INTRODUCTION TO THE ANNUAL FINANCIAL STATEMENTS 2003

1. *Profile of the Bank*

Bank Rozwoju Eksportu SA was established on the basis of Resolution No. 99 of the Council of Ministers dated 20 June 1986. On 23 December 1986, the Bank was registered in the Commercial Register under number RHB 14036 on the basis of a valid decision of the District Court in Warsaw, 16th Business and Registration Department. On 4 March 1999, the Ninth Extraordinary General Shareholders' Meeting passed a resolution changing the Bank's name to BRE Bank SA ("the Bank").

The new name of the Bank was registered on 23 March 1999.

On 11 July 2001, the District Court in Warsaw issued a decision to register the Bank in the National Court Register under entry no. KRS 0000025237.

According to the Polish Classification of Business, the Bank belongs to class 6512A, "Other Banking Business."

According to the Stock Exchange Register, the Bank belongs to the macrosector "Finance," sector "Banks."

The Bank has its registered office at 18, Senatorska St., Warsaw.

According to the Bank's By-laws, its core business is to provide banking services, consultation and advisory in financial matters, and to carry out its business as laid down in the By-laws.

The Bank may open and hold accounts in Polish and foreign banks.

In the above-mentioned operations, the Bank engages in the following:

a) banking operations:
- operating banking accounts,
- accepting savings and term deposits,
- performing financial settlements,
- extending financial credits and loans and consumer credits and loans in the sense of a separate law,
- performing cheque and bill of exchange operations,
- extending and confirming sureties,
- extending and confirming bank guarantees and opening letters of credit,
- trading in foreign-currency values and providing financial services to foreign trade,
- servicing State loans,
- issuing securities, trading in securities and operating securities deposit accounts,
- performing operations ordered by third parties related to issuing of securities,
- taking into deposit valuables and securities, and making safe deposit boxes available to customers,
- performing forward financial transactions,
- purchasing and selling of monetary indebtedness,
- performing the functions of a representative bank as stipulated in the Bonds Law.

b) other operations:

- offering services in the area of economic and financial consulting,
- administering funds upon the order of State bodies and other persons,
- acquiring shares in banks and commercial partnerships and companies and purchasing participation units or certificates of investment in investment funds both in Poland and abroad,
- establishing and participating in establishing banks and commercial partnerships and companies both in Poland and abroad,
- carrying out acquisition activities on behalf of pension funds,
- acting as depository in the sense of the provisions of the Law on the Organisation and Operation of Pension Funds,
- acting as depository in the sense of the provisions of the Law on Investment Funds,
- performing activities consisting in accepting purchase and re-purchase orders and subscriptions for participation units or certificates of investment in investment funds,
- managing registers of members of pension funds and investment funds,
- operating as an insurance agent,
- acquisition and disposal of real estate,
- acquiring and purchasing shares and rights in shares, interests of another legal person,
- making, on terms arranged with the debtor, conversion of debt into assets of the debtor, provided that the Bank sells them within not more than 3 years of the date of acquisition;
- purchasing and selling foreign-currency values;
- intermediation in residents' international transfers and domestic transfers with non-residents.

2. Time Limits for the Operation of the Bank

The operations of BRE Bank SA are not limited in time.

3. Financial Period

The presented financial statements cover data for the period starting 1 January 2003 and ended 31 December 2002, as well as data for the period starting 1 January 2002 and ended 31 December 2002 presented in a comparable format.

4. Composition of the Management Board and the Supervisory Board of the Bank

The Management Board of BRE Bank SA is comprised of:

1. Wojciech Kostrzewa – President, General Director
2. Anton M. Burghardt – First Deputy President, Bank Director
3. Krzysztof Kokot – Deputy President, Bank Director
4. Sławomir Lachowski – Deputy President, Bank Director
5. Alicja Kos-Gołaszewska – Management Board Member, Bank Director
6. Wiesław Thor – Management Board Member, Bank Director

On 26 January 2004, the Supervisory Board adopted a resolution appointing 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 SA until the end of the present term of office.

