

ADDITIONAL EXPLANATORY NOTES **TO THE FINANCIAL STATEMENTS** **FOR 2002**

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*

BRE BANK SA LOAN PORTFOLIO BY SECTOR **As at 31 December 2002**

| Sector (Polish Classification of Business) | Balance sheet exposure [PLN'000] | % share |
|--|-------------------------------------|--------------|
| Wholesale, retail and consignment trade* | 1 776 282 | 17% |
| Real estate servicing | 892 780 | 8.50% |
| Financial intermediation** | 871 242 | 8.30% |
| Production of foodstuffs and beverages | 620 359 | 5.90% |
| Generation and supply of electricity, gas, heat and hot water | 414 044 | 4.00% |
| Manufacturing of other non-metal products | 402 928 | 3.80% |
| Production of vehicles, trailers and semi-trailers | 383 175 | 3.70% |
| Other business-related services | 359 868 | 3.40% |
| Post and telecommunications | 305 233 | 2.90% |
| * excluding trade in vehicles and motorcycles | | |
| ** excluding insurance and pension funds | | |

The total exposure to these sectors represents 58% of the loan portfolio. According to the latest study by Instytut Badań nad Gospodarką Rynkową (Institute of Market Economy Studies, Report No. 20, December 2002), the investment risk of these sectors (on a scale of 5 grades: LOW, MEDIUM, INCREASED, HIGH, VERY HIGH) was rated as follows:

- | | |
|---|---------------------|
| 1. Wholesale, retail and consignment trade | LOW and MEDIUM RISK |
| 2. Real estate servicing | MEDIUM RISK |
| 3. Financial intermediation | (not rated) |
| 4. Production of foodstuffs and beverages | (not rated) |
| 5. Generation and supply of electricity, gas, heat and hot water | LOW RISK |
| 6. Manufacturing of other non-metal products | INCREASED RISK |
| 7. Production of vehicles, trailers and semi-trailers | HIGH RISK |
| 8. Other business-related services | INCREASED RISK |
| 9. Post and telecommunications | MEDIUM RISK |

1. Among the *Wholesale, retail and consignment trade clients* there are, on the one hand, former foreign trade enterprises (mainly publicly-traded companies), which are parent companies for large manufacturing and trading groups, and on the other hand, smaller clients, specialised in local trading.
2. The Bank is mainly engaged in financing *office space, warehouses and commercial real estate*. According to IBnGR, the risk of this business continues to be stable (MEDIUM RISK).
3. Leasing and factoring companies account for the bulk of exposure to the *Financial intermediation sector*. Much of the exposure relates to leasing companies controlled by stable foreign investors.
4. *Production of foodstuffs and beverages* is the most diversified sector as far as the production profile is concerned. It includes many different food processing subsectors. BRE Bank is mostly involved in the financing of *meat plants* and *production of beverages* (including alcoholic beverages).
5. BRE Bank gives loans to clients in the sector *Generation and supply of electricity, gas, heat and hot water* representing all business segments: generation, transmission, and distribution. The sector offers relatively stable revenue and is rated by IBnGR as LOW RISK.
6. The sector of *manufacturers of other non-metal products* is dominated by producers of construction materials and glass products.
7. Clients in the sector *Production of vehicles, trailers and semi-trailers* financed by the Bank are renown manufacturers of car parts and dealers.
8. Credit exposure in the sector *Other business-related services* covers a number of small clients providing services, often on a local level.
9. The exposure to the sector of *Post and telecommunications* relates to lending to telecommunication companies, mainly cellular phone operators.

Equity investment

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

- Asset Management – 41.5% of total equity investment,
- Telecommunications, Media, Technologies (TMT) – 30.4% of total equity investment,
- Corporate Banking – 5.7% of total equity investment.

Risk assessment of equity investment:

Investment in *asset management* companies (PTE Skarbiec-Emerytura SA, Skarbiec Asset Management Holding SA) is long-term investment closely connected with BRE Bank SA's strategy. The integration of asset management companies in SAMH and the merger of OFE Skarbiec Emerytura and OFE Ego offers an opportunity to take 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. Each asset management company has a relatively high market share in its segment. 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.

