ADDITIONAL EXPLANATORY NOTES
TO THE FINANCIAL STATEMENTS 2003

The additional explanatory notes were prepared in accordance with the requirements of the Regulation of the Council of Ministers dated 16 October 2001 (Journal of Laws No. 139, item 1569) and the Regulation of the Council of Ministers dated 19 March 2002 amending the Regulation concerning current and periodic reports submitted by issuers of securities (Journal of Laws No. 31, item 28).

1. *Concentration of the exposure of BRE Bank SA per client, sector, capital group, including risk assessment related to this exposure*

Loan portfolio

Sector (European Classification of Business)	Principal exposure [PLN'000]	% share
Wholesale and consignment trade *(51)	1 543 023	12.5%
Insurance and pension funds (66)	1 500 002	12.1%
Financial intermediation** (65)	1 385 082	11.2%
Real estate servicing (70)	761 141	6.2%
Production of foodstuffs and beverages (15)	568 763	4.6%
Generation and supply of electricity, gas, heat and hot water (40)	357 565	2.9%
Manufacturing products from other non-metal materials (26)	354 507	2.9%
Post and telecommunication (64)	330 605	2.7%
Production of metals (27)	323 807	2.6%
Production of wood and wooden products (20)	286 174	2.3%
Construction (45)	249 166	2.0%
Total	7 659 836	62.0%

** excluding trade in motor vehicles and motorcycles*
*** excluding insurance and pension funds*

The total exposure to these sectors represents 62% of the loan portfolio. According to the latest study by Instytut Badań nad Gospodarką Rynkową (Institute of Market Economy Research), the investment risk of these sectors (on a scale of 5 grades: low, medium, increased, high, very high) was rated as follows:

1. *Wholesale and consignment trade -* medium
2. *Insurance and pension funds -* low
3. *Financial intermediation -* very high
4. *Real estate servicing* - increased
5. *Production of foodstuffs and beverages -* low
6. *Generation and supply of electricity, gas, heat and hot water -* medium
7. *Manufacturing products from other non-metal materials-* increased
8. *Post and telecommunication -* medium
9. *Production of metals -* very high
10. *Production of wood and wooden products* medium
11. *Construction -* high

1. *Wholesale and consignment trade* – the Bank co-operates with large companies owned by renowned international corporations and with a group of smaller clients who specialise in local wholesale trading. In 2003, the risk of the sector stabilised. Improving economic conditions in the country have a positive impact on the outlook of growth in domestic demand, which will mitigate risks in retail and wholesale trading in 2004. The sector will continue to consolidate in the context of growing competition, especially on the part of large retail chains.

2. Exposure to the *insurance and pension fund* sector is related principally to one client with a low risk profile.

3. The majority of the exposure to the *financial intermediation* sector relates to leasing companies owned by domestic or international banks or world-wide car corporations which finance sales or leases of cars manufactured by their subsidiaries. While these companies have varying financial standings, the risk of financing them is mitigated by stable and strong strategic investors.

4. BRE Bank SA is mainly engaged in financing office space, warehouses and commercial *real estate*. It also has minor exposure in the segment of housing and hotels. Risk is mitigated by financing transactions as separate projects through special-purpose vehicles, ensuring the Bank's extensive control of the project and its assets which also secure the exposure. The Bank performs detailed financial analyses of projects and picks those projects which are welcomed by the market, both successfully let out and turn-key projects.

5. *Production of foodstuffs and beverages* includes many different food processing subsectors. The Bank is mostly involved in the financing of *meat plants* (many are owned by strong capital groups) and production of beverages (including alcoholic beverages). Lending is mainly extended to large companies, typically public companies or ones owned by large capital groups.

6. In financing projects in the *energy* sector, i.e., the sector of *generation and supply of electricity, gas, heat and hot water*, the Bank diversifies risks and considers the conditions affecting sector risks. The Bank finances companies involved in generation and distribution of electricity and heat. They are well-established in the Polish market, have long-time customers or equity relations with acclaimed foreign companies.

7. The clients of the Bank in the sector of *manufacturing products from other non-metal materials* includes companies of diverse production profiles. The sector is dominated by the manufacturers of construction materials and other products used in construction. The increased risk is caused by their strong relations with construction which is still included in the high risk category. The signs of recovery in the economy in 2003 suggest improvement and may mitigate the investment risk in both sectors in the mid-term.

8. The sector of *post and telecommunication* is still growing actively due to untapped demand for telecommunication services, both fixed line and mobile. All three mobile operators report satisfactory financial performance; the standing of the main fixed line operator is strong; the standing of small local operators is still unsatisfactory. The bulk of the Bank's exposure is to the leading operators.

9. *Production of metals* has for years been among the sectors of the highest investment risk in the Polish economy. However, Poland's international commitments to reduce the production capacity of national steel mills are a driver of restructuring and privatisation. The Bank co-operates with the sector's leading companies boasting a stable market position and a good outlook due to completed restructuring or strong industrial investors. In addition, the financing is adequately secured.

10. The risk of the sector of the *production of wood and wood products* was reduced thanks to good market conditions and investment in modernisation of the leading companies in the sector. The stable investment risk is largely determined by improved conditions in the furniture industry, an important customer of wood products. The risk of the furniture industry is believed to be low. Both the wood sector and the furniture industry have a strong export orientation; given the strong euro, this favours growth and profitability of production.

11. *General construction* and civil engineering have not seen any material improvement. Additional risks arise due to the increased VAT rate in construction. With its very good outlook, the construction of roads and motorways mainly depends on the financing of infrastructure products with EU funds. The Bank finances those companies of the sector which use the support of their foreign investors or implement contracts financed with EU assistance funds.

Equity investments

The equity investment of BRE Bank SA per sector is as follows:

- Asset Management – 52.4% of the total equity investment,
- Telecommunications, Media, Technologies (TMT) – 22.3% of the total equity investment,
- Corporate Banking and Investment Banking – 10.8% of the total equity investment.