The Sixteenth General Shareholders' Meeting of BRE Bank SA held on 21 May 2003 adopted a resolution extending the membership of the Supervisory Board from 9 to 10 members. Following the resignation of Mr Alberto Crippa from the function of Supervisory Board Member, the General Meeting elected two new Supervisory Board Members for a joint term of office. As at 31 December 2003, the Supervisory Board comprised of:

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

* György Suranyi resigned from the Supervisory Board in January 2004

5. Consolidated Financial Statements

The Bank does not comprise any internal organisational units which would draft stand-alone financial statements.

As at 31 December 2003, BRE Bank SA was the holding company and a significant investor of 34 companies. The Bank's consolidated financial statements cover the following companies:

Company	Stake in votes (direct and indirect)	Consolidation method
• Dom Inwestycyjny BRE Banku SA	99.9998%	acquisition accounting
• BRE Leasing Sp. z o.o.	50.004%	acquisition accounting
• PTE - Skarbiec Emerytura SA	100%	acquisition accounting
• Skarbiec Asset Management Holding SA	99.999%	acquisition accounting
• RHEINHYP BRE Bank Hipoteczny SA	50%	acquisition accounting
• BRE Corporate Finance SA	100%	acquisition accounting
• Polfactor SA	77.42%	acquisition accounting

• Tele-Tech Investment Sp. z o.o	24%	acquisition accounting
• BRE International Finance	100%	acquisition accounting
• Intermarket Bank AG	54.84%	acquisition accounting
• Transfinance a.s.	77.42%	acquisition accounting
• Magyar Factor Rt.	77.42%	acquisition accounting
• BRE Finance France SA	99.97%	acquisition accounting
• TV-TECH Investment 1 Sp. z o.o.	40%	acquisition accounting
• CERI Sp. z o.o.	99.99%	acquisition accounting

BRE Bank SA consolidates all subsidiaries and affiliates important from the viewpoint of financial statements, other than those acquired with the sole purpose to be sold.

Pursuant to the requirements of the Regulation of the Minister of Finance dated 12 December 2001 concerning rules of drawing up consolidated financial statements of banks and consolidated financial statements of financial holdings, as of 1 January 2002, those subsidiaries and affiliates which meet the criteria of classification as banks, credit institutions, or financial institutions in the sense of the Banking Law are covered by the consolidated financial statements based on the acquisition accounting method.

6. Going Concern

The financial statements are drawn up on the basis of assumed going concern of BRE Bank SA in the foreseeable future. There are no factors which might be a threat to going business concern.

7. Comparability Adjustments

The valuation of derivatives previously presented under "Other assets" is presented in this report under "Other securities and other financial assets."

Pursuant to the recommendations of NBP, in the income statement the result on the sale of subsidiaries previously presented under "Result on financial transactions" is now presented under "Income from stocks and shares, other securities and other variable income financial instruments." Adjustments have been made in the data as at 31 December 2002, which means that the data shown under these items are comparable.

8. Accounting Principles

Basis of the Report

The financial statements of BRE Bank SA were prepared based on binding regulations included in:

- Accountancy Act of 29 September 1994 (Journal of Laws No. 121, item 591, as amended);
- Banking Law dated 29 August 1997 (Journal of Laws No. 140, item 939, as amended) ("Banking Law");
- Regulation of the Minister of Finance dated 10 December 2001 concerning specific accounting rules for banks (Journal of Laws No. 149, item 1673, as amended);
- Regulation of the Minister of Finance dated 10 December 2001 concerning rules of provisioning against the risk related to banks' operations (Journal of Laws No. 149, item 1672);
- Regulation of the Minister of Finance dated 12 December 2001 concerning specific rules of recognition, methods of valuation, scope of disclosure, and mode of presentation of financial instruments (Journal of Laws No. 149, item 1674);
- Corporate Income Tax Law dated 15 February 1992 (Journal of Laws No. 106, item 482, as amended) ("Corporate Income Tax Law");
- Regulation of the Minister of Finance dated 12 December 2001 concerning the model chart of accounts for banks (Journal of Laws No. 152, item 1727);
- Regulation of the Council of Ministers dated 16 October 2001 concerning current and periodic reports submitted by issuers of securities (Journal of Laws from 2001 No. 139, item 1569);
- Regulation of the Council of Ministers dated 16 October 2001 concerning specific conditions to be met by issue prospectuses and abridged prospectuses (Journal of Laws No. 139, item 1568, as amended).

The notes to the financial statements were prepared in accordance with the Regulation of the Council of Ministers of 16 October 2001 concerning current and periodic reports submitted by issuers of securities (Journal of Laws No. 139, item 1569).

Methodology of Valuation of Assets and Liabilities

Bills eligible for rediscounting at the Central Bank

Bills eligible for rediscounting at the Central Bank comprise bills of exchange denominated in Polish zloty, redeemable within up to three months, from clients with a regular standing.

Amounts due from financial institutions, clients and the public sector

Extended credits and loans and other own amounts due (including debt securities acquired on the primary market), not held for trading, are stated at amount due including interest.

Amounts due are stated in the balance sheet in net amounts, i.e., at the nominal value plus accrued interest not due, due, and to be compounded, less specific provisions for receivables classified as "watch", "substandard", "doubtful", and "loss".

The Bank's balance sheet does not comprise credits and amounts due purchased or subject to factoring where a large part of the risks and benefits of such items remains with the seller of such receivables.

Receivables/payables relating to purchasing/selling securities with a buy-back clause

'Repo' and 'reverse repo' transactions and buy-sell-back and sell-buy-back transactions are defined as selling and purchasing securities for which a commitment has been made to buy them back or sell them back at a contractual date and for a specified contractual price. Regardless of the underlying assets, the said transactions are posted to balance sheet accounts as deposits (sale of securities) or placements (purchase of securities) secured with a lien on the securities. The transaction effects no change in the composition of the securities portfolio.

Debt securities and equity securities

Securities are stated at the date of purchase at cost adjusted for relevant transaction costs.

At the balance sheet date, the Bank states the value of securities "held for trading" and "available for sale" as follows:

Equity securities

- if listed on stock markets, they are stated at fair value (stock price quoted on that day). For stocks listed on the Warsaw Stock Exchange, the value is set based on the closing price;

- if not listed on stock markets, they are stated at fair value set based on information sufficient to determine the probable realisable value of securities. Such information may derive from executed securities sale contracts, preliminary contracts, and other expected benefits on the future sale of securities. If there are no grounds to determine the realisable value of securities, they are stated at historical cost less permanent diminution;

- stocks and shares in subordinated companies are stated based on the equity method;

- other stocks and shares are rated as "held for trading" and "available for sale" and stated at fair value.

The Bank sells equity securities from its portfolio, issued by the same issuer but purchased in different periods and at different prices, in accordance with the FIFO principle, which means that the securities first purchased are sold first.

Debt securities

- if listed on stock markets or if there is an active market, they are stated at fair value (present market price);

- if there is no active market or the market is not liquid, the value is set based on discounted cash flow models.

A decrease or an increase in value, determined on the valuation date, i.e., as at the month-end, separately for each type of security, is recorded in the books of account.

The result of periodical valuation of securities rated as “held for trading” is credited or charged to income or cost of financial transactions and that of securities rated as “available for sale” is recognised in the revaluation reserves.

Debt securities acquired on the primary market are rated as the Bank’s “own receivables.”

The Bank performs an assessment of the credit risk associated with bonds issued by non-financial entities and records a specific provision to counterbalance the said risk.