Investment in *TMT* (Telecommunications, Media, Technologies) companies 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.

Equity investment in companies involved in *corporate banking* is connected with BRE Bank SA'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. Considering the financial results achieved by individual companies and the outlook of their growth, 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):

Companies

| | PLN'000 | % of total exposure |
|-----------|-----------|---------------------|
| Client 1 | 1,988,754 | 7.7% |
| Client 2 | 1,427,128 | 5.5% |
| Client 3 | 1,381,309 | 5.4% |
| Client 4 | 726,624 | 2.8% |
| Client 5 | 574,778 | 2.2% |
| Client 6 | 477,813 | 1.9% |
| Client 7 | 303,780 | 1.2% |
| Client 8 | 300,088 | 1.2% |
| Client 9 | 278,025 | 1.1% |
| Client 10 | 265,437 | 1.0% |

*) Total exposure to Client 1 includes T-bills

The first two items represent the exposure of the Bank to the National Bank of Poland and the Ministry of Finance under Treasury bills and government bonds held by the Bank. The third exposure is to BRE International Finance B.V., mainly in respect of a guarantee of redemption of EUR 325 million eurobonds. Exposure to Client 4 consists in shares of PTE Skarbiec-Emerytura SA (risk of the exposure is discussed above under the assessment of investment risk). Exposure to Client 5 relates to shares and bonds of ITI Holdings SA. Item 6 represents exposure to Rheinhyp-BRE Bank Hipoteczny SA including credit exposure, exposure in securities, and credit risk related to derivatives. The risk of the exposure is low. Exposure to Clients 7, 8, and 10 is related to granted loans and opened credit lines, rated as regular receivables. Exposure to Client 9 is related to executed derivative contracts; the client is a foreign bank; the exposure entails no risks.

Capital Groups

| | PLN'000 | % of total exposure |
|---------|---------|---------------------|
| Group 1 | 717,030 | 2.8% |
| Group 2 | 547,472 | 2.1% |

| | | |
|----------|---------|------|
| Group 3 | 423,574 | 1.6% |
| Group 4 | 401,724 | 1.6% |
| Group 5 | 398,797 | 1.5% |
| Group 6 | 326,483 | 1.3% |
| Group 7 | 308,916 | 1.2% |
| Group 8 | 305,605 | 1.2% |
| Group 9 | 303,924 | 1.2% |
| Group 10 | 263,725 | 1.0% |

The items above represent total exposure to the Groups, i.e., both credit exposure and investment exposure (under securities), as well as off-balance sheet exposure (guarantees, letters of credit). Of total credit exposure (balance sheet and off-balance sheet) to those Groups at PLN 3,001,709 thousand, 0.9% is rated sub-standard, 0.5% as doubtful, and 1.6% as loss.

2. Deposits and Loans by Geographical Segment

Deposits accepted from and loans extended to non-financial clients of BRE Bank SA at 31 December 2002 were as follows:

| Branch | Deposits (PLN'000) | Loans (PLN'000) |
|-------------------|-------------------------------|----------------------------|
| Warsaw | 2,013,725 | 2,291,898 |
| Łódź | 410,066 | 485,188 |
| Lublin | 450,388 | 230,162 |
| Olsztyn | 230,889 | 229,348 |
| Poznań | 658,007 | 1,015,641 |
| Kraków | 304,528 | 301,242 |
| Szczecin | 310,333 | 375,077 |
| Wrocław | 440,055 | 606,641 |
| Gdańsk | 228,926 | 347,540 |
| Katowice | 879,326 | 530,396 |
| Bydgoszcz | 239,960 | 224,808 |
| Head Office | 3,899,163 | 2,772,664 |
| Total BRE: | 10,065,366 | 9,410,605 |

*) Excluding suspended credits and interest, including cash security deposits (*kaucja*)