1. Investment in asset management companies (PTE Skarbiec-Emerytura SA, Skarbiec Asset Management Holding SA) is long-term investment closely connected with the Bank's strategy. The integration of asset management companies in SAMH and the merger of OFE Skarbiec Emerytura and OFE Ego helped the companies to win a stronger market position due to rationalisation of operating costs and leveraging synergies and thus to enhance the competitive advantage of the offer. The risk of the investment is mainly due to volatile conditions in the Polish capital markets, uncertainty related to legislative and tax changes, and the overall economic outlook. On the other hand, then uncertainty of legislative developments concerning pension and investment funds is lessened as the drafting process is approaching completion. Each asset management company has a relatively high market share in its segment. The market of asset management services is now one of the fastest growing sectors of the Polish economy. The outlook of further dynamic growth of the companies is closely linked to Poland's forthcoming EU accession, growing wealth of Polish citizens, and increasing propensity to save, and in a longer term, prospects of expansion into the markets of Central and Eastern Europe.

2. Investment in TMT (Telecommunications, Media, Technologies) companies relates to one company only and is long-term investment of the Bank. This is due to the fact that the sector requires very high capital investment and a long period of return on investment (several years). The TMT market is now undergoing important change including restructuring. The process should improve the profitability and liquidity of the sector. The higher investment risk of the TMT sector offers higher expected profits. Divestment opportunities are largely

dependent on the outlook of the sector in global markets and the sentiment in the Polish stock market.

3. Equity investment in companies involved in *corporate banking and investment banking* is connected with the Bank's long-term strategy of offering a comprehensive mix of financial services and products to corporate clients. The Bank's equity investments in companies operating in the market of leasing, factoring, and mortgage banking services are among profitable investments of the Bank. Each of the corporate banking line companies has a strong position in its market, especially the factors operating in Austria, Hungary, and the Czech Republic. The outlook of strong economic recovery in Poland should help to strengthen the market position of these companies in their local markets. The co-operation between BRE Bank subsidiaries operating in Poland and abroad (mainly the factors) helps to mitigate international risks. Considering the financial results achieved by individual companies and the outlook of their growth thanks to the offer of diversified financing products and growing needs of businesses, this activity belongs to the group of low investment risk.

Concentration of the Bank's exposure per company and capital group (balance sheet and off-balance sheet exposure):

Company

	[PLN'000]	% of total gross exposure
Client 1	1,533,116	5.7%
Client 2	1,506,657	5.6%
Client 3	1,323,142	4.9%
Client 4	976,760	3.6%
Client 5	944,461	3.5%
Client 6	743,414	2.8%
Client 7	624,676	2.3%
Client 8	487,515	1.8%
Client 9	296,844	1.1%
Client 10	246,859	0.9%

These items include total exposure to these clients, i.e., credit exposure and investment (in securities), as well as off-balance sheet commitments (guarantees, letters of credit, credit not drawn).

The first item is mainly exposure in respect of guarantees of repayment of euronotes issued by a subsidiary of the Bank. The second item is a loan to an institution of the public sector. Exposure to Client 3 is to the National Bank of Poland under T-bills, and exposure 4 is to the Ministry of Finance, mainly under government bonds. Exposure to Client 5 is a guarantee of repayment of euronotes issued by a subsidiary of the Bank. Exposure 6 is mostly in shares of a subsidiary. Exposure 7 is credit exposure, exposure under held securities, and a measure of credit risk related to derivative transactions; it is rated *regular*. Exposure 8 is in held stocks and bonds, as well as credit exposure; it is rated *substandard*. Exposure 9 is to Commerzbank AG, mainly under derivative transactions and off-balance sheet commitments. Exposure 10 is credit exposure to a foreign client rated *regular*.

Capital Groups

	[PLN'000]	% of total gross exposure
Group 1	683,353	2.5%
Group 2	428,281	1.6%
Group 3	402,318	1.5%
Group 4	363,337	1.4%
Group 5	296,845	1.1%
Group 6	287,845	1.1%
Group 7	252,707	0.9%
Group 8	240,266	0.9%
Group 9	217,390	0.8%
Group10	195,030	0.7%

The items above represent total exposure to the Capital Groups, i.e., both credit exposure and investment (in securities), as well as off-balance sheet commitments (guarantees, letters of credit, credit not drawn). Of total credit exposure (balance sheet and off-balance sheet) to those Capital Groups at PLN 3,367,372 thousand, 76.4% is rated regular, 6.5% is rated watch, 14.7% is rated substandard, 0.6% is rated doubtful, and 1.8 is rated loss.

2. *Deposits and Loans by Geographical Segment*

Deposits accepted from and loans extended to non-financial clients by BRE Bank SA and other companies of the Capital Group as at 31 December 2003 were as follows:

Branch	**Deposits (PLN'000)**	**Loans*) (PLN'000)**
Warsaw	2,059,959	1,662,244
Łódź	523,347	556,556
Lublin	411,562	424,498
Olsztyn	189,187	360,247
Poznań	946,812	783,669
Kraków	417,593	324,745
Szczecin	248,925	265,072
Wrocław	415,646	486,251
Gdańsk	259,017	331,097
Katowice	816,050	514,196
Bydgoszcz	279,721	199,056

Retail Banking Line	2,987,427	1,130,475
Head Office	2,224,428	3,209,063
Total BRE:	**11,779,674**	**10,247,169**

*) Gross receivables from non-financial clients

In terms of the break-down of deposits by sector, it can be determined for some clients of the Bank. There is no sector break-down for natural persons and foreign clients; some deposit holders (who do not use other products of the Bank) are not assigned a sector.

Of this group of clients classified by sector, the largest share in deposits is that of *Wholesale and consignment trade* (19.4%), *Real estate servicing* (8.6%), *Other business-related services* (8.2%), *Construction* (5.5%), *Post and telecommunication* (5.0%), *Retail trade* (4.6%). The other deposit holders classified by sector belong to a diversified range of sectors.

3. Information about change in subsidies to foreign branches

BRE Bank SA has no foreign branches.