The Bank sells debt securities from its portfolio, issued by the same issuer but purchased in different periods and at different prices, in accordance with the FIFO principle, which means that the securities first purchased are sold first.

Discount – if the cost is lower than the nominal value, or premium – if the cost is higher than the nominal value, are amortised on a straight-line basis over the period from the date of purchase to the date of sale or redemption. Amortised discount or the issuer’s premium are credited or debited to the income statement.

Intangible and tangible fixed assets

Intangible and tangible fixed assets are stated at acquisition or production cost; fixed assets under construction are stated at the cost of construction, installation, or modernisation of fixed assets. Depreciation is calculated on a straight-line basis, in accordance with the principles and rates depending on the economic useful life of the assets. In the past, the Bank’s tangible fixed assets were revalued periodically in accordance with the principles specified in the applicable regulations. The revaluation of the said assets is reflected in the revaluation reserve in the balance sheet.

The Bank’s intangible fixed assets include software and the cost of successfully completed development work incurred before implementation. The cost includes costs directly related to the implementation of new technologies and the justified part of costs indirectly related to the implementation. The period of depreciation of such intangible fixed assets is not more than 10 years.

Intangible fixed assets also comprise the goodwill arising from the merger of BRE Bank with Polski Bank Rozwoju SA and Bank Częstochowa SA. The period of depreciation of the goodwill is 10 and 20 years, respectively.

The Bank has depreciated the principal categories of its tangible and intangible fixed assets using the following rates:

buildings and structures	2.5% - 4.0%
plant and machinery	6.0% - 12.5%
vehicles	20.0%
computer hardware	30.0%
leasehold improvements	2.5% - 10.0%
office equipment, furniture	14.0% - 20.0%
computer software	20.0% - 50.0%
goodwill	5% - 10.0%

Tangible fixed assets with a cost of less than PLN 3,500.0 are entered in the register and depreciated on a one-off basis upon purchase.

Accruals and prepayments

The Bank records prepaid expenses if the expenditure relates to the months following the month in which it was incurred.

Accruals comprise the cost of benefits provided to the Bank which do not yet constitute a liability. Accrued income also comprises income received in advance and interest payable to the Bank in respect of irregular and watch receivables until received or written off.

Liabilities

The Bank's liabilities mainly arise from deposits accepted from customers and inter-bank deposits and loans. Liabilities are stated at depreciated cost, except liabilities held for trading which are stated at fair value.

Specific and general provisions

The Bank records specific provisions for irregular receivables in accordance with the Regulation of the Minister of Finance dated 10 December 2001 concerning rules of provisioning against the risk related to banks' operations. General banking risk provisions are recorded in accordance with the Banking Law.

Transfers to the general risk provisions are determined in accordance with Art. 130.2 of the Banking Law. Amounts to be transferred are calculated as 1.5% of the loan portfolio based on the average value of outstanding credits and cash loans less the value of credits and loans which are covered in full by specific provisions. The general risk provisions can be used against unidentified risks of banking operations. However, the write-off cannot be bigger than the year's write-off from last year's profit at the general risk level.

The Bank sets up provisions against employee benefits on the basis of actuarial valuation in accordance with IAS 19.

All provisions for risks and losses are taken into account in determining the financial result of the Bank.

Deferred tax

The Bank determines deferred income tax assets and liabilities due to temporary differences between the assets and liabilities shown in the books of account and their value for tax purposes and the tax loss deductible in the future.

Deferred income tax assets and liabilities are set based on tax rates applicable in the year when the tax liability originated.

Deferred income tax assets and liabilities are shown separately in the balance sheet.

Change in the balances of deferred income tax assets and liabilities since the last financial year, if the deferred tax assets and liabilities relate to items shown under equity, is disclosed in the income statement or under equity.

Equity

The Bank's equity comprises capital and funds accumulated by the Bank in accordance with the applicable laws, i.e., the relevant acts and the Bank's By-laws.