**) Only credits, excluding suspended debits and interest.

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* (17.4%), *Real estate servicing* (9.5%), *Generation and supply of electricity and gas* (6.7%), *Construction* (6.7%), *Retail trade* (6.0%), *Other business-related services* (5.8%), 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 DESIGNATED FOR TRADING | | | | | |
|---|-----------------|---|---|---|-------------|
| | Debt securities | Other securities and other financial assets | Cash in hand, transactions with the central bank, debt securities eligible for discounting with NBP | Receivables in respect of securities purchased with a buy-back clause | Total |
| Balance at the beginning of the period | 4 765 861 | 31 805 | 1 659 182 | 54 965 | 6 511 813 |
| | | | | | - |
| a) increase (in respect of) | 267 738 975 | 104 299 | 67 654 | 228 766 | 268 139 694 |
| purchase | 266 088 148 | 91 730 | | 228 766 | 266 408 644 |
| released provisions | | - | | | - |
| increase in value | 185 765 | 11 889 | | | 197 654 |
| fx differences | 19 924 | | | | 19 924 |
| other increase | | 680 | 67 654 | | 68 334 |
| changed classification of securities | 1 445 138 | | | | 1 445 138 |
| changed classification of provisions | | | | | - |
| | | | | | |
| b) decrease (in respect of) | 267 282 579 | 121 223 | 395 400 | | 267 799 202 |
| sale | 265 882 951 | 111 185 | | | 265 994 136 |
| fx differences | 35 439 | | | | 35 439 |
| changed classification of securities | | | | | - |
| provisions set up | | 969 | | | 969 |
| changed classification | 969 286 | | | | 969 286 |
| decrease in value | 327 634 | 9069 | | | 336 703 |
| other decrease | 67 269 | | 395 400 | | 462 669 |
| Balance of financial assets designated for trading as at 31 December 2002 | 5 222 257 | 14 881 | 1 331 436 | 283 731 | 6 852 305 |

| FINANCIAL ASSETS AVAILABLE FOR SALE | | | | |
|---|-----------------|---|-----------------|----------------|
| | Debt securities | Other securities and other financial assets | Minority shares | Total |
| Balance at the beginning of the period | 26 819 | 629 149 | 19 407 | 675 375 |
| | | | | - |
| a) increase (in respect of) | 111 350 | 711 319 | 1 835 | 824 504 |
| purchase | 108 836 | 261 987 | 353 | 371 176 |
| changed classification of securities | | 226 551 | | 226 551 |
| released provisions | | | 948 | 948 |
| changed classification of provisions | | 3 880 | | 3 880 |
| increase in value | 749 | 207 012 | | 207 761 |
| fx differences | 1 765 | | 534 | 2 229 |
| debt-to-equity conversion | | 11 889 | | 11 889 |
| other | | | | - |
| | | | | - |
| b) decrease (in respect of) | 47 630 | 729 050 | 8 412 | 782 092 |
| sale | 47 057 | 277 098 | | 324 155 |
| fx differences | | 9 271 | 1 033 | 10 304 |
| changed classification of securities | 573 | 131 764 | | 132 337 |
| provisions set up | | | 4 979 | 4 979 |
| changed classification of provisions | | 32 854 | 2 400 | 35 254 |
| decrease in value | | 275 063 | | 275 063 |
| other decrease | | | | - |
| Balance of financial assets available for sale as at 31 December 2002 | 90 539 | 614 418 | 12 830 | 717 787 |

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

Securities designated 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, Accounting Policies, Off-Balance Sheet Derivatives and Forward and Future Transactions.

The methodology and the assumptions applied in setting the fair value of financial assets and liabilities stated at fair value are described in Introduction to the Financial Statements, Accounting Policies.

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.

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 Bank's risk-weighted off-balance sheet assets and liabilities at 31 December 2002 stood at PLN 14,372,131 thousand.

Financial assets available for sale and designated for trading are valued according to the Bank's accounting policies, i.e., at fair value or historical cost less write-offs for permanent diminution.

