI.2. Investment Banking

Investment banking is a diverse business as it comprises money markets, capital markets, derivatives, debt issues, custody, transactions with financial institutions, and specialised finance. While the line generated the largest profit of PLN 98.0 million in 2003, yet this was only 43.6% of the profit reported in 2002. Financial transactions, a loss-making business in 2002, were profitable in 2003 but gains on fx differences and derivatives were much lower year on year. The line's net interest income fell the most: it was only 15.7% of the net interest income earned in 2002.

VI.2.1. Money Market

In 2003 BRE Bank was very active in domestic and international money markets. The Bank was the leading counterparty to interbank market transactions, also with clients other than banks. BRE Bank was the unquestionable leader in placements and deposits, currency swaps in the interbank market, and transactions in securities including T-bills and bonds. Its certificates of deposit issued under a programme launched in 2002 were acquired by financial institutions for periods from 1 month to 7 years.

The year 2003 was not a good time to invest in fixed-income securities. The Monetary Policy Council [RPP] cut the interest rates by 100–200 basis points between January and June. In mid-2003, due to excessive optimism and expectations of further interest rate cuts, the yields were much ahead of the actual cuts planned by RPP. Fearing a correction, most investors decided to reduce their investment in T-bills and bonds, and their prices fell. This situation prevailed for the rest of the year, additionally fuelled by negative political developments in Poland.

Despite the unfavourable environment, the Bank remained an active player in the securities market. The Bank was mainly involved in buying and selling securities in the primary and secondary market, as well as repo and reverse repo deals in the interbank market. The liquidity portfolio comprised only T-bills and bonds and was kept at its optimum to secure the Bank's current liquidity.

The Bank's clients were mainly interested in short-term investments in securities in the secondary market, investments in the primary market of securities, and intermediation services offered by the Bank to banks and clients. The volume of BRE Bank's trading in T-bills remained high and once again gave the Bank the first position in the IAD (Dealer Activity Index) ranking of NBP.

BRE Bank remained a leading counterparty for foreign banks in PLN transactions. Consequently, the Bank is one of the most active players in the interbank market of fx swaps and PLN placements and deposits.

VI.2.2 Non-Treasury Debt

BRE Bank is one of the leaders in Poland's debt market. It had the **second position** among bank arrangers of **short-term debt** issues with outstanding debt at PLN 1,320.2 million at 31 December 2003, and the fourth position in terms of the number of issuers. The Bank's share in the market of short-term debt securities was 11.94% at 31 December 2003 (Fitch Polska SA, Rating & Rynek, 31 December 2003, No. 24 (160)). The total nominal value of short-term debt issued through the Bank was PLN 8,659.5 million at 31 December 2003.

In the market of **corporate bonds** with maturities over 1 year, BRE Bank was in the second position with outstanding debt at PLN 1,298.6 million at 31 December 2003 (Fitch Polska SA, BRE Bank). The total nominal value of debt maturing in more than 1 year issued through the Bank was PLN 458.2 million and EUR 20 million at 31 December 2003.

The Bank is the **third largest arranger of municipal bond** issues. The total outstanding debt of local governments under securities issued through the Bank was PLN 185 million.

Under the PLN 500 M Rheinhyp-BRE Bank Hipoteczny Mortgage Bond Public Issue Programme, BRE Bank was the Arranger and Lead Manager of two series of public mortgage bonds listed on CeTO with five-year maturity and nominal value of PLN 200 million each issued in April and October 2003 to surplus subscription. The interest rate on the mortgage bonds of the last series was WIBOR 6M plus a margin of 0.49%.

VI.2.3. Syndicated Loans

In 2003, BRE Bank arranged and co-arranged 7 syndicated loans totalling PLN 1,176 million. The contribution of the Bank was PLN 408 million. In addition, the Bank participated in 15 bilateral loans totalling PLN 216 million.

The major transactions of 2003 included:

- syndicated loan to Saturn: BRE Bank sold a half of its exposure at ca. EUR 30 million to Kreditanstalt fuer Wiederaufbau (KfW);
- BRE was the arranger of a PLN 200 million syndicated loan for Telekomunikacja Polska and contributed PLN 100 million;
- BRE co-arranged a syndicated loan for KGHM;
- BRE was mandated to arrange a PLN 210 million syndicated loan for Huta Zawiercie, a subsidiary of the US company Commercial Metals;
- PLN 246 million loan to finance the acquisition of Polpharma stocks from the State Treasury.

VI.2.4. Transactions with Financial Institutions

At 30 December 2003, BRE Bank had 1,580 correspondents (banks with which BRE Bank had exchanged swift and/or telex keys, compared to 1,530 correspondents in 2002), including 42 nostro correspondents and 105 loro correspondents.

At the end of 2003, BRE Bank had access to one credit line granted by a foreign bank under insurer guarantee plafonds, as well as a credit line from KfW (Frankfurt) and credit lines of the European Investment Bank (EIB) to finance SME investment contracts. In 2003 BRE Bank repaid two syndicated loans and two bilateral loans as well as a credit line from Natexis Banque, Paris taken by NBP and lent on to BRE Bank. Two new loan agreements were executed in 2003:

- Three-year EUR 250 million loan from a consortium of 20 European and US banks;
- Three-year CHF 75 million loan from Erste Europäische Pfandbrief und Kommunalkreditbank, Luxembourg.

There were 12 active loans (balance sheet and off-balance sheet) at 31 December 2003 totalling the equivalent of PLN 2.85 billion (including one line without a set amount).

VI.3. Strategic Investments

BRE Bank has a reputation for investment in stocks and shares. This business now includes a separate line of **strategic investments**: companies which provide financial services and support the businesses of the Bank. While still at a negative PLN 38.7 million, the results of the line improved considerably year on year, mainly due to the share in the net profit/loss of subsidiaries subject to equity accounting valuation, which was PLN (94.6 million) in 2002 and PLN 8.5 million in 2003. The Bank's dividend income from strategic investments was PLN 5.2 million in 2003.

This business involves management of the portfolio of BRE Bank Group companies, including all strategic subsidiaries and affiliates. The portfolio at cost grew PLN 1.4 million (up 0.1%) year on year and stood at PLN 1,122.1 million (PLN 1,153 million including additional equity contributions) at 31 December 2003. The balance sheet value of the portfolio grew PLN 42.7 million (up 4.9%) and stood at PLN 908.8 million, mainly due to the improving performance of BRE Bank Group subsidiaries.

The major changes in the strategic investment portfolio in 2003 include:

- Merger of BRE Bank SA and Bank Częstochowa as of late February 2003, reducing the Bank's equity investment by PLN 15.7 million;
- Increase of the share capital of PTE Skarbiec-Emerytura by PLN 14.0 million;

- Inception of a new company, Centrum Rozliczeń i Informacji CERI Sp. z o.o., where the Bank holds 99.99% of shares and votes; the Bank took up 12,065 shares for PLN 12.1 million;
- Acquisition of stocks in Magyar Factor Rt. representing 50% of the share capital and votes for HUF 550 million (ca. PLN 9.4 million) in January 2003;
- Inception of a new company, BRE Finance France SA, where the Bank holds 99.97% of share and votes; the Bank's investment stands at EUR 0.2 million (ca. PLN 1.1 million);
- Acquisition of stocks in Wschodni Bank Cukrownictwa SA under the bank's restructuring programme: BRE Bank and a group of other banks took up WBC SA stocks of a new issue; the stocks acquired by BRE Bank for PLN 8.4 million represent 4.211% of the share capital and 4.213% of votes; the acquisition was financed with an eight-year loan granted by the Bank Guarantee Fund;
- Sale of stocks in Polcard SA at a capital gain of PLN 1.1 million;
- Cancellation of shares in Skarbiec Akcja and Skarbiec Net (at a gain of PLN 0.2 million).