4. Information about financial instruments

FINANCIAL ASSETS HELD FOR TRADING						
	Debt securities	**Other securities and other financial assets**	**Cash in hand, bills eligible for discounting with NBP**	**Receivables in respect of securities purchased with a buy-back clause**	**Valuation of derivatives**	**Total**
Balance at the beginning of the period	5,222,257	14,881	1,331,436	283,731	2,411,489	9,263,794
a) increase (in respect of)	445,928,082	137,153	1,325,276	254,318	7,040	447,651,869
- purchase	444,240,592	125,643				
- increase in value	133,052	6,727				139,779
- fx differences	4,729		23,929			28,658
- changed classification of securities	393,949					393,949
- changed classification of provisions	78,080	4,783				82,863
- changed classification of sell-buy-back and buy-sell-back transactions	994,810			254,318		1,249,128
-other increase	82,870		1,301,347		7,040	1,391,257
b) decrease (in respect of)	**447,464,061**	**146,414**	**0**	**283,731**	**0**	**447,894,206**
- sale	445,847,896	123,180				445,971,076
- fx differences	20,630	193				20,823
- decrease in value	123,542	5,806				129,348
- changed classification of securities	0	17,235				17,235
- changed classification of provisions	15,429					15,429
- closed sell-buy-back and buy-sell-back transactions	1,445,138			283,731		1,728,869
- other decrease	11,426					11,426
Balance of financial assets held for trading as at 31 December 2003	**3,686,728**	**5,620**	**2,656,712**	**254,318**	**2,418,529**	**9,021,457**

FINANCIAL ASSETS AVAILABLE FOR SALE				
	Debt securities	**Other securities and other financial assets**	**Stocks and shares in other companies**	**Total**
Balance at the beginning of the period	**90,539**	**614,418**	**12,830**	**717,787**
a) increase (in respect of)	**1,244,983**	**310,870**	**1,251**	**1,557,104**
- purchase	1,233,418	101,962	124	1,335,504
- increase in value	10,812	82,547	139	93,498
- permanent diminution		67,303	348	67,651
- fx differences			501	501
- changed classification of securities		13,735		13,735
- changed classification of provisions		9,057		9,057
- debt-to-equity conversion		36,266	139	36,405
- other increase	753			753
b) decrease (in respect of)	**1,076,142**	**515,660**	**4,794**	**1,596,596**
- sale	1,029,748	391,426	1,951	1,423,125
- decrease in value	6,761	26,800	1,800	35,361
- permanent diminution		1,283	216	1,499
- changed classification of securities	26,848	40,374		67,222
- changed classification of provisions	11,636	49,598	139	61,373
- fx differences	1,149	6,179	688	8,016
- other decrease				0
Balance of financial assets available for sale as at 31 December 2003	**259,380**	**409,628**	**9,287**	**678,295**

The dates and volumes of future cash flows under balance sheet financial instruments are shown in tables presenting receivables and liabilities by maturity.

Securities held for trading are purchased with the intention to keep and to achieve profits within 3 months.
Securities available for sale are those with a planned investment horizon of more than 3 months.

The accounting policies applicable to derivative financial instruments are described in the Introduction to the Financial Statements, Section 8, Accounting Principles, Derivatives and Forward and Future Transactions.

The methodology and the assumptions applied in setting the fair value of financial assets and liabilities are described in Introduction to the Financial Statements, Section 8, Accounting Principles.

Financial instruments acquired in the regulated market are entered in the books of account as follows:

- transactions closed in a session – at cost on the transaction date;
- package transactions (off session) – at cost on the date of payment.

Credit risk

The maximum credit risk at the balance sheet date is shown as the value of off-balance sheet receivables and liabilities determined in credit risk calculations of the Bank's capital adequacy. The risk-weighted off-balance sheet assets and liabilities of the Bank stood at PLN 14,857,305 thousand as at 31 December 2003.

Interest rate and fx risk

Trading portfolio:
BRE Bank SA uses both traditional and modern methods of risk measurement for the interest rate risk of the trading portfolio. Calculations help to identify risks both by entity and by risk factor. The main measure in use is Value at Risk (VaR). VaR is mainly determined by the portfolio of instruments sensitive to interest rates, such as Treasury bonds, commercial papers, IRS and CIRS, and secondly by the portfolio of instruments sensitive to the volatility of fx rates, such as currency options and fx transactions. The other risk factors have little impact on VaR.
As at 31 December 2003, the total one-day VaR in the Bank's trading portfolio was PLN 2.64 million, at significance of 95%, and was lower than the annual average of PLN 2.84 million. VaR of the interest rate risk was PLN 1.8 million at 31 December 2003, much lower than the annual average of PLN 2.32 million.

Banking portfolio:
The main measures of the interest rate risk of the banking portfolio are the maturity gap and the related Earnings at Risk (EaR). The methods are also used in stress-testing.

The maturity gap of the main currencies is illustrated by the ratios of sensitive assets and sensitive liabilities (RSA/RSL). The ratios as at 31 December 2003 in the maturity bracket up to 3 months and up to 1 year are shown in the table below:

Currency	RSA/RSL up to 3 months	RSA/RSL up to 1 year
PLN	0.83	0.80
USD	1.68	1.66
EUR	0.52	0.54

Earnings at Risk as at 31 December 2003, assuming a stable structure of the portfolios, no correlation between the currencies, and a 100 bp parallel shift of the curve, were as follows:

- ✓ PLN (20.79 million) for PLN (2003 average: PLN 31.51 million),
- ✓ PLN (9.55 million) for USD (2003 average: PLN 9.67 million),
- ✓ PLN (21.06 million) for EUR (2003 average: PLN 10.66 million)

The valuation of some assets available for sale otherwise than at fair value is based on the following grounds:

- Optimus IC SA – stocks acquired in June 2003 at fair value estimated for the purpose of the transaction (PLN 7,849 thousand);
- Unitra SA, PZU SA – there are no grounds (such as preliminary sale contracts, accepted offers, buy-back options) to reasonably determine their fair value. The balance sheet value of the said companies at 31 December 2003 was PLN 136 thousand, and PLN 73,988 thousand, respectively;
- EL-Dystrybucja Sp. z o.o. – very small investment in the company's share capital. Its balance sheet value is PLN 76 thousand;
- ITI Holding SA stocks – value at cost, similar to valuation as a sum of parts (PLN 242,446 thousand).