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

- Unitra, PZU – 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 2002 was PLN 136 thousand, and PLN 73,989 thousand, respectively;
- SPV-Portfel 1 Sp. z o.o., El-Dystrybucja Sp. z o.o. – shares acquired in 2002, a small investment and a small stake in the companies' share capital (the balance sheet value is PLN 135 thousand and PLN 16 thousand, respectively);
- Qumak-Sekom SA – shares acquired from BRE – Fundusz Kapitałowy Sp. z o.o. in December 2002, a small investment and a small stake in the company's share capital;
- ITI Holding SA shares – problems with setting the fair value are due to the fact that the company has indefinitely postponed the IPO (the balance sheet value of shares at historical cost was PLN 241,294 thousand at 31 December 2002).
- Krajowa Izba Rozliczeniowa SA, Biuro Informacji Kredytowej SA, PolCard SA, KUKE SA, Centrum Zaufania i Certyfikacji CENTRAST SA, Giełda Papierów Wartościowych SA, CeTO SA, S.W.I.F.T. s.c. – 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. The total balance sheet value of the shares is PLN 2,926 thousand and is immaterial compared to the value of the Bank's investment portfolio (ca. 0.2%);
- Elektrim SA – on 6 February 2003, BRE Bank SA executed two agreements with TCF Sp. z o.o. and Polsat Media SA concerning the sale of shares of Elektrim SA. The transactions under the agreements will be finalised in two tranches in June and September 2003. The average selling price of the shares is higher than the average cost of the shares. Following the transactions, BRE Bank SA will hold no shares of Elektrim SA.

Due to the factors mentioned above, the shares of those companies are recorded in the Bank's books of account at depreciated cost. In the opinion of the Bank, the approximate fair value of the investment is equal to its balance sheet value at 31 December 2002.

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

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

Information about sell-buy-back (repo) transactions in securities and buy-sell-back (reverse repo) transactions in securities is shown in section 7 of the Notes.

The effect of the valuation of securities credited or charged to the income statement of previous years is presented in the Introduction to the Financial Statements, Effect of the Adoption of New Accounting Rules.

Income from the sale of shares available for sale by the Bank in 2002 was PLN 240,316 thousand and the cost was PLN 290,194 thousand.

Assets sold in 2002 included several investments where no fair value was determined and securities were recorded at cost. These included subsidiaries and affiliates (Trzeci Polski Fundusz Rozwoju Sp. z o.o., IT Trader Sp. z o.o., IT Adviser Sp. z o.o., Leszek 3 Sp. z o.o., SPV-EL Sp. z o.o.) which were not subject to equity method valuation as they were sold within less than 12 months after acquisition. In addition, 1 share of Vectra Operator SA was sold, also recorded at historical cost. The balance sheet value of those assets was PLN 99.5 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 2002 amounted to PLN 62,960 thousand net.

In the financial year ended 31 December 2002, the Bank recorded:

- realised interest on own receivables at PLN 935,948 thousand;
- realised interest on debt securities at PLN 539,614 thousand;
- unrealised interest on own receivables at PLN 84,016 thousand;
- unrealised interest on debt securities at PLN 42,453 thousand.

In the financial year ended 31 December 2002, the Bank recorded interest paid and payable:

- realised interest on deposits at PLN 887,648 thousand;
- unrealised interest on deposits at PLN 82,968 thousand;
- realised interest on financial liabilities at PLN 19,801 thousand;
- unrealised interest on financial liabilities at PLN 2,454 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) | 19,006,910 |
| * Spot and forward foreign exchange transactions (foreign currency and PLN to be received) | 19,192,003 |
| Placements to be released | 242,866 |
| Deposits to be received | 204,440 |
| Liabilities under sold securities | 534,971 |
| Forward purchase of securities | 655,682 |
| *FRA transactions – sold | 19,935,000 |
| *FRA transactions – purchased | 17,230,970 |
| Call fx options – purchased | 3,643,511 |
| Call interest rate options – purchased | 844,536 |
| Call stock exchange index options – purchased | 1,206 |
| Call fx options – sold | 3,524,488 |
| Call interest rate options – sold | 954,414 |
| Call stock exchange index options – sold | 1,206 |
| Put fx options – purchased | 2,295,749 |
| Put interest rate options – purchased | 875,414 |
| Other put options – purchased | 20,101 |
| Put stock exchange index options – purchased | 1,206 |
| Put fx options – sold | 3,227,239 |
| Put interest rate options – sold | 1,391,312 |
| Put stock exchange index options – sold | 1,206 |
| Other put options – sold | 115,775 |
| Put stock options – sold | 752 |
| Call warrants for securities and stock indices – purchased | 268 |
| Call warrants for securities and stock indices – sold | 1,427 |
| Put warrants for securities and stock indices – purchased | 146 |
| Put warrants for securities and stock indices – sold | 340 |
| Futures for bonds/stocks/stock exchange indices – sold | 141,179 |
| *Interest rate swaps – interest received | 25,915,156 |
| * Interest rate swaps – interest paid | 25,908,399 |
| Take-over of issues | 19,000 |
| Other | 15,775 |
| Total | 145,902,647 |