The Bank's share capital is stated in the amount specified in the Bank's By-laws and entered in the Trade Register at par.

Supplementary capital is accumulated from transfers from profits and a share premium. In addition, the difference between the pre- and post-revaluation balance of tangible fixed assets sold is transferred from reserves to supplementary capital.

Other reserves which serve the purposes specified in the Bank's By-laws are accumulated from transfers from profits or share premium. In addition, the difference between the pre- and post-revaluation balance of tangible fixed assets may be credited to other reserves. In accordance with the Banking Law, the Bank's general risk fund is also composed of transfers from profits.

Revaluation reserve is credited with the net difference in the value of tangible fixed assets before and after revaluation performed in accordance with the Act. The reserve represents a movement in the net value of tangible fixed assets shown in the balance sheet as a result of revaluation. Upon disposal of a tangible fixed asset (i.e., selling, giving away, scrapping, or concluding that it is missing), the corresponding portion of revaluation reserve is transferred to supplementary capital. The effect of revaluation of financial assets available for sale is also recognised under the revaluation reserve.

The profit/loss of previous years includes retained profit/loss of previous years of the Bank and its subordinated entities subject to equity accounting valuation.

The net profit/loss of the financial year represents the profit/loss as shown in the income statement. The net profit is presented net of the corporate income tax charge and movement in the deferred tax liability.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Polish zloty on a daily basis, using the mid exchange rate quoted by NBP prevailing on a given day, including the exchange rate prevailing on the last business day of the reporting period. Both realised and unrealised foreign exchange gains and losses are recognised in the income statement for a given period except for foreign exchange gains and losses on non-monetary financial assets rated as available for sale which are recognised in the revaluation reserves.

The Bank includes foreign exchange gains and losses on derivatives in its income statement on their valuation.

Derivative instruments and forward and future transactions

As at the balance sheet date both off-balance sheet derivatives and forward and future transactions are valued. The supreme policy in the valuation of off-balance sheet instruments is valuation at present market value (fair value).

Quoted derivatives and forward and future transactions are valued based on current stock exchange quotations as at the valuation date. Other derivatives and forward and future transactions are valued using mathematical models, based on current market parameters as at the valuation date.

The result of the valuation of derivatives and forward and future transactions is recognised at each time in the income statement under "Result on financial transactions" or "Foreign exchange result."

The Bank uses the following valuation methods with respect to derivative instruments and forward and future transactions:

Market risk instruments

Warrants for securities

Warrants for securities are recorded off balance sheet at the nominal values of underlying assets. Premium earned on selling a warrant is recorded in the balance sheet under "Other assets" until realised. Gains or losses on selling a warrant are calculated using a mathematical model and recorded in the balance sheet in correspondence with the "Result on financial transactions" in the income statement.

Futures

Future contracts are recorded on off-balance sheet accounts at nominal value. They are valued based on stock exchange quotations. Gains or losses on the valuation are recorded in the income statement under "Result on financial transactions" in correspondence with the nostro account in the balance sheet.

Options for securities and stock indices

Options for securities and stock indices are recorded off-balance sheet at the nominal value of the underlying assets/liabilities. The premium received/paid on the sale/purchase of the option is shown in the balance under "Other liabilities under financial instruments"/"Other securities and other financial assets" sheet until received. Gains or losses on the valuation of options are calculated using a mathematical model and recorded in the balance sheet in correspondence with the "Result on financial transactions" in the income statement.

Interest rate risk instruments

Forward Rate Agreement (FRA)

Forward Rate Agreements involve purchasing/selling interest rate contracts denominated in a specific currency, with a specific amount, maturity and interest rate. The nominal value of the interest rate contract is recorded off-balance sheet. FRAs are valued using a mathematical model and recorded in the balance sheet in correspondence with the "Result on financial transactions" in the income statement.