- Polish Pre-IPO Fund – permanent diminution to the amount estimated using valuation at the most recent net asset value per share held by the Bank. The balance sheet value of the shares is PLN 6,916 thousand;
- Poland Investment Fund – valuation at the most recent net asset value per share held by the Bank. The balance sheet value of the shares was PLN 1,313 thousand as at 31 December 2003;
- Prospekt Poland UK, L.P. – permanent diminution to the amount estimated using valuation at the most recent net asset value per share held by the Bank. The balance sheet value of the shares was PLN 607 thousand as at 31 December 2003;
- Krajowa Izba Rozliczeniowa SA, Biuro Informacji Kredytowej SA, KUKE SA, Centrum Zaufania i Certyfikacji CENTRAST SA, Giełda Papierów Wartościowych SA, CeTO SA, Wschodni Bank Cukrownictwa SA, S.W.I.F.T. s.c.r.l. Their shareholders are mainly banks and other financial institutions. The valuation at historical cost is due to the lack of data which would allow a reliable valuation of the investment at fair value: the shares of those companies are not listed in any markets, there are no preliminary sale contracts, accepted offers, buy-back options, etc. No transactions in those assets are known, whose parameters could be used in valuation at fair value. Consequently, the shares are stated in the Bank's books at historical cost. The total balance sheet value of the shares is PLN 11,166 thousand and is immaterial compared to the value of the Bank's investment portfolio (ca. 0.6%). There was no need to set up provisions for permanent diminution.

In the opinion of the Bank, the approximate fair value of the investments is equal to their balance sheet value at 31 December 2003.

In the opinion of the Bank, there are no assets where the fair value would be lower than the balance sheet value.

BRE Bank SA was not a party to agreements whereby financial assets would be converted into securities or buy-back contracts.

The effect of valuation of securities available for sale at fair value stated under the revaluation reserves was as follows:

Revaluation reserves – valuation of assets available for sale

Reserves at the beginning of the period:	PLN (3,569 thousand)
Adjustments in 2003	
a) increase/decrease in value	PLN (5,342 thousand)
b) fx differences	PLN (6,227 thousand)
c) deferred tax	PLN 671 thousand
d) reversal of increase/decrease in value of sold securities	PLN (1,241 thousand)
e) decrease in value moved due to changed classification of securities	PLN 1,000 thousand
Reserves as at 31 December 2003	PLN (14,708 thousand)

A total of PLN 1,241 thousand of the balance of increase/decrease in value of securities (bonds, T-bills, stocks) sold in 2003 was moved from the revaluation reserves to the income statement. In addition, PLN 1,000 thousand of decrease in value of stocks rated under another category of assets was taken from the revaluation reserves.

Assets sold in 2003 included several investments where no fair value was determined and securities were recorded at cost. The total balance sheet value of such stocks and shares sold by BRE Bank SA was PLN 2,035 thousand.
No financial assets stated at fair value were moved to assets stated at adjusted cost.

Apart from own receivables, write-offs for permanent diminution of financial assets rated as available for sale and not valued based on the equity method or stated at fair value in 2003 amounted to PLN 1,498 thousand.

In the financial year ended 31 December 2003, the Bank recorded:

– realised interest on own receivables at	PLN 682,581 thousand;
– realised interest on debt securities at	PLN 128,145 thousand;
– unrealised interest on own receivables at	PLN 51,229 thousand;
– unrealised interest on debt securities at	PLN 12,116 thousand.

Realised and unrealised interest on liabilities in 2003::

– realised interest on deposits at	PLN 600,061 thousand;
– unrealised interest on deposits at	PLN 27,531 thousand;
– realised interest on financial liabilities at	PLN 21,438 thousand;
– unrealised interest on financial liabilities at	PLN 883 thousand.

The due dates of interest under both receivables and liabilities are almost all less than 3 months.

Notional value of derivative contracts

Liabilities under purchase/sale transactions include notional amounts of the following contracts:

* Spot and forward foreign exchange transactions (foreign currency and PLN to be released)	25,840,124
* Spot and forward foreign exchange transactions (foreign currency and PLN to be received)	25,952,701
Liabilities under sold securities	464,449
Liabilities under purchased securities	1,062,534
FRA transactions – sold	24,904,223
FRA transactions – purchased	27,876,121
Call fx options – purchased	2,107,869
Call stock exchange index options – purchased	6,743
Call fx options – sold	2,498,874
Call interest rate options – sold	309,000
Call stock exchange index options – sold	6,937
Put fx options – purchased	1,910,144
Put stock exchange index options – purchased	1,011
Put bond options – purchased	10,519
Put stock options – purchased	23,585
Put fx options – sold	2,110,423
Put stock exchange index options – sold	1,912
Put stock options – sold	752

Call warrants for securities and stock indices – purchased	944
Call warrants for securities and stock indices – sold	4,854
Futures for bonds/stocks/stock exchange indices – sold	205,626
Futures for stock exchange indices – purchased	6,981
* Interest rate swaps – interest received	34,337,440
* Interest rate swaps – interest paid	34,369,929
Take-over of issues	147,500
Other	16,039
Total	**184,177,234**

* For spot and forward foreign exchange transactions and swap transactions, the amount of the contract was presented both as a receivable and as a liability.

Transactions in derivatives are an area of operating activities of BRE Bank SA. The Bank uses these instruments to manage the interest rate risk, the foreign exchange risk, and the market risk; they are also offered to the Bank's clients.

The accounting principles applied to financial instruments are described in the Introduction to the Financial Statements, Accounting Principles, Derivatives and Forward and Future Transactions.

Risk Controlling and Management System at BRE Bank SA

The risk management process at the Bank consists in a good mix of three necessary elements of an effective risk controlling and management system, including:

- organisational structure – including the division of tasks and competences, with a clear assignment of risk controlling and management functions to organisational units;
- risk measurement and assessment methodologies – as a condition of adequate assessment of risks incurred by the Bank;
- IT support – necessary to ensure the adequate process and timely provide relevant information on particular risks managed by the Bank.