On 27 October 2003, BRE Bank and Eurohypo AG signed a letter of intent concerning BRE Bank's acquisition of 50% of stocks in Rheinhyp-BRE Bank Hipoteczny SA held by Eurohypo AG. If the binding stock sale agreement is executed pursuant to the letter of intent, BRE Bank will hold 100% of stocks of Rheinhyp-BRE Bank Hipoteczny.

The sections below present the activity of the strategic subsidiaries.

VI.3.1. Powszechne Towarzystwo Emerytalne Skarbiec-Emerytura SA (PTE SE)

The core business of the company is to manage open-end pension funds. The company managed two open-end pension funds in early 2003: Skarbiec-Emerytura and {ego}. On 13 January 2003, the court registered the merger of the two finds. After the merger, OFE Skarbiec-Emerytura is the fifth largest market player in terms of the number of clients and assets under management. As at 31 December 2003, OFE Skarbiec-Emerytura had 659,501 clients, a 6% market share; its net assets under management were over PLN 1,619 million (4% market share), up 34% year on year. The quality of the fund's portfolio improved in 2003 as the share of inactive accounts fell from 31% in 2002 to 27% at 31 December 2003.

The company reported its first net profit of PLN 17.8 million in 2003. Its profitability is mainly due to additional income from the released reserve account, as well as a 20% growth in sales, a 30% reduction in operating costs, and the recognition of deferred tax assets in the balance sheet.

BRE Bank held 100% of the share capital and votes of the company as at the reporting date.

VI.3.2. SKARBIEC Asset Management Holding SA Group (SAMH)

The year 2003 was the first full calendar year of the company's business. The company runs a holding which centralises BRE Bank's asset management services. The SAMH Group comprises the following companies:

Company	Business profile
Skarbiec TFI SA	Development of investment funds. In SAMH, the company is responsible for marketing new investment products and sales to corporate clients. The company operates under the provisions of the Investment Fund Law.
Skarbiec Investment Management SA (formerly BRE Asset Management SA)	Management of clients' securities portfolios. The company manages its clients' portfolios and provides management services to investment funds developed by Skarbiec TFI as well as consulting services to PTE Skarbiec-Emerytura. The company operates under the provisions of the Securities Law and holds a licence issued by KPWiG.

BRE Agent Transferowy Sp. z o.o.	The company keeps registers of clients of pension funds and open-end investment funds. It provides services to Skarbiec TFI, OFE Skarbiec-Emerytura, TFI CAIB, Union Investments, and DWS. The company offers accounting, clearing, back office and call centre services to SAMH subsidiaries and PTE Skarbiec-Emerytura.
Skarbiec Serwis Finansowy Sp. z o.o.	The company is responsible for the distribution of investment products among retail clients of the SAMH Group; it also provides marketing and promotion services to the Group.
Skarbiec Asset Management Holding SA	The holding company of the above mentioned subsidiaries, it owns 100% of their shares. It controls the capital group and is responsible for strategic marketing.

PTE Skarbiec-Emerytura participates in SAMH at the operating level.

In 2003, due to falling interest rates of bank deposits, the asset management market continued to grow actively. Assets under management at Skarbiec Investment Management (including assets of Skarbiec TFI) were PLN 2.9 billion at 31 December 2003, up 14% year on year.

Skarbiec TFI is the fourth largest investment fund with a market share of 6.5% in terms of total assets. The company managed 15 funds, including 10 open-end funds, 3 closed-end funds, and 2 mixed funds at the end of 2003. The closed-end investment fund Skarbiec Obligacja-Plus was wound up in 2003. Its investors were offered shares in two new funds: Lokacyjny FIM and Profit Plus FIM. Certificates of both these funds are listed and traded on the Warsaw Stock Exchange.

The SAMH Group broke even in the first year of business. Its net profit was PLN 230 thousand in 2003, mainly due to very good performance of Skarbiec TFI (net profit of PLN 6.9 million, compared to PLN 1.3 million in 2002).

Skarbiec TFI received many important awards in 2003: it was named the best investment fund company 2002 by the Warsaw Stock Exchange and *Parkiet*, and won the *Rzeczpospolita* ranking of the best investment fund companies.

BRE Bank held 99.9993% of SAMH stocks at 31 December 2003.

VI.3.3. BRE Leasing Sp. z o.o. (BRE Leasing)

The core business of BRE Leasing is to lease plant, machinery, vehicles, land, and real estate. In co-operation with BRE Bank's retail business, the company has launched a new product: BRE Leasing 48, passenger car leases available within 48 hours.

In 2003, thanks to a strong improvement in leasing market conditions and the launch of new products, BRE Leasing reported a net profit of PLN 2.5 million, compared to PLN 1.6 million in 2002. Economic recovery in Poland is expected to help its performance in 2004.

BRE Leasing is a leader on the Polish leasing market. It ranked third in terms of assets leased in 2003, winning a market share of 8.6%.

VI.3.4. BRE Corporate Finance SA (BCF)

BCF is a consultancy, part of the BRE Bank Group investment banking line. It has long-time experience in strategic and financial advisory (privatisation, strategic restructuring, mergers and acquisitions) and private placements. It brings together investors and companies in need of investment. Its co-operation with BRE Bank and other BRE Bank Group companies ensures comprehensive service, including expert consulting, finance, and special projects.

Transactions assisted by BCF over the 12 years of its business totalled over US$ 7.2 billion, a leading position in the local management consulting market. Since its inception, BCF has won the recognition and trust of Polish and foreign investors and financial institutions due to successful deals, privatisation projects, restructuring and investments. BCF is a trusted partner of State institutions including the Ministry of the State Treasury, the Ministry of the Economy, the Ministry of Infrastructure, as well as large corporations and leading financial institutions in Poland.

Despite the economic downturn and low GDP growth in Poland, restricting corporate demand for transactions and consulting, BCF continues its co-operation with the largest corporate clients and offers its assistance in financial deals.

The company closed 2003 at a net profit of PLN 248 thousand.

VI.3.5. Dom Inwestycyjny BRE Banku SA (DI BRE)

DI BRE Banku is active in the capital market since inception in 1991 (it was part of BRE Bank's organisation working as BRE Brokers until June 1999). Its product offering includes transactions in the secondary market of securities, as well as deals in public and non-public primary markets. Thanks to its client segmentation, DI BRE offers services dedicated to all customers active in the capital market, including Polish and international retail and corporate clients.

Thanks to diversification of its brokerage offering and top quality service based on long-time experience, DI BRE is a leading player in the demanding brokerage market.