Interest Rate Swap (IRS), Cross Currency Interest Rate Swap (CIRS)

Interest Rate Swaps involve exchanging streams of interest payments calculated on the basis of prearranged/expected interest rates and notional amounts of transactions in individual interest sub-periods, denominated in a specific currency. The notional amount is recorded off-balance sheet. Net unrealised gains/losses on IRS transactions are calculated using a mathematical model and recorded in the balance sheet in correspondence with the "Result on financial transactions" in the income statement. Interest accrued as at the balance sheet date is disclosed in the balance sheet in correspondence with the "Result on financial transactions" in the income statement.

If there are cross-currency transactions (CIRS), the notional amount is valued identically as in currency forward/future contracts.

Interest rate options

Interest rate options are stated at nominal value on off-balance sheet accounts. The premium received/paid on the sale/purchase of the option is disclosed in "Other securities and other financial assets" or „Other liabilities under financial instruments" until cleared. Options are valued using a mathematical model and disclosed in the balance sheet in correspondence with the "Result on financial transactions" in the income statement.

Foreign exchange rate risk instruments

Currency futures and forwards

These transactions are disclosed by the Bank in off-balance sheet accounts at nominal value. Currency purchase/sale transactions are valued using a mathematical model.

Gains/losses on spot transactions are calculated by comparing the transaction rates with the mid rate quoted by NBP prevailing on the valuation date.

The gains/losses on forward transactions are calculated by comparing the forward transaction rate discounted as at the valuation date with the mid rate quoted by NBP prevailing on that date.

Unrealised profit/loss on the market valuation of currency future and forward transactions is stated in the income statement under “Foreign exchange result”.

Currency options

Currency options are recognised in the books in accordance with the same rules as other options. Valuation is based on a mathematical model. In addition, the valuation includes foreign exchange risks; the realised and unrealised gains and losses are presented together with foreign exchange transactions.

Determining the financial result

Interest income

Interest income comprises income received or due on loans, inter-bank deposits and securities, calculated based on depreciated cost. Income relating to the reporting period is shown in the income statement on an accruals basis.

Interest income not received in the reporting period, including discount and compounded interest, on regular receivables, is credited to the income statement and disclosed in the balance sheet in amounts due from financial institutions, clients and the public sector.

Accrued interest due and not due, including compounded interest, on irregular and watch receivables constitutes suspended interest until received.

Income received in advance is recorded as part of “Deferred income” and recorded in the income statement of the period to which it relates.

Interest income also comprises capital gains on debt securities sold.

Interest expense

Interest expense comprises interest paid and accrued on clients’ deposits, own securities issued by the Bank, and other liabilities, calculated based on depreciated cost.

Interest payable is calculated on a cumulative basis as at the end of each day. Costs relating to a given reporting period are recorded in the income statement on an accruals basis.

Commission

Commission mainly comprises income other than interest received on loans and bank guarantees granted. Commission also comprises the Bank’s fees for conducting cash transactions, maintaining accounts for clients, making money transfers, fees relating to letters of credit, and other charges. Commission in an amount of not more than PLN 500 thousand or a direct fee for specific activities is credited to the income statement when paid.

Commission cost which comprises payments made in connection with loans raised, re-financing transactions, letters of credit, collection procedures and exchange transactions in an amount of not more than PLN 500 thousand is charged to costs when paid.

Commission received/paid in an amount of more than PLN 500 thousand is credited or charged over the period of the relevant agreement.

Income from stocks, shares and other securities

This income includes dividends received from entities in which the Bank holds stocks or shares. Dividends are recognised in the income statement upon receipt. This item also includes income from the sale of shares in subordinated entities.

Result on financial transactions

This item comprises gains/losses on the sale of securities and gains/losses on transactions in derivatives recognised upon receipt of payment. It also comprises increases and decreases in the value of securities held for trading and available for sale accrued until the sale of such securities in the reporting period and the result of the valuation of market risk and interest rate risk derivatives.