Organisational Structure

In 2003, the organisational structure remained unchanged. Due to the nature of the process, risk controlling and management at BRE Bank SA is a process at three main levels:

a) strategic decisions made by the Management Board of the Bank in the system of risk committees:
- Capital, Assets, and Liabilities Management Committee mainly responsible for the approval of risk management policies concerning the Bank's overall potential to accept risks, allocation of capital to risk areas, and supervision of the achievement of financial results from the viewpoint of risks;
- Financial Risk Committee whose main functions include the supervision of the Bank's compliance with regulatory requirements, the system of risk limits, approval of risk measurement methodologies, and regular monitoring of financial performance.
  The work of the Management Board is supported by the Financial Risk Department and the Controlling and Management Information Department;

b) strategic controlling by the risk line, i.e., the Financial Risk Department, the Credit Department, and the Credit Administration Department. The risk line is responsible for development of the risk system, the strategic risk limits system, risk monitoring based on internal models;

c) operational risk management – carried out by organisational units exposed to risks. Special functions are those of the Treasury Department specialised in the management of the Bank's interest rate risk and liquidity and the Financial Markets Department which manages the foreign exchange risk and is responsible for trading.

The main principle adopted in developing the risk controlling and management system is the separation of organisational units which control risks from business units exposed to risks, as reflected in the organisational structure of BRE Bank SA.

Risk Measurement Methodologies

In 2003, the used risk measurement methodologies changed significantly. While the Bank was mainly fine-tuning its methodology, it was also implementing measurement of credit risk using the Value at Risk method; its liquidity risk measurement was improved by monitoring all aspects of the Bank's liquidity on a daily basis and consistent application of cash flow methods replacing the traditional methods using accounting balances which we find insufficient. BRE Bank SA uses state-of-the-art risk measurement methodologies for all types of risks. In the case of the market risk of the trading portfolio, the Bank applies the Value at Risk (VaR) methodology, sensitivity tests, and stress testing. In the case of the interest rate risk of the banking portfolio, in addition to the traditional methodology of interest gap, the Bank uses sensitivity tests, including the Earnings at Risk (EaR) method. 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. The credit risk is measured using a wide range of portfolio analyses subject to further development: e.g., the Credit Value at Risk (CVaR) methodology was implemented, as was mentioned above.

IT Support

Effective practical application of the output of risk analyses and assessments requires adequate software supporting risk controlling and management. Consequently, the software in use was improved to help adequate management and controlling of the Bank's portfolios. Controlling of the market risk of the trading portfolio is supported by the front-office system Kondor+ which is a support tool for the management of trading positions in operational units and the management of the Bank's interest rate position, as well as a source of information about portfolios for the risk controlling system SAS/Risk Dimensions. It is used as a risk calculation and monitoring tool for the trading portfolio. The system is now being expanded to include interest rate risk analyses of the banking portfolio. Capital adequacy is monitored with software enabling daily automatic calculation of capital requirements and the solvency ratio. In the area of controlling the liquidity risk, analytical and controlling applications are also being upgraded; they are being integrated with the system developed based on SAS/Risk Dimensions.

Hedging accounting

BRE Bank SA keeps no accounting records of hedging.

5. Information about executed common stock subscription or sale contracts

The Bank did not execute common stock subscription or sale contracts.

6. Detailed information about assets used as security of own liabilities and third party liabilities

As at 31 December 2003, Treasury bills of PLN 47,901 thousand (nominal value PLN 49,120 thousand) were deposited in a separate account with NBP as a collateral for the Deposit Guarantee Fund required by the Bank Guarantee Fund.
The Bank is fully capable of disposing of the said assets.

7. Information about buy-back transactions not disclosed in the Balance Sheet

Receivables and liabilities under reverse repo and repo (buy-back) transactions are disclosed in the Balance Sheet. In the financial year ended 31 December 2003, there were no sell-buy-back transactions recorded off balance sheet.

8. Financial commitments granted

Financial commitments include credit granted but not drawn and commitments under letters of credit issued and confirmed.
Financial commitments granted as at 31 December 2003 amounted to PLN 3,866,943 thousand, including:

	PLN'000
Commitments under credits granted but not drawn	3,783,054
including irrevocable commitments	*3,244,312*
Issued and confirmed letters of credit	83,889

Provisions set up for financial commitments granted as at 31 December 2003 amounted to PLN 292 thousand.

Off-balance sheet financial commitments of the Bank to its associated entities as at 31 December 2003 were PLN 90,440 thousand, including PLN 89,788 thousand of commitments to consolidated companies.

9. Guarantee commitments granted

The main types of guarantees granted by the Bank include performance guarantees, guarantees of timely payments, customs guarantees, tender guarantees, advance repayment guarantees, loan repayment guarantees.

The Bank's commitments under guarantees granted as at 31 December 2003 were PLN 3,687,102 thousand.
Provisions set up for guarantee commitments as at 31 December 2003 were PLN 13,126 thousand.

The Bank's guarantee commitments to its associated entities as at 31 December 2003 were PLN 2,584,399 thousand, including PLN 2,546,174 thousand under guarantees granted to consolidated companies. The main items are the guarantees of the redemption of euronotes issued by order of the subsidiaries BRE International Finance BV and BRE Finance France SA at PLN 1,533,025 thousand and PLN 943,400 thousand, respectively.

Issues Underwritten by BRE Bank SA as at 31 December 2003

Issuer	Underwritten securities	Amount underwritten, PLN	Financial, organisational, personal links	Marketability of securities
BRE.locum Sp. z o.o.	Investment bills	60 000 000	▪ BRE Bank SA holds 49.99% of shares and Tele-Tech Investment Sp. z o.o. holds 50.01% of shares ▪ 1 Management Board Member ▪ 3 Supervisory Board Members	Marketable
Polfactor SA	Investment bills	30 000 000	▪ BRE Bank SA and Intermarket Bank AG each hold 50% of shares in the company; ▪ 2 Management Board Members ▪ 2 Supervisory Board Members	Marketable
PKN ORLEN SA	Bonds	50 000 000	None	Marketable
WestLB Polska SA	Certificates of deposit	50 000 000	None	Marketable
Prokom Software SA	Bonds	80 000 000	None	Marketable
Skarbiec Asset Management Holding	Bonds	60 000 000	▪ BRE Bank SA holds 99.9993% of shares, the remaining shares held by TELE-TECH Investment Sp. z o.o.; ▪ 3 Management Board Members ▪ 4 Supervisory Board Members.	Marketable

*) The table does not include agreements providing for one-off acquisition of securities which are still in force regarding other services, keeping registers of securities, etc.