DI BRE is one of the most active brokers with a growing share in the primary and the secondary markets. In 2003, DI BRE accounted for 6.9% of all stock exchange transactions in equities (sixth position), 11.6% of transactions in derivatives (third position), 3.4% of transactions in bonds (tenth position), and 25% of transactions in options (second position).

The company's net profit was PLN 2.3 million in 2003.

VI.3.6. RHEINHYP-BRE Bank Hipoteczny SA (RHB)

In more than four years of its business, RHB has built a large loan portfolio and won the first position among mortgage banks in Poland. The balance sheet value of the bank's loan portfolio was PLN 1,515.2 million at 31 December 2003, mainly consisting of corporate loans. RHB is the unquestionable leader of the mortgage bond market. With ten issues totalling over PLN 732.3 million, the Bank has a 91% share in the market of mortgage bonds. Its two public issues carried out in 2003 were very successful.

The Bank strives to provide top quality service. In March 2003, it launched a new comprehensive service: an on-line Credit Centre, the first complex internet tool in the market of housing loans. Its functionalities include on-line submission of credit applications, instant credit decisions, access to all credit information, and monitoring of credit repayment.

The company's net profit was PLN 3.5 million in 2003.

VI. 3. 7. INTERMARKET Group

The Intermarket Group comprises the following factors:

- Intermarket Bank AG, Vienna
- Transfinance a.s., Prague

- Polfactor SA, Warsaw
- Magyar Factor Rt., Budapest
- Transfinance Slovakia a.s., Bratislava

BRE Bank holds 54.84% of stocks of Intermarket Bank AG; BRE Bank and Intermarket Bank each hold 50% of stocks of Polfactor SA, Transfinance a.s. and Magyar Factor Rt. (as of January 2003). As of May 2003, 67% of stocks of Transfinance Slovakia are held by Intermarket Bank AG, and 33% by Transfinance a.s., Prague.

The Intermarket Group remained the leading factor in Central and Eastern Europe in 2003. Its turnover grew 30% and stood at EUR 2.8 billion in 2003. Its net profit grew over 50% and was ca. EUR 5 million. Intermarket Bank AG (Vienna), Transfinance a.s. (Prague) and Magyar Factor Rt. (Budapest) remained the leaders in their local markets, while Polfactor SA (Warsaw) consolidated its position.

In January 2004, Intermarket Bank AG was the first factor in Europe and one of the first world-wide to be rated by Moody's: its rating is A3 for long-term deposits (seventh rate on a scale of 19), P-2 for short-term deposits (second rate on a scale of 4) and C for financial strength (on a scale from A to E). According to Moody's, the rating is due to Intermarket Bank's leading position in the Austrian factoring market and its growing role in Central and Eastern Europe, combined with good risk management, a stable capacity to generate profits, and a strong equity base.

Intermarket Bank AG accounts for approximately 60% of the Group's turnover and ca. 45% of its net profit, followed by Transfinance a.s. with a 20% share in the turnover and a 30% share in the net profit, Magyar Factor with a share of 10% and 17%, and Polfactor with 10% and 9%, respectively. The share of Transfinance Slovakia in the turnover of the Group is small.

Apart from growing turnover, the growth in the Group's net profit is a result of cost-cutting efforts undertaken in all subsidiaries. The cost/income ratio of the companies of the Group improved. The Group's average cost/income ratio was 51% in 2003.

VI.3.8. Centrum Rozliczeń i Informacji CERI Sp. z o.o. (CERI)

CERI was registered on 27 March 2003. Of its equity at PLN 12.1 million, 99.99% is held by BRE Bank and 0.01% by Tele-Tech Investment Sp. z o.o. The core business of the company is to provide support functions for the banking business, including in particular settlements and database support for the Bank and third-party clients.

Compared to the company's business plan, its net result generated in 2003 was PLN (1.0 million), 100% better than projected, mainly due to a strict cost regime, including workforce restructuring and a review of all costs.

VI.3.9. BRE International Finance BV and BRE Finance France SA

BRE Finance France SA was registered on 22 July 2003 in France. BRE Bank holds 99.97% of its share capital and votes. The core business of the company and of BRE International Finance BV, Amsterdam, is to issue euronotes guaranteed by BRE Bank.

On 24 July 2003, BRE International Finance BV and BRE Finance France SA as Issuers and BRE Bank as Guarantor signed EUR 1.5 billion EMTN Agreements amending the existing EMTN Agreements executed on 30 May 2001. On 30 October 2003, under the EMTN Programme, BRE Finance France SA issued EUR 200 million of notes with a coupon at LIBOR 3M plus 0.35% and redemption in 2006 guaranteed by BRE Bank.

VI.4. Changes in Proprietary Investments

Proprietary investments are a separate business line, comprising stocks, shares and other rights acquired for later disposal. The majority of the portfolio is managed directly by the Bank, the remainder by special-purpose vehicles. In 2002, this business proved to be very sensitive to the volatility of economic and stock market conditions. Under the accounting principles applied as of early 2002, the line has a much stronger impact on the Bank's profitability and equity. In a strategic decision, the Management Board began to reduce the portfolio.

This business line, one of the main reasons for the Bank's loss in 2002, closed the year 2003 at a profit of PLN 29.7 million. Like in strategic investments, the valuation of portfolio companies improved considerably: it was PLN (12.5 million), compared to PLN (84.5 million) in 2002. The profit on financial transactions was PLN 20.9 million, compared to a loss of PLN 19.4 million in 2002. The main driver of improvement was the positive net balance of credit provisions at PLN 71.5 million, compared to a negative balance of provisions at PLN 175.1 million in 2002. The changes in the portfolio and its valuation enabling this improvement are shown below.

The portfolio at cost was PLN 720.4 million at 31 December 2003 (down PLN 456.2 million year on year). The provisions for decrease in the value of assets under management were down PLN 48.81% and the balance sheet value of assets was down 36.76%.

BRE Bank SA Proprietary Investment (PLN'000)*	**31.12.03**	**31.12.02**	**Change**	
			PLN'000	**%**
Value at cost	720 388.1	1 176 565.3	(456 177.3)	(38.77)
Increase (-) / Decrease (+)	100 704.9	196 730.9	(96 026.0)	(48.81)
Balance sheet value	619 683.2	979 834.4	(360 151.2)	(36.76)

* excluding prepayments for stocks and shares

The major transactions closed in 2003 are presented in the sections below.

VI.4.1. ITI Holdings SA

Pursuant to agreements with ITI Holdings SA providing for the restructuring of ITI Holdings SA debt:

- TV-TECH Investment 1 Sp. z o.o., an affiliate of BRE Bank, acquired 10% of shares of TVN Sp. z o.o. on 5 November 2003;
- bonds issued by ITI Holdings SA with a nominal value of US$ 42.5 million held by BRE Bank were redeemed and cancelled;
- BRE Bank will convert the remaining bonds issued by ITI Holdings SA with a nominal value of US$ 41,950 thousand held by the Bank into new short-term and long-term bonds to be issued by a subsidiary of ITI Holdings SA and guaranteed by ITI Holdings SA.

