Opinion of the Supervisory Board of BRE Bank SA concerning the situation of the company in 2003

In 2003, the financial and economic situation of BRE Bank improved considerably. The Bank generated a pre-tax profit of PLN 47.7 million, compared to a pre-tax loss of PLN 299.0 million in 2002. The pre-tax profit of the BRE Bank Capital Group in 2003 stated in the consolidated report as at 31 December 2003 was PLN 59.5 million, compared to a loss of PLN 413.5 million in 2002.

In the opinion of the Supervisory Board, the results of BRE Bank define a turning point after the very difficult year 2002. An analysis of the structure of the results and the comprehensive restructuring measures undertaken by the Management Board of BRE Bank gives grounds for an optimistic outlook.

After three quarters of 2003, BRE Bank reported a net profit of PLN 66.2 million. Q4 brought a series of external factors which had a negative impact on the results of the Bank. As an active player on the securities market, BRE Bank was strongly hurt by the downturn on the debt market. In addition, the Bank's profit was reduced by PLN 31.8 million following the revaluation of deferred income tax due to the reduction of the income tax rate from 27% to 19%. As a result, BRE Bank closed 2003 with a net profit of PLN 1.8 million. The net profit of the BRE Bank Capital Group was PLN 5.5 million.

Despite the radical improvement after 2002, the results of 2003 are still significantly below the mid-term expectations of the shareholders in terms of return on equity. In 2003, ROE was 0.1% and ROA was 0.01%.

In addition to the performance of the investment banking line which was weaker than in 2002 and apart from the high income tax charged against the profit, other factors with an adverse impact on profitability included:

- very high expenses in the retail banking business;
- unfavourable balance sheet structure in terms of revenue: income-earning assets were lower than cost-producing liabilities;
- losses incurred by some subsidiaries.

An assessment of the situation and achievements of the Bank in 2003 must take account of the fact that each restructuring process is spread over time. Despite adverse circumstances, drawing on its own capacities, BRE Bank managed to achieve much progress in many areas of business compared to the difficult year 2002. In this context, the Supervisory Board has a positive opinion of the multifaceted actions taken by the Management Board of the Bank in H2 2002 and continued in 2003 aimed to enhance the effective use of resources. Those comprised both fundamental change through the verification of the lending and investment policy and decisions which improved the Bank's operations and businesses and streamlined its costs. In these initiatives, the Management Board was supported by the Supervisory Board. In its Resolution dated 28 November 2003, the Supervisory Board approved BRE Bank's Restructuring Programme for 2003–2005.

In 2003, several positive business trends were reinforced. The growth rate of loans given to clients and the public sector was over two times the average rate in the banking sector. At the same time, the quality of the loan portfolio improved. The share of irregular loans in the portfolio fell from 18.4% at 31 December 2002 to 17.6% at 31 December 2003. Provisions for irregular loans in 2003 were almost three times lower than in 2002.

The structure of financing also improved. The Bank's deposit base grew considerably. The share of funds raised through issues of the Bank's debt securities in total financing also grew.

While expanding the MultiBank branch network and continuing the implementation of the IT system Globus, the Bank exercised a rigorous cost discipline. The Bank's operating costs fell 1.5% over the year, with personnel costs down 10.8%.

BRE Bank’s liquidity ratios remained strong, especially its long-term liquidity ratio.

In corporate banking, BRE Bank extended its offering to include SME product packages and added products offered by some subsidiaries of the Group. The Bank’s share in foreign trade service grew to 18.6%, from 18.1% at 31 December 2002. Improved economic conditions helped the recovery in corporate banking and the growth in the results of banking operations, especially in the last weeks of 2003, a good prospect for 2004.

In investment banking, BRE Bank consolidated its strong market position in arranging debt issues, as well as interest rate transactions and fx transactions, and remained a leader in corporate consulting and in brokerage.

The results of the proprietary investment business improved significantly compared to 2002: thanks to released provisions and closed transactions, the Bank generated a high pre-tax profit and proved that it can profitably sell stocks and restructure its investments (ITI Holding, Optimus, Elektrim).

The share of strategic investments in the Bank’s investment portfolio grew. The economic and financial position of the strategic subsidiaries improved over the year. The BRE Bank Group now includes the factor Magyar Factor where BRE Bank acquired 50% of shares and CERI which took over the back office and settlement functions.

Retail banking was growing successfully, as demonstrated by the growing number of clients and value of deposits and loans. mBank remained the electronic banking leader in Poland. It had over 540 thousand clients at 31 December 2003, up 60% year on year. With its innovative product offering targeting demanding clients, MultiBank won over 117 thousand clients over the two years of its business and had significantly more customers than its peer competitors. The total deposits at mBank and MultiBank grew 53.5% in 2003 and stood at PLN 2,897 million at 31 December 2003, representing 25% of liabilities to clients. It must be noted that household deposits fell 2% in the banking sector in 2003. Loans to retail clients grew by a factor of 7.5 in 2003 and reached PLN 1,130 million at 31 December 2003 (equal to 11.4% of receivables from clients).

BRE Bank’s solvency ratio was 9.45% at 31 December 2003. However, the Supervisory Board notes that the financial results do not make a sufficient contribution to the equity, especially in view of the amended regulations governing the calculation of the equity in force as of 1 January 2004 as well as the high growth rate of assets and the Bank’s investment plans (BRE Bank plans to acquire 50% of stocks of Rheinhyp-BRE Bank Hipoteczny). In this context, as announced by the Management Board, the Bank will need a new issue of stocks as a source of additional equity. Thanks to this capital increase and other measures taken by the Management Board, the Bank’s solvency ratio should be 12% in 2004, in line with the provisions of the Restructuring Programme.

The improvement of BRE Bank’s financial standing in 2003 was reflected in its rating assigned by Moody’s. Last October, Moody’s raised its long-term rating of BRE Bank’s deposits and debt from Baa1 to A3 and changed the outlook of the rating of financial strength (D-) from stable to positive. The rating of Rheinhyp-BRE Bank Hipoteczny also improved. Its long-term deposit rating was raised from Baa2 to Baa1, and its rating of mortgage bonds from Baa1 to A3. Intermarket Bank AG, rated by Moody’s in December 2003, was rated A3 for long-term deposits, P-2 for short-term deposits, and C for financial standing.

BRE Bank’s strong position is also confirmed by the investment of its strategic shareholder. On 11 September 2003, the Banking Supervision Commission allowed Commerzbank AG to exercise more than 66% but not more than 75% of votes at the General Shareholders’ Meeting of BRE Bank. At 31 December 2003, Commerzbank held 72.16% of the share capital of BRE Bank representing 72.16% of the total number of votes at the General Shareholders Meeting. The increased investment of Commerzbank in the share capital of BRE Bank opens up new prospects of growth and enables synergies in closer co-operation.