Other contingent commitments

1. On 23 May 2001, Art-B Export-Import, a company in liquidation, filed a procedural writ with the District Court in Warsaw, enumerating the losses incurred as a result of the transfer of US$ 43.4 million to Israel as ordered by Art-B. The listed losses amount to PLN 20.3 million, ca. 1/10 of the amount set in the original claim. A proxy of Art-B confirmed this figure at the hearing on 22 August 2001; this means that even with a judgement against BRE Bank SA, the court will not adjudicate an amount higher than that set by Art-B Export-Import in liquidation. On request of the bank LEUMI LE ISRAEL, BRE Bank SA was invited to take part as a third party in litigation filed in Jerusalem by Art-B Export-Import in liquidation. The motion of the Israeli bank was based on BRE Bank SA's participation in the transfer of the challenged amount. Based on opinions of legal counsel, the Management Board of BRE Bank has grounds to believe that the liquidator's claims are unfounded.

2. Under an agreement concerning the sale of cable.com SA stocks, the Bank holds a call option on the stocks written by 4 companies which bought the stocks from the Bank. Those companies hold put options for the stocks written by the Bank.

3. Dom Inwestycyjny BRE Banku SA (subsidiary) is a party to a dispute with a client of the company. The court of the first instance adjudicated PLN 12,352 thousand plus interest (totalling PLN 19,715 thousand) to be paid to the plaintiff. Potential liabilities arising from a court decision against the defendant will be borne by BRE Bank. The Management Board of Dom Inwestycyjny BRE Banku SA appealed against the court decision claiming the cancellation of the decision and the dismissal of the whole claim. BRE Bank believes that the probability that the court of the second instance will decide against Dom Inwestycyjny (i.e., will uphold the decision of the court of the first instance) is very small.

Contingent commitments received

As at 31 December 2003, contingent commitments received by BRE Bank SA were PLN 505,410 thousand, including PLN 396,767 thousand of guarantees received as security of extended loans and guarantees and PLN 108,634 thousand of foreign banks' loans granted but not drawn.

10. Information about the proposed dividend pay-out if not approved

The Management Board of BRE Bank adopted a resolution concerning the submission to the General Meeting of BRE Bank of a motion requesting non-payment of the shareholder dividend for 2003.

11. Liabilities under approved dividend pay-outs

Not applicable.

12. *Liabilities to the state budget or local authorities in respect of ownership rights in buildings*

The liabilities to the public budget for 2003 were paid. They were made in respect of the right of perpetual usufruct of land where buildings and structures used by the Bank are located, and totalled PLN 2,878 thousand, mainly including the real estate in Warsaw at Senatorska St. and Królewska St. (PLN 2,454 thousand), and the real estate in Katowice with the offices of the local branch of BRE Bank SA (PLN 162 thousand).

13. *Information on income, cost, and results of activities discontinued in the current year or planned to be discontinued in the following year*

On 28 February 2003, the merger of Bank Częstochowa SA and BRE Bank SA was registered. The banks were merged under Art. 492.1.1 of the Code of Commercial Partnerships and Companies, i.e., through the transfer of all assets of Bank Częstochowa SA to BRE Bank SA (acquiring bank) in return for BRE Bank stocks (50,214 stocks worth PLN 200,856 at par) allocated by BRE Bank SA to the minority shareholders of Bank Częstochowa SA in return for its shares.

14. *Cost of fixed assets under construction, started investment, and asset improvement*

In 2003, BRE Bank SA did not incur any costs of assets under construction.

15. *Capital expenditure incurred and planned for the next 12 months after the balance sheet date*

In 2003, BRE Bank SA incurred capital expenditure of PLN 168,163 thousand in non-financial assets; it plans to invest PLN 262,082 thousand in 2004.
The Bank incurred capital expenditure of PLN 50,109 thousand to acquire strategic stocks, shares and units of participation in 2003; it plans to invest ca. PLN 75 million in 2004. The amount of planned investment in financial assets does not include the planned acquisition of stocks of Rheinhyp-BRE Bank Hipoteczny ("Rheinhyp"). On 29 January 2004, BRE Bank and Eurohypo AG signed a preliminary contingent agreement concerning the acquisition of 50% of Rheinhyp stocks worth PLN 67.5 million at par by BRE Bank. The selling price will be based on the book value of Rheinhyp. On the closing of the transaction, BRE Bank and Eurohypo AG will take measures necessary for BRE Bank to take over the receivables of Eurohypo AG under a subordinated loan granted to Rheinhyp on terms and conditions approved by the Banking Supervision Commission.

16. *Material transactions with entities associated with BRE Bank SA*

In 2003, the Bank granted to associated entities loans amounting to PLN 283,383 thousand.

The Bank's total balance sheet credit exposure to subordinated entities was PLN 526,969 thousand at 31 December 2003, equal to ca. 2% of the total gross balance sheet exposure to financial and non-financial clients.
In lending to its subordinated entities, the Bank pursues a credit policy based on market conditions.

Material purchase/sale transactions with associated entities in 2003 included:
- agreement to purchase Optimus IC SA stocks from Optimus SA. The transaction amounted to PLN 7,843 thousand (payable by a bank transfer);
- agreement to sell BRE.locum Sp. z o.o. shares to Tele-Tech Investment Sp. z o.o. ("TTI"). The transaction amounted to PLN 9,685 thousand. In addition, TTI and BRE Bank signed a preliminary agreement concerning the sale to BRE Bank of 1,601 BRE.locum Sp. z o.o. shares representing 20.01% of the share capital and votes. The binding sale agreement will be executed on 31 December 2008 at a price equal to the net asset value of 1,601 BRE.locum shares. BRE Bank made a prepayment of PLN 9,685 thousand to TTI. The payment was set off in mutual receivables.