VI.4.2.Optimus SA

Pursuant to an agreement dated 31 October 2002 between BRE Bank and ITI Holdings SA, the Bank undertook to acquire 1,393.2 thousand **Optimus** stocks for PLN 29,250 thousand in two packages of 696,605 stocks each. The first package was acquired for PLN 14.6 million in April 2003. The Bank was relieved from the obligation to acquire the other package as its majority was acquired by another buyer and the remainder was sold on the market. In 2003, the Bank sold Optimus stocks in several deals. As a result, the Bank held 383 thousand stocks representing 4.08% of equity at 31 December 2003, compared to 23.23% at the end of 2002.

In addition, the Bank acquired 2,064 thousand stocks (now representing 48.2% of equity) of **Optimus IC SA**, a producer of cash registers, directly from Optimus SA for PLN 7.8 million in late June 2003. The Bank acquired another 2,214.9 thousand stocks (now representing 51.7% of equity) for PLN 8.4 million indirectly via the special-purpose vehicle Tele-Tech Investment. The Bank considers this to be a short-term investment.

On 26 November 2003, the agreement dated 30 July 2002 between BRE Bank SA and Mr Andrzej Widerszpil and Ms Barbara Staszczyk providing for joint action towards Optimus SA was terminated.

VI.4.3. Elektrim SA

BRE Bank held 17,012,186 stocks of Elektrim SA representing 20.3% of equity at 31 December 2002. On 6 February 2003, BRE Bank executed two agreements: one with TCF Sp. z o.o. and the other with Polsat Media SA, providing for the sale of Elektrim SA stocks. Pursuant to the agreement, BRE Bank sold to Polsat Media SA:

- 8.2 million Elektrim SA stocks representing ca. 9.8% of equity on 22 July 2003;
- 4.6 million Elektrim SA stocks representing ca. 5.5% of equity on 10 November 2003.

BRE Bank held 4,189,547 Elektrim SA stocks representing 5.001% of equity at 31 December 2003.

In proceedings before the International Arbitration Court at the Austrian Federal Chamber of Commerce in Vienna in a case filed by Deutsche Telekom MobilNet GmbH (DeTeMobil) against Elektrim SA and Kulczyk Holding SA, TUiR Warta SA, BRE Bank SA, BRE – Fundusz Kapitałowy Sp. z o.o. where DeTeMobil claimed that the acquisition of shares in Polska Telefonia Cyfrowa Sp. z o. o. by Elektrim SA from the other defendants was ineffective, the Court gave a judgment which rejected all claims of DeTeMobil challenging the effective acquisition of the PTC shares by Elektrim.

VI.4.4. Telbank SA

Between 20 and 26 May 2003, BRE Bank sold 167,765 stocks of Telbank SA with a nominal value of PLN 200 per stock (representing 25.52% of equity) to Telekomunikacja Energetyczna Tel-Energo SA. Following the transactions, BRE Bank holds no stocks of BPT Telbank SA. BRE Bank recorded total gains of PLN 15.4 million on the sale of Telbank SA stocks.

VI.4.5. Szeptel SA

In stock exchange transactions closed in 2003, BRE Bank sold 2,176,333 stocks of Szeptel SA representing 16.48% of equity. BRE Bank held no Szeptel SA stocks as at 31 December 2003.

VI.5. Retail Banking and Private Banking

The newest business of BRE Bank, retail banking, grew the most dynamically. The number of accounts of mBank grew 65.2% and reached 658.3 thousand and that of MultiBank grew three-fold and reached 91.1 thousand. mBank and MultiBank deposits were growing fast (up 53.3%) and reached PLN 2,987 million at 31 December 2003, compared to PLN 1,946 million at the end of 2002. The loan portfolio was growing even faster, from PLN 144 million to PLN 1,130 million in 2003.

Despite this spectacular success of both retail banking projects, their income is still below their costs (related to the development of the Financial Services Centre network, many new IT applications, growing headcount, and significant costs of advertising and promotion).

As a result, retail and private banking generated a loss of PLN 101.9 million in 2003, less than the loss of PLN 125.7 million in 2002. While the costs of the line at PLN 212.4 million were bigger than in 2002 (PLN 202.3 million), but the profit on banking operations grew from PLN 29.8 million to PLN 72.4 million. mBank is expected to turn profitable in Q1 2004 and MultiBank at the turn of 2005.

VI.5.1. Growth of mBank in 2003

The market success of mBank was possible thanks to its competitive and innovative offering, effective communication channels, partnership with clients, and top quality service. Continued growth in the number of clients and the amount of deposits confirms mBank's leading position in the Polish electronic banking market. mBank had over 540 thousand clients at 31 December 2003, up 60% year on year. Its deposits grew from PLN 1,820 million in 2002 to PLN 2,556 million in 2003, a unique achievement given that household deposits fell PLN 3,999 million in the sector.

The number of mBIZNES Konto accounts grew 100% in 2003. Businesses opened over 55 thousand accounts and deposited more than PLN 140 million.

According to its business model and growth strategy, mBank extends its lending offering which includes revolving loans, credit cards and mPLANS (mortgage loans or credits). mBank launched investment products (Investment Fund Supermarket), new products for businesses (mBIZNES), and insurance products. The Investment Fund Supermarket which offered shares in 33 funds managed by 7 companies was very popular: over 30 thousand clients deposited more than PLN 207 million buying shares without any commission charge.

Loans granted stood at PLN 250 million, including PLN 163 million drawn at 31 December 2003. Mortgage loans under mPLAN Hipoteczny represent nearly one half of the total.

In 2003, mBank launched first pilot projects in the real world. mKiosks facilitate client access to the bank, including cash deposits, and are available in 7 Polish cities. mBank's business strategy remains focused on remote acquisition and service channels, mainly over the internet. mBank was developing its Credit Centres in 2003. The Credit Centres are located in major cities of Poland, including Warsaw, Łódź, Katowice, Kraków, Poznań, Wrocław, Gdańsk, and Szczecin.

VI.5.2. Fast Growth of MultiBank

MultiBank had 116.7 thousand clients at 31 December 2003, up 176% year on year. In 2003, MultiBank opened close to 60 thousand accounts, including 10.3 thousand accounts taken over from Bank Częstochowa. Deposits totalled PLN 432 million and loans PLN 967 million. Financial Plans, MultiBank's innovative products combining the functions of checking accounts, deposits, and loans, accounted for most of the total (PLN 628 million).

MultiBank is a pioneer in integration of financial services, including loans, savings, and investments. Its unique customer service model optimises investment opportunities, facilitates management functions, and supports monitoring of investment. MultiBank's innovative Financial Plans are a breakthrough in the banking sector and offer special customer benefits and functions not available from other banks. They strongly reduce the interest cost of loans and transaction fees, and ensure profitable investment in a wide selection of products. In 2003, clients filed 7,198 credit applications under Financial Plans totalling PLN 1,118 million; over PLN 800 million of lending was approved.

In July 2003, MultiBank launched another innovative product, the Savings Centre, which helps to diversify investment in deposits and funds and offers returns above traditional bank deposits. The MultiBank Savings Centre is a one-stop-shop service offering the biggest selection of shares in 46 investment funds managed by 8 companies: TFI Skarbiec, GTFI, TFI SEB, TFI Banku Handlowego SA, TFI PZU, Warta TFI, CAIB, and DWS TFI.