Foreign exchange result

Foreign exchange result comprises both realised and unrealised foreign exchange gains and losses, as well as the result of the valuation of foreign exchange risk derivatives.

Realised income and costs denominated in foreign currencies were translated at the transaction rate and unrealised income and cost at the mid rate quoted by NBP on the balance sheet date.

Provisions and revaluation write-offs

Provisions are created in respect of:
- regular receivables – consumer credits and loans;
- irregular and watch receivables;
- off-balance sheet liabilities;
- costs to be incurred;
- general risk.

Specific provisions are set up in relation to individual assets, liabilities, and off-balance-sheet commitments rated as “watch,” “sub-standard,” “doubtful’ or “loss.”

9. Average Exchange Rates of the Zloty in the Period Covered by the Financial Statements and Comparable Financial Data

Assets and liabilities in the Balance Sheet were converted to EUR at the mid rate prevailing on 31 December 2003 quoted by the National Bank of Poland: 1 EUR = 4.7170 PLN. Items of the Income Statement and of the Cash Flow Statement for the twelve months of 2002 were converted to EUR at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of the twelve months of 2002. The average rate was 1 EUR = 4.4474 PLN.
Comparable financial data were converted as follows. Assets and liabilities in the Balance Sheet were converted to EUR at the average rate prevailing on 31 December 2002 quoted by the National Bank of Poland: 1 EUR = 4.0202 PLN. Items of the Income Statement and of the

Cash Flow Statement for the twelve months of 2002 were converted to EUR at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of the twelve months of 2002. The average rate was 1 EUR = 3.8697 PLN.
The highest rate at the end of the month in the reporting period was that in December (1 EUR = 4.7170 PLN), the lowest rate – that in January (1 EUR = 4.1286 PLN).

10. Differences in Adopted Accounting Principles and Methodologies and Disclosed Data under the Polish Accounting Standards and the International Financial Reporting Standards

The differences between the financial statements drawn up under the Polish Accounting Standards and the International Financial Reporting Standards are due to the following different principles of valuation and presentation:

Credit risk

1. Provisioning for credit exposure

a) Specific provisions for credit exposure – loans

Specific provisions for loans in the financial statements drawn up under the Polish Accounting Standards are a result of the application of the provisions of the Regulation of the Minister of Finance dated 10 December 2001 concerning rules of provisioning against the risk related to banks' operations. Under IAS 39 *Financial Instruments: Recognition and Measurement*, provisions for default loans (no repayment or delayed repayment) are set up based on the assessed impairment of the value of loans and their balance is equal to the expected present value (calculated using the original effective interest rate) of future cash flows under debt repayment or enforcement less the balance sheet value in the books as at the date of the assessment.

b) Provisions for credit exposure – guarantees

Provisions for contingent commitments under guarantees in the financial statements drawn up under the Polish Accounting Standards are a result of the application of the provisions of the Regulation of the Minister of Finance dated 10 December 2001 concerning rules of provisioning against the risk related to banks' operations. Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, provisions for probable contingent liabilities are set up based on estimated future losses and their balance is equal to the expected present value of future losses due to default payments under guarantees.

2. General risk provisions

Under applicable provisions of the Banking Law, banks may set up general risk provisions charged against costs. The provisions cover credit risk of the existing loan portfolio not covered by the bank's specific provisions. IFRS do not provide for such general provisions, However, IFRS require the recognition in the financial statements of credit risk existing at the date of estimation but as yet not materialised at that date. The risk should materialise within 12 months of the balance sheet date. The risk is estimated based on the probability of default and the recovery rate taking account of prevailing economic conditions, e.g., on the basis of the Basel II Accord.

Depreciated Cost

Under PAS, the valuation of interest income on financial instruments is based on the historical cost with straight-line or cash recognition of income and cost items related to the instruments/ Under IAS 39, interest income on financial assets and liabilities (e.g., "Own receivables" and "Other liabilities") should be stated at depreciated cost based on the effective rate of return including also commission income and cost.