16.2 Data about transactions with companies subject to acquisition accounting consolidation and equity method valuation [PLN'000]

Company	Assets			Liabilities			Income Statement				Off Balance Sheet		
	Receivables	Interest on receivables	Total	Liabilities	Interest on liabilities	Total	Interest income	Interest cost	Commission income	Commission cost	Commitments given	Commitments received	Purchase/Sale commitments
BRE Bank SA	1 008 068	2 276	**1 010 344**	2 562 339	0	**2 562 339**	25 703	53 369	1 918	2 839	2 636 188	0	1 461 187
BRE Corporate Finance SA	2 161	0	**2 161**	0	0	**0**	6	90	0	177	0	3 878	0
Dom Inwestycyjny BRE Bank SA	98 297	0	**98 297**	15 149	0	**15 149**	3 916	17	1 628	539	0	1 036	0
BRE International Finance B.V.	1 448 500	0	**1 448 500**	0	0	**0**	43 837	2 582	0	0	0	1 533 025	0
PTE Skarbiec Emerytura SA	3 397	0	**3 397**	20	0	**20**	95	107	0	0	0	3 000	0
Skarbiec Asset Management Holding SA	5 044	0	**5 044**	1 989	0	**1 989**	383	318	0	208	0	60 736	0
BRE Leasing Sp. z o.o.	22 925	0	**22 925**	200 164	51	**200 215**	575	3 296	1 211	570	0	31	553 611
RHEINHYP-BRE Bank Hipoteczny SA	26 374	0	**26 374**	392 208	839	**393 047**	553	7 166	0	140	0	0	907 576
TRANSFINANCE a.s	0	0	**0**	4 824	0	**4 824**		353	0	0	0	42 247	0
Polfactor SA	1 000	0	**1 000**	106 589	0	**106 589**	3	5 902	0	142	0	42 567	0
Intermarket Bank AG	0	0	**0**	18 868	0	**18 868**		703	0	0	0	0	0
Centrum Rozliczeń i informacji CERI	8 343	0	**8 343**	31	0	**31**	170	0	0	0	0	0	0
Magyar Factor Rt.	0	0	**0**	0	0	**0**		0	0	0	0	0	0
BRE Finance France SA	945 252	0	**945 252**	0	0	**0**	3 827	0	0	0	0	943 400	0
TV-Tech Investment 1 Sp. z .o.o.	119	0	**119**	158 971	0	**158 971**		0	0	0	0	0	0
Tele-Tech Investment Sp. z o.o.	927	0	**927**	109 255	1 386	**110 641**	4	5 169	0	142	0	6 268	0
AMBRESA Sp. z o.o.	344	0	**344**	0	0	**0**	2	0	0	0	0	0	0
ServicePoint Sp. z o.o.	333	0	**333**	0	0	**0**	1	0	0	0	0	0	0
FAMCO SA	2 793	0	**2 793**	0	0	**0**	23	0	0	0	0	0	0
BRELINVEST Sp. z o.o. Fly 1 Sp. komandytowa	8	0	**8**	0	0	**0**	6	0	0	0	0	0	0
BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	16	0	**17**	0	0	**0**	5	0	0	0	0	0	0
AMBRESA Sp. z o.o. - BRELLA Sp. komandytowa	9	0	**9**	0	0	**0**	9	0	0	0	0	0	0
Promes Sp. z o.o.	368	0	**368**	79	0	**79**	23	12	0	0	0	0	0
BRE.locum Sp. z o.o.	1 077	0	**1 077**	65 722	0	**65 722**	49	0	0	0	0	37 500	0
Billbird. SA	2 140	0	**2 140**	0	0	**0**	116	0	0	0	0	400	0
e-Card SA	360	0	**360**	2 500	54	**2 554**	17	31	0	0	0	159	0
Xtrade SA	36	0	**36**	267	0	**267**	8	7	0	0	0	0	0
CommerzBank A.G	5 298	0	**5 298**	838 789	438	**839 227**	114	6 891	0	0	**106 871**	**58 793**	5 816

17. Information on joint ventures which are not consolidated using acquisition or equity accounting

There were no joint ventures in 2003.

18. Information about income and cost of the Bank's brokerage business

The Bank does not carry out directly any brokerage business. Brokerage is a responsibility of the subsidiary Dom Inwestycyjny BRE Banku SA covered by the Consolidated Financial Statements using acquisition accounting.

19. Information about irrecoverable receivables written off

In 2003, the Bank wrote off irrecoverable receivables of PLN 35,768 thousand charged to provisions.

20. Information about the cost of provisions for future liabilities to employees

The cost of provisions for future liabilities to employees set up in 2003 was PLN 2,854 thousand.

21. Information about the cost of financing employee pension schemes

The Bank does not carry an employee pension scheme; it does carry group life insurance with investment funds whose cost was PLN 5,030 thousand in 2003.

22. Information about the custodial business

BRE Bank SA carries out custodial operations for domestic and foreign securities and works with investment funds and pension funds.

23. Information about securitisation of assets

BRE Bank SA did not record any securitisation of assets.

24. Average headcount

The average headcount at BRE Bank SA in 2003 was 2,811 persons.
The Bank has no data in respect of different professional groups.

25. Information about remuneration and bonuses paid or due to the Management Board and Supervisory Board Members

In 2003 remuneration amounted to:

BRE Bank SA Management Board	PLN 8,697 thousand

including annual bonus	PLN 1,394 thousand
Supervisory Board	PLN 1,766 thousand

In addition, in this period, members of the Management Board of BRE Bank SA received PLN 223 thousand in respect of their participation in the management boards and supervisory boards of the Bank's associated companies.
The management stock option programme for the managers of BRE Bank SA was extended until 2006; it entitles the Management Board Members to acquire a total of 135,000 options for BRE Bank stocks. A new management stock option programme was opened to managers of BRE Bank; it entitles the Management Board Members to acquire a total of 168,000 options for BRE Bank stocks in 2003 – 2008. In 2003, they acquired rights in 33,600 options under the programme.