The extension of MultiBank's product offering is coupled with the expansion of its branch network and the launch of an innovative project of partner outlets. In 2003, MultiBank had 31 Financial Service Centres in Łódź, Katowice, Poznań, Bydgoszcz, Gdynia, Toruń, Warsaw, Gdańsk, Kraków, Częstochowa, Bielsko-Biała, Gorzów Wielkopolski, Olsztyn, Gliwice, Szczecin, Opole, Kielce, Rzeszów, Lublin, Białystok, and 4 partner outlets in Wrocław, Koszalin, Kalisz and Pabianice.

VI.5.3. Private Banking

In early 2003, clients were more prone to invest in asset management products rather than bank deposits. Later during the year, when the returns on securities portfolios fell, clients reinvested in deposits. The year-end balance of portfolio investments was PLN 1,448 million, the same for 2003 and 2002. Deposits with the Bank at PLN 2,103 million were down 2.3% while loans fell 9.0% and stood at PLN 477 million.

VII. BRE Bank's Lending and Guarantee Policy

VII.1. Objectives and Principles of the Lending and Guarantee Policy

The main objective of BRE Bank's lending and guarantee policy is top-quality comprehensive customer service including credit-risk products. In pursuing its lending and guarantee policy, the Bank strives to maximise profits by expanding its lending business while actively mitigating credit risk. The guiding principles of the policy derive from the Bank's By-laws and the Banking Law.

The Bank's offering of credit-risk products is addressed to corporate clients, local governments, and retail clients. The Bank grants PLN and FX loans **to corporate clients**:

- to finance current business,
- to finance investment.

Investment loans should not, as a rule, be more than 60% of the total planned investment. In the case of projects with exceptional returns and appropriate collateral, loans may account for up to 75% of total investment. Any exposure beyond that level must be approved unanimously by a higher decision-making body.

Loans offered **to retail clients** include:

- consumer loans (cash loans, instalment loans, car loans, etc.);
- loans to finance investment by private individuals (purchase of real estate, equity investment, etc.).

The Bank buys cash receivables from companies and financial institutions under leasing transactions, trade contracts (domestic and international), and other. In addition, the Bank:

- issues PLN and FX guarantees and carries out other documentary transactions;
- opens letters of credit carrying credit risk;
- offers forward instruments hedging against fx and interest rate risk;
- arranges and participates in syndications to finance large investment projects;
- issues debt securities and offers other money market and capital market instruments;
- offers credit-risk products to other banks;
- offers credit-risk products via special external companies and through modern distribution channels (internet, telephone, etc.).

Credit decisions involving risk products are made by decision-making bodies whose composition, tasks and regulations, including limits of authority, are set by the President of the Management Board in a regulation notified to the Executive Committee of the Supervisory Board. Decisions of special importance to the quality of the Bank's credit risk portfolio take into account opinions of a Senior Lender, a credit risk assessment specialist. The amount of exposure and risks of the client or the transaction are those parameters which escalate the case to the competent decision-making body.

The Bank strives to mitigate credit risk through diversification of its loan portfolio. This is based, among others, on analyses of the structure of the Bank's portfolio including conclusions and recommendations regarding the Bank's exposure per sector and per region. The methodology of managing and monitoring credit risk is discussed in the section "Risk Management at BRE Bank."

The Bank tightened its lending policy in H2 2002. Restrictions were imposed on the principles of lending to clients of a declining financial standing and at a risk of loss of liquidity. The Bank pursues a conservative policy in that it does not provide lending to those companies in which it is invested under the proprietary portfolio. The Bank decided to expand lending to clients using short-term trade finance instruments.

VII.2. Loan Portfolio

Net amounts receivable from clients and the public sector were PLN 11,221.4 million at 31 December 2003, up 20.3% year on year. The strong growth was mainly due to a loan granted to an institution of the public sector while loans to clients grew 3.9%.

The average interest rate on PLN corporate loans offered by BRE Bank was 8.70% in 2003, compared to 11.39% in 2002.

Of loans granted to clients and the public sector, the largest share was that of loans to wholesale and consignment trade companies (12.5%), followed by retail loans (13.3%, compared to 8.4% in 2002), loans to insurers and pension funds (12.1%), and loans to financial intermediaries (11.2%).

The lending structure at 31 December 2003 was as follows:

	2002	**2003**
• investment loans	39.4%	34.8%
• working capital loans	30.8%	39.0%
• overdraft facilities	18.0%	11.2%
• revolving loans	8.1%	7.9%
• purchased receivables	1.8%	1.6 %
• other loans	2.0%	5.5%

In terms of the currency structure, PLN loans to clients and the public sector accounted for 59.3% of the portfolio, compared to 51.3% in 2002. Of fx loans, the largest share was that of EUR (17.8%) and US$ (12.4%).

Changes in the quality of the loan portfolio in 2003 are presented in the table below (all amounts in PLN'000).

	31.12.2003		**31.12.2002**	
Normal	8 239 526	69,6%	6 946 325	69,7%
Watch	859 580	7,3%	630 114	6,3%
Irregular loans	2 502 159	**21,1%**	2 196 409	**22,0%**
including:				
substandard	799 640	**6,8%**	767 324	**7,7%**

doubtfull	1 005 309	**8,5%**	894 844	**9,0%**
loss	697 210	**5,9%**	534 241	**5,4%**
Interests	231 458	2,0%	192 684	1,9%
Gross	10 247 169		9 915 165	
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	

According to the annual financial report SAB 2002, irregular receivables represented 21.1% of gross amounts receivable from clients and the public sector, compared to 22.0% in 2002. Of irregular receivables, the share of loss loans grew while that of substandard and doubtful loans was relatively lower. For full comparability with other banks which extend mortgage loans, the portfolio of RHEINHYP-BRE Bank Hipoteczny should be added to the BRE Bank portfolio. In the combined portfolio, the share of irregular loans was 17.6% at 31 December 2003, compared to 18.4% in 2002.

If irregular loans are understood to include only loss loans and those loans where the repayment of principal or interest is overdue for at least 90 days (default portfolio under Basel II), such debt represented only 4.1% of the Bank's portfolio and 3.8% of the combined portfolio of BRE Bank and RHEINHYP-BRE Bank Hipoteczny.

Security in the form of borrower's property or accounts was PLN 5,501.3 million at 31 December 2003, including cash security deposits (*kaucja*) and funds blocked in BRE accounts at 48.9%, pledge at 16.1%, mortgage at 32.7%, and listed stocks and securities at 2.3%. The remaining part of the loan portfolio was secured with guarantees, sureties, assignment, contractual receivables, and insurance policies.