Accrual and treatment of suspended income

Under the Polish Accounting Standards, the Bank accrues interest and commissions on watch and irregular receivables and recognises them as suspended income until received. Under IFRS, interest and commissions on such receivables are accrued in the expected amount and recognised in the income statement at depreciated cost.

Company Social Benefit Fund

Write-offs to the Company Social Benefit Fund are charged against distributed profits in the financial statements under the Polish Accounting Standards while they are charged to the income statement under IFRS.

Main lines of the consolidated balance sheet, income statement, and cash flow statement

EUR'000

		31.12.2003	**31.12.2002**
	MAIN LINES OF THE ASSETS		
1	Cash in hand, transactions with the central bank	100 327	89 682
2	Debt securities eligible for discounting at the central bank	11 186	12 194
3	Receivables from financial institutions	1 051 072	812 249
4	Receivables from clients	2 042 791	2 307 199
5	Receivables from the public sector	336 136	12 528
6	Receivables under purchased securities with a buy-back clause	53 915	70 576
7	Debt securities	836 476	1 321 525
8	Stocks and shares in subsidiaries	190 644	216 678
9	Stocks and shares in joint ventures	-	-
10	Stocks and shares in affiliates	76	976
11	Stocks and shares in other companies	1 969	3 191
12	Other securities and other financial assets	600 758	756 377
13	Intangible fixed assets	48 046	64 489
14	Tangible fixed assets	199 218	217 648
15	Other assets	80 847	69 292
16	Accruals	141 344	226 571
17	**Total assets**	**5 694 805**	**6 181 177**

	MAIN LINES OF LIABILITIES AND EQUITY		
1	Liabilities to the central bank	-	381
2	Liabilities to financial institutions	1 527 611	1 664 334
3	Liabilities to clients	2 497 281	2 489 706
4	Liabilities to the public sector	13 882	29 490
5	Liabilities under sold securities with a buy-back clause	310 578	483 139
6	Liabilities under issued debt securities	35 043	6 290
7	Other liabilities under financial instruments	497 444	555 561
8	Special funds and other liabilities	24 039	24 615
9	Accruals, deferred income, suspended income	59 934	55 319
10	Provisions	143 289	228 589
11	Subordinated liabilities	250 048	250 118
12	Share capital	19 479	22 855
13	Due share capital not paid up (negative figure)	-	-
14	Own shares (negative figure)	-	-
15	Supplementary capital	158 732	186 244
16	Revaluation reserve	(347)	(757)
17	Other reserves	157 923	336 529
18	Retained profit (loss) of previous years	(521)	(56 906)
19	Net profit (loss)	413	(97 998)
20	**Total liabilities**	**5 694 805**	**6 181 177**

	MAIN LINES OF THE INCOME STATEMENT		
1	Net interest income	28 951	84 444
2	Net commission income	39 812	44 274
3	Result on financial transactions	4 889	(25 899)
4	FX result	57 494	101 621
5	Result on banking operations	136 214	210 359
6	Operating profit (loss)	10 708	(77 308)
7	Extraordinary gains and losses	15	29
8	Gross profit (loss)	10 724	(77 279)
9	Net profit (loss)	413	(97 998)

	MAIN LINES OF THE CASH FLOW STATEMENT		
1	Cash at the beginning of the period	308 624	445 604
2	Net cash flows from operating activities	928 424	(63 287)
3	Net profit (loss)	413	(97 998)
4	Total adjustments	928 012	34 711
5	Net cash flows from investing activities	18943	(160490)
6	Investing activities inflows	60 166	128 014
7	Investing activities outflows	41 223	288 504
8	Net cash flows from financing activities	(121 974)	132 871
9	Financing activities inflows	335 784	238 692
10	Financing activities outflows	457 758	105 821
11	Total net cash flows	825 394	(90 906)
12	Cash at the end of the period	1 134 018	354 698