26. Information on outstanding cash advances, credits, loans, guarantees or other agreements providing for commitments towards the issuer, its subsidiaries and affiliates, granted to Management Board and Supervisory Board Members, including interest and repayment terms

Outstanding loans granted to members of the Management Board of BRE Bank SA as at 31 December 2003:

Housing loans	PLN 287 thousand
Other loans	PLN 6,796 thousand
Guarantees	PLN 2.5 thousand

Members of the Bank's Management Board had no debt in respect of cash advances. The item "Other loans" refers to private banking loans. Those loans were given on market conditions.

Members of the Supervisory Board had no outstanding loans as at 31 December 2003.

Debt of Bank employees and former employees (except Management Board Members) was PLN 4,344 thousand in respect of cash advances and PLN 12,643 thousand in respect of housing loans at 31 December 2003.
Interest on cash advances granted by BRE Bank SA to its employees is calculated according to the bill of exchange variable rediscounting rate. Only ca. 0.3% of cash advances bear interest at transfer rates plus a margin of 2%.
Interest on housing loans amounts to 1% p.a.
All loans are repaid in monthly instalments.

Members of the Management Board and the Supervisory Board and their spouses, relatives and other associates did not have any commitments under outstanding cash advances, guarantees or other agreements providing for such commitments towards BRE Bank SA subsidiaries and associates as at 31 December 2003.

27. Information on significant events of previous years disclosed in the Financial Statements for 2003

There were no significant events of previous years at BRE Bank SA disclosed in the Financial Statements for 2003.

28. Information on significant post-balance sheet date events not disclosed in the Financial Statements

- On 15 January 2004, BRE Bank and a potential investor in Zakłady Mięsne Pozmeat SA with its seat in Poznań signed a framework agreement defining the terms and conditions of co-operation in restructuring the company's debt.
- On 26 January 2004, BRE Bank issued 479,500 series A registered bonds worth PLN 0.01 at part with pre-emptive rights to take up bearer common stocks of BRE Bank. The bonds are redeemable on 3 July 2006. The bond issue will enable the Bank to carry out its management stock option programme.
- On 29 January 2004, Tele–Tech Investment Sp. z o.o. replaced BRE Bank as it purchased 100% of stocks of EL-Net SA and 100% of shares of EL Sp. z o.o. from Elektrim Telekomunikacja Sp. z o.o. ("ET Sp. z o.o."). The stocks and shares were acquired under a preliminary agreement executed on 30 June 2003 between BRE Bank and ET Sp. z o.o. Pursuant to an agreement dated 23 January 2004, on 29 January 2004 the Bank and Tele-Tech Investment Sp. z o.o. sold receivables from EL-Net SA, EL Sp. z o.o. and Telefonia Regionalna Sp. z o.o. and stocks and shares of El-Net SA, EL Sp. z o.o. and Telefonia Regionalna Sp. z o.o. to Netia Ventures Sp. z o.o. and Tedec Sp. z o.o.
- On 29 January 2004, BRE Bank and Eurohypo signed a preliminary contingent stocks sale agreement whereby BRE Bank shall acquire 50% of stocks of Rheinhyp-BRE Bank Hipoteczny SA ("Rheinhyp-BRE") with a nominal value of PLN 67,500,000. The selling price shall be set by the Parties based on the book value of Rheinhyp-BRE. BRE Bank and Eurohypo AG agreed to sign the final agreement for the sale of Rheinhyp-BRE stocks when all conditions precedent set out in the preliminary stock sale agreement are met. If the conditions precedent are not met by 31 July 2004, the preliminary contingent stock sale agreement shall expire. At the same time, BRE Bank and Eurohypo AG shall take all measures necessary for BRE Bank to take over the receivables of Eurohypo under a subordinated loan granted to Rheinhyp-BRE under terms and conditions approved by the Banking Supervision Commission.

29. Information on significant events of the financial year causing material change in the structure of balance sheet items and the financial result

The General Shareholders' Meeting of BRE Bank SA held on 21 May 2003 adopted resolutions to cover the losses of previous years totalling PLN 607,993 thousand with the Bank's reserves. The total includes the loss of 2002 at PLN 379,221 thousand and the retained loss of previous years caused by the application of changes in the accounting principles effected in 2002 to the results of previous years (PLN 228,772 thousand).

30. Information on relations between the legal predecessor and the issuer and on the method and scope of the take-over of its assets and liabilities

Not applicable to BRE Bank SA.

31. Financial Statements and comparable financial data (at least the main items of the Balance Sheet and the Income Statement) adjusted for a relevant inflation rate (including information on the source and method of application of the inflation rate, based on the period of the previous Financial Statements as the reference period, if in

the past 3 years of the issuer's operations the cumulative average annual inflation was 100% or more

In the past 3 years, the cumulative average annual inflation was less than 100%.

32. List of changes between data disclosed in the Financial Statements and the comparable financial data and previously drafted and published Financial Statements

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.

33. Changes to accounting principles (policies) and the methodology of preparing the Financial Statements compared to the previous financial year(s), their reasons, nature, and the impact of their financial effect on the financial standing, assets, liquidity, financial result, and profitability

As of January 2003, the Bank sets up provisions against employee benefits on the basis of actuarial valuation in accordance with IAS 19.
In addition, as of 2003, the Bank's commissions received/paid in an amount of more than PLN 500 thousand are credited or charged over the period of the relevant transaction.
These changes do not have a significant impact on the standing and the financial results of the Bank.

34. Adjustment of fundamental errors, their reasons and nature, and the impact of their financial effect on the financial standing, assets, liquidity, financial result, and profitability

BRE Bank SA used no adjustments of fundamental errors in the financial year.

35. Going concern

There is no uncertainty in terms of going concern of operations of BRE Bank SA.

36. Financial Statements for the period of merger of companies

Not applicable to BRE Bank SA.

37. Consolidated Financial Statements

BRE Bank SA prepares Consolidated Financial Statements. The list of consolidated companies is shown in the Introduction to the Financial Statements, Section 5.