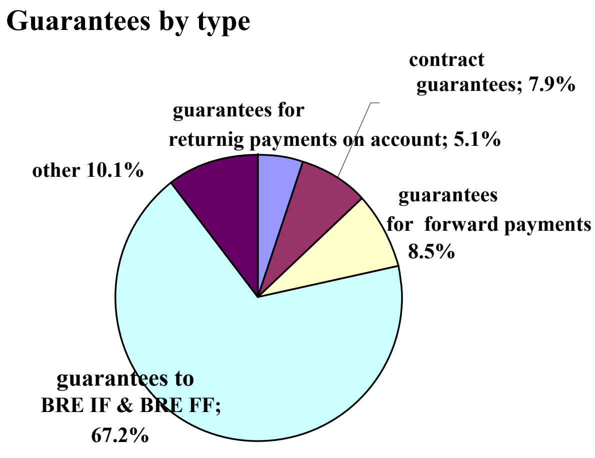
Provisions for amounts receivable from clients and the public sector were PLN 611.3 million at 31 December 2003, including PLN 606.9 million of provisions for irregular loans, which implies a coverage ratio of such irregular loans at 24.3% (28.1% in 2002).

VII.3. Guarantees Given

Off-balance-sheet commitments in respect of guarantees given were PLN 3,687.1 million at 31 December 2003, up 46.1% year on year. This strong growth was mainly due to a guarantee extended to BRE Finance France which issued EUR 200 million of euronotes in October 2003. Combined with another guarantee of redemption of euronotes previously extended to BRE International Finance, it accounted for 67.2% of the guarantee portfolio and stood at PLN 2,476.4 million at 31 December 2003.

Guarantees were also granted to companies of the construction sector (8.4%) and trading companies (6.8%).

Guarantees by type are shown in the chart below (the guarantees to BRE International Finance and BRE Finance France are shown separately).



VIII. Risk Management at BRE Bank

VIII.1. Credit Risk

The credit risk of a **corporate client** and a financed transaction is assessed based on a rating and scoring system where the credit risk is measured with specific criteria and rated accordingly.

All Credit Analyst reports are at each time reviewed by a Senior Lender, a credit risk assessment specialist (except small exposures of low concentration, reviewed by the Branch Risk and Retail Loan Specialist). Large exposures are also additionally reviewed by a Senior Lender who is the expert in the given sector. The Senior Lender's function is separate from the sales process and thus the review is only focused on risks.

From the execution of an agreement concerning a credit-risk product until the client repays all dues under the agreement, the Bank monitors the financial standing of the corporate or private banking client, monitors the transaction, the quality of the collateral, and the timely repayment by retail clients. The frequency of the monitoring process depends on the risk as measured by the rating or scoring, the amount of exposure, and the type of security.

The Bank sets up provisions for standard costs of credit risk for all credit-risk products provided to corporate clients. The provisions are set up to cover potential losses from such products.

Concentration of risk is an important factor in the controlling process. Concentration is mitigated by way of limits of the Bank's total exposure with all credit-risk products per client or group of clients with mutual organisational or equity relations as a percentage of the Bank's equity as set out in the Banking Law.

The Bank's corporate banking credit risk rating is supported by the IT system SONAR. The system is regularly upgraded in line with the requirements of the New Capital Accord and depending on evolving accountancy regulations applicable to corporate banking. The system helps to rate and monitor the credit risk of clients and provides portfolio analysis data.

The Management Board of the Bank decided in 2002 to introduce special procedures concerning **clients whose credit risk is high**. Actions were taken to improve the quality of security of the Bank's debt. Transactions with new high-risk clients depend on the availability of marketable security mitigating such risks.

Lending to **retail clients** is largely automated, especially risk rating. The central IT architecture supports the decision-making process and optimises the sales of credit products, client verification and credit analysis, and ensures systemic compliance with the policy defining authority and limits.

Irregular exposure is managed with the Debt Collection Module, subject to continuous upgrades, which issues notes to defaulting debtors (automated issuance of letters, telephone calls, promissory notes).

The risk rating process will be further optimised with the implementation of direct communication (CPU-CPU) with the database of the Credit Information Bureau, now nearing completion. The solution will automate the processing of credit reports, mitigating the role of subjective judgement.

In 2003, the Bank was preparing for the roll-out of a behavioural scoring system, one of the first such installations in the Polish banking market. The system will enhance the management of the credit risk of the retail portfolio thanks to regular updates of client credit rating with data from the transaction system and recommendation of adequate measures at all stages of the client's lifetime.

The implementation of new technologies is coupled with analyses which help to gradually replace expert scoring models with statistical models and to use the CR+ model to develop software supporting management of the risk of the retail loan portfolio under the requirements of the New Capital Accord.

VIII.2. Financial Risk

VIII.2.1. Market Risk

The Bank incurs market risks caused by the volatility of fx rates, interest rates, and prices of securities. Management of market risk has a direct impact on effective and safe business of the Bank. BRE Bank uses both traditional and state-of-the-art risk measurement methods for all risks.

The **market risk of the Bank's trading portfolio** arises from unfavourable changes in fx rates, interest rates, and prices of securities. Risk is measured in strategic controlling of the market risk of the trading book using:

- the nominal position method;
- the Value at Risk (VaR) method with confidence levels of 99%, 97.5% and 95%, and a one-day and ten-day holding period;
- BPV sensitivity analysis assuming a +/- 1 basis point change in risk factors;
- stress-testing based on scenarios assuming extreme changes in risk factors.

The **interest rate risk of the banking portfolio** is caused by the maturity gap of the assets and liabilities sensitive to interest rate volatility and off-balance sheet derivative transactions hedging the Bank's interest rate position. This risk is measures in strategic controlling of risk using the following methods:

- interest rate gap method comparing interest-bearing assets and liabilities and off-balance sheet derivative transactions hedging the Bank's interest position;
- Earnings at Risk (EaR) sensitivity analysis assuming a one-year holding period and a range of scenarios of interest rate volatility (100 bp and 200 bp parallel shift, uniform shift by a multiple of statistical measure);

- Value at Risk (VaR) method with confidence levels of 99%, 97.5% and 95%, and a one-day and ten-day holding period;
- BPV sensitivity analysis assuming a +/- 1 basis point change in risk factors.

The **risk of the investment portfolio** arises when the Bank buys and sells stocks and shares. In order to mitigate the risk, new investment policy guidelines were implemented in April 2003, whereby the investment of the Bank cannot exceed the lower of the following limits: limit set out in the Banking Law; 15% of the equity of the Bank regarding a single significant package of stocks, and 60% of the equity of the Bank regarding combined significant packages of stocks. The maximum investment limit, the required risk premium, and the risk-weighted return on investment in stocks are defined by the Bank's Capital, Assets, and Liabilities Management Committee (CALCO).

In order to enable effective controlling of investment risk, monitoring of investments and the standing of the investment portfolio, the authority of the Investment Committee was extended to decisions on investments in stocks up to 1% of the equity of the Bank. All investments over 1% of the equity are reviewed by the Committee and approved by the Management Board and the Supervisory Board of the Bank.

VIII.3. Liquidity Risk

Pursuant to recommendations of the National Bank of Poland [NBP], the Bank managed current liquidity using internal limits and controls, and maintained:

- mandatory reserves as required by NBP;
- adequate funds in nostro accounts to enable optimum use of funds and effective cash and non-cash settlements;
- liquid portfolio of debt securities in PLN and foreign currencies.

Any short-term surplus of liquidity was deposited/invested with foreign banks of top ratings and with domestic banks.