* For spot and forward foreign exchange transactions and FRA 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 policies applied to financial instruments are described in the Introduction to the Financial Statements, Accounting Policies, Off-Balance Sheet Derivatives and Forward and Future Transactions.

Risk Controlling and Management System at BRE Bank SA

The Bank believes that an effective risk controlling and management system must rely on three co-ordinated elements:

- 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 timely provide relevant information on particular risks to which the Bank is exposed.

Organisational Structure

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 Department.

- b) strategic controlling by the risk line, i.e., the Financial Risk Department, the Credit Department, and the Credit Administration Department. In the risk line, the Financial Risk Department has special functions as it is responsible for development of the risk system, the strategic risk limits system, risk monitoring based on internal models, and external capital adequacy requirements.
- 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

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 ledger, 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 ledger, 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, profiles of client groups, their behaviours, and consequently the volatility of the deposit base and concentration of financing. Another important part of the model is the plan to grow and modify particular portfolios of the Bank. 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 in 2002. Based on risk measurement, the Bank monitors its exposure to risks using a system of limits.

IT Support

Effective practical application of the output of risk analyses and assessments requires adequate software supporting risk controlling and management. 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, as well as a source of information about portfolios for the risk controlling system SAS/Risk Dimensions used as a risk calculation and monitoring tool for the trading and the banking ledger. To better monitor capital adequacy, the Bank implemented 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 improved; they are being integrated with the system developed based on SAS/Risk Dimensions.

BRE Bank SA keeps no accounting records of security.

5. Information about executed share subscriptions or ordinary share sale contracts

The Bank did not execute share subscription or ordinary share sale contracts.

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

As at 31 December 2002, Treasury bills of PLN 45,675 thousand (nominal value PLN 47,000 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 sell-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 2002, there were no sell-buy-back transactions recorded off balance sheet.

8. *Contingent off-balance sheet commitments*

Contingent commitments granted consist of financing liabilities and guarantees. Financing liabilities are credits granted but not used and liabilities under letters of credit issued and confirmed.

Guarantees granted include performance guarantees, guarantees of timely payments, customs guarantees, tender guarantees, advance repayment guarantees, loan repayment guarantees.

9. *Off-balance sheet items*

Contingent commitments granted

Contingent commitments granted by the Bank amounted to PLN 6,660,149 thousand, including:

| | PLN'000 |
|--|-----------|
| Commitments under credits granted but not used | 4,016,312 |
| <i>including irrevocable commitments</i> | 3,399,756 |
| Guarantees granted | 2,523,803 |
| Own and confirmed letters of credit | 120,034 |

Provisions set up for off-balance sheet commitments amounted to PLN 10,849 thousand.

Contingent commitments of the Bank to subsidiaries and affiliates as at 31 December 2002 were as follows:

| | PLN'000 | | |
|-----------------------------|-------------------|--------------------------|--------------|
| | Guarantees | Open credit lines | Total |
| Subsidiaries and affiliates | 1,346,427 | 47,632 | 1,394,059 |
| incl. those consolidated*) | 1,326,880 | 47,632 | 1,374,512 |

*) The largest item at PLN 1,306,565 thousand (equivalent to EUR 325 million) is a guarantee of redemption of eurobonds issued by order of BRE International Finance B.