In its liquidity risk management, the Bank has separated the liquidity management functions (Treasury Department) and the liquidity risk controlling functions (Financial Risk Department). The Treasury Department manages liquidity using future cash flows projected by a range of tools including internal transfer prices, opinions on credit applications, issues of own securities, sell-buy-back and buy-sell-back transactions, interbank market transactions. Long-term liquidity is managed in compliance with the recommendations and guidelines of the Capital, Assets, and Liabilities Management Committee (CALCO) concerning the planned structure of the balance sheet and long-term financing.

The liquidity risk is monitored both based on external requirements (liquidity gap) and an internal model developed following an analysis of the Bank's specificity, the volatility of the deposit base and concentration of financing, as well as the outlook of positions.

In addition, in order to protect the Bank against situations of sudden deterioration in the liquidity position, emergency procedures were put in place under the Regulation of the President of the Management Board dated 25 November 2002. The procedures define the authority and responsibility of officers and units in the identification and management of emergencies.

IX. IT Developments at BRE Bank

In the autumn of 2002, the Management Board decided that mBank should remain part of the organisation of the Bank and that all retail banking projects should form the Bank's retail banking line. Consequently, the retail banking IT services began to report to the Bank's Head of IT. IT departments were merged in the reorganisation process in 2003 to form the IT Development Department and the IT

Infrastructure Department supporting all BRE Bank business lines. The Banking Systems Department and the recently formed IT Systems Department were incorporated into the IT line as of 15 July 2003. This created an integrated centre for information and IT management responsible for such bank-wide projects as the implementation of Globus and the Data Warehouse coupled with changes in the technological architecture in BRE Bank's environment (direct access channels, middleware, BRELink, Transaction Module).

In 2003, PC work stations of BRE Bank's Head Office and Corporate Banking Branches migrated to Windows XP and work stations of the Retail Banking Line migrated to Windows 2000, ensuring consistent support tools (MS Office).

The Autodealing system was implemented in August 2003. It supports direct negotiations and transactions of branch dealers.

InterBRESOK was upgraded in November 2003 to comply with new external requirements and its functionality was extended to support the new Bank Account Number format.

X. Human Resources and Training

X.1. Main HR Policy Initiatives in 2003

- The annual employee assessment process covered 2,090 of 2,663 staff (at April 2003). A key staff and succession scheme was implemented to retain talents, experts, and most skilled staff;

- The HR functions were centralised in the area of headcount, payroll and other costs, ensuring a headcount and payroll cost regime;

- Workforce restructuring continued: in H1 2003, two units were spun off as a new company CERI supporting the Bank's settlement and transaction functions; in H2 2003, the Bank's IT, legal and trade services were reorganised;

- The incentive system was modified to link bonuses to performance: tools were developed to link bonuses to annual assessment (percentage weights of individual targets added to bonus formulae in assessment forms), employee competitions were opened, internal incentive systems were developed for professional groups;

- Job descriptions were standardised and a central job description catalogue was built for all units of the Bank, defining the responsibility, authority, and necessary qualifications of staff and applicants;

- Internal regulations governing industry relations were amended, including labour rules, payroll rules, recruitment rules; procedures were defined for recording working time;

- Design work of the training team assisted the implementation of new IT solutions at the bank with comprehensive training and development work including preparation of user manuals, training materials, and knowledge distribution channels for new information technologies;

- A professional mobility programme was implemented in the corporate banking line, combined with the development programme "Corporate People: BRECorp Group" to prepare a selected group of experts and middle managers for managerial positions;

- Cascaded training was undertaken as part of building a knowledge based organisation;

- A Foreign Training Portfolio Programme was developed for hard knowledge training in risks, sales and banking transactions; recruitment to the programme was completed. The concept of training portfolios will maximise the use of resources and help to transmit expertise to the staff of those units which have similar training needs;

- A three-year plan of individual development was developed for each employee in the course annual assessment.

X.2. Human Capital and HR Development Measures

(In the tables, "Corporation" stands for all business of the Bank except retail banking.)

	31.12.2002				31.12.2003			
	People		FTE		People		FTE	
HEADCOUNT	3 041		2 948.03		2 828		2 581.71	
Corporation	**2 291**	**75%**	**2 239.05**	**76%**	**1 925**	**68%**	**1 797.69**	**70%**
Retail Banking	**750**	**25%**	**708.98**	**24%**	**903**	**32%**	**784.02**	**30%**

The year-on-year decrease in the Bank's headcount was mainly due to the fact that two units, CRS and DWD, were spun off as a new company. Restructuring in 2003 involved reorganisation of the IT, legal and trade services. Combined with planned increase in the headcount of the retail banking line, this changed the proportions of workforce: the share of retail banking in total FTEs grew from 25% to 32% while that of corporate banking fell from 75% to 68% in 2003.

HEADCOUNT BY AGE GROUP	31.12.2002		31.12.2003	
Average age (years)	34		33.6	
Corporation	**34.6**		**35.8**	
Retail Banking	**31.0**		**28.9**	
Headcount by age group	People	% of all staff	People	% of all staff
up to 25 years	**499**	**16%**	**274**	**10%**
25 – 35 years	**1 531**	**51%**	**1 530**	**54%**
35 – 45 years	**620**	**20%**	**626**	**22%**
over 45 years	**391**	**13%**	**398**	**14%**

HEADCOUNT BY EDUCATION	31.12.2002		31.12.2003	
	People	% of all staff	People	% of all staff
University	**2 044**	**67.21%**	**2 088**	**73.83%**
Secondary+	**261**	**8.58%**	**194**	**6.86%**
Secondary	**721**	**23.71%**	**542**	**19.16%**
Vocational	**10**	**0.33%**	**2**	**0.07%**
Primary	**5**	**0.16%**	**2**	**0.07%**

X. 2.1 HR Investment

BANK'S HR INVESTMENT	31.12.2002	31.12.2003
Employees trained	2,791	1,658

Employees trained in-house	-	1,471
Employees trained in external courses	-	378
Employees trained as a % of total workforce	92%	59%
Target training budget as a % of the Payroll Fund	6%	4.9%
Days of training	5,582	8,750
Hours of training	44,656	65,621
Hours of training / Employee	14.7	23.2
Hours of training as a % of working hours	0.7%	1.2%
Men-training:	5,874	4,566
Men-training in external courses:	**506**	**562**
Men-training in external courses abroad	**106**	**101**
Men-training in external courses in Poland	**400**	**461**
Men-training in-house	**5,145**	**3,949**
Employees in adult education:	**171**	**55**
Employees in University courses	**110**	**44**
Employees in post-graduate courses	**61**	**11**

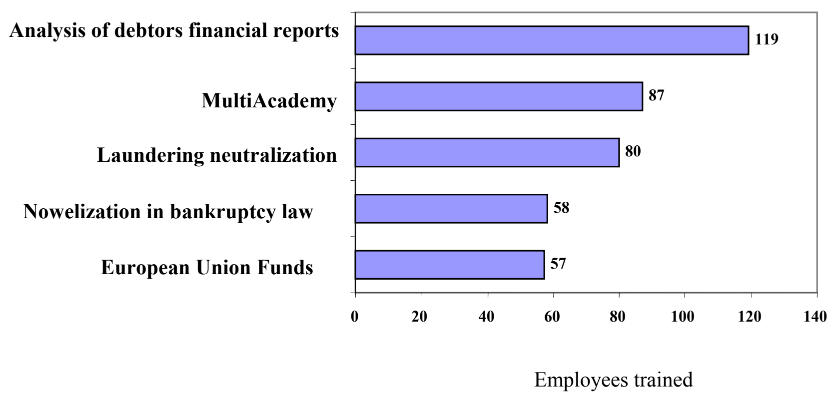
BANK'S INVESTMENT IN STUDENT INTERNSHIPS	31.12.2002	31.12.2003
Applications from candidates	728	956
Corporation	**528**	**356**
Retail Banking	**200**	**600**
Intern students	348	457
Corporation	**172**	**54**
Retail Banking	**176**	**403**
Interns employed	27	11
Corporation	**2**	**2**
Retail Banking	**25**	**9**
Intern students as a % of total workforce	11%	16%

The Bank continued to support student initiatives and University programmes by offering student internships in 2003.

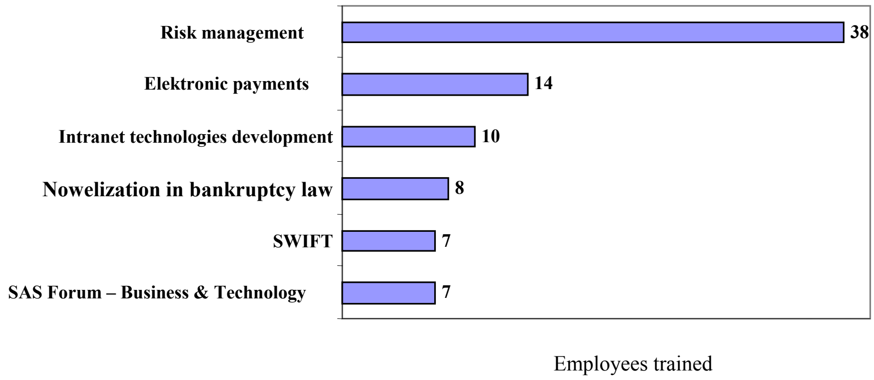
Although interns are not paid a wage, the number of student applications grew year on year.

Students appreciate BRE Bank internships and letters of recommendation, as demonstrated by the honorary distinction received by BRE Bank in the Employer of the Year competition.

Major In-house Training



Major Training in External Courses



XI. Change on the Supervisory Board and the Management Board of BRE Bank

The Sixteenth General Meeting of Shareholders held on 21 May 2003 increased the number of Supervisory Board Members from nine to ten. Following the resignation of Mr Alberto Crippa from the Supervisory Board, two new Members were elected: Mr Michael Schmidt and Mr György Suranyi. At 31 December 2003, the Supervisory Board comprised:

1. Mr Krzysztof Szwarc – Chairman of the Supervisory Board, Chairman of the Executive Committee
2. Mr Andreas de Maiziere – Deputy Chairman of the Supervisory Board, Deputy Chairman of the Executive Committee
3. Mr Jan Szomburg – Member of the Supervisory Board, Member of the Executive Committee
4. Mr Nicolas Teller – Member of the Supervisory Board, Member of the Executive Committee
5. Mr Gromosław Czempiński – Member of the Supervisory Board
6. Mr Christian R. Eisenbeiss – Member of the Supervisory Board
7. Mr Andrzej Księżny – Member of the Supervisory Board
8. Ms Teresa Mokrysz – Member of the Supervisory Board
9. Mr Michael Schmid – Member of the Supervisory Board
10. Mr György Suranyi – Member of the Supervisory Board

Mr György Suranyi resigned from the Supervisory Board of BRE Bank as of 15 January 2004.

The Supervisory Board in its resolution dated 21 May 2003 appointed a new Management Board of the Bank for a joint term of 5 years, comprising:

1. Mr Wojciech Kostrzewa – President of the Management Board, General Director
2. Mr Anton M. Burghardt – First Deputy President of the Management Board, Head of Investment Banking
3. Mr Krzysztof Kokot – Deputy President of the Management Board, Head of Corporate Banking
4. Mr Sławomir Lachowski – Deputy President of the Management Board, Head of Retail Banking
5. Ms Alicja Kos-Gołaszewska – Member of the Management Board, Head of Communications
6. Mr Wiesław Thor – Member of the Management Board, Head of Risk Management.

On 26 January 2004, the Supervisory Board of BRE Bank adopted a resolution appointing Mr Rainer Ottenstein as Member of the Management Board of BRE Bank SA, Bank Director. The appointment is effective as of the date of the Ordinary General Meeting of BRE Bank held on 21 April 2004 until the end of the present term of office.

XII. BRE Bank's Outlook

In 2004 and in the coming years, BRE Bank will focus on initiatives aimed to restore high profitability. Despite radical improvement, the Management Board of the Bank realise that the 2003 results are far below the mid-term expectations of the shareholders and the Bank's potential ROE. Importantly, however, the initiatives have a good prospect of success.

The revaluation of income tax following changes in the tax treatment of provisions should have a positive impact on the results of the Bank in H1 2004 (approximately PLN 20 million).

BRE Bank has a strong outlook thanks to the growing profitability of its business lines, and in particular the subsidiaries of the Group, as well as the approaching break-even of the retail banking business (mBank is projected to break even in the EBITDA formula in Q1 2004).

BRE Bank plans to continue its market expansion in the nearest future: the acquisition of 50% of stocks of RHEINHYP-BRE Bank Hipoteczny from Eurohypo will be a major driver of growth in 2004, helping the Bank to consolidate its position in the fast growing mortgage banking market.

In view of the expected GDP growth rate of 5%, the corporate banking business will enjoy an upturn now that customers are past the most difficult market cycles in the Polish economy. As the standing of corporate clients improves, their demand for loans will grow, driving the Bank's loan portfolio.

The acquisition of 50% of stocks in RHEINHYP-BRE Bank Hipoteczny and the expected expansion in lending require additional equity. The Bank will issue approximately PLN 500 million of stocks. The relevant decision will be made by the forthcoming General Shareholders' Meeting scheduled for 21 April 2004. The increase of first-tier equity will also enable the Bank to use a greater part of the subordinated loan as supplementary capital. BRE Bank intends to outsource some of its functions, and in result to reduce the amount of intangible fixed assets charged against equity. Bigger equity implies more safety of operation, with the Bank's solvency ratio projected at 12%.

In 2004, BRE Bank becomes stronger thanks to closer co-operation with its strategic shareholder Commerzbank AG. With the approval of the Banking Supervision Commission of 11 September 2003, Commerzbank can increase its investment in BRE Bank up to 75%. It held 72.16% of BRE Bank shares and votes at 31 December 2003. Commerzbank's increased investment opens up new prospects of growth and offers synergies of closer co-operation. The decision confirms the important position of BRE Bank in the strategy of Commerzbank which considers Poland to be its second home market.

In order to embrace close co-operation with Commerzbank and the other shareholders, BRE Bank committed itself to comply with the Best Practices of Public Companies in 2003. With the adoption of this code of business ethics, BRE Bank continues its long-time strategy of transparent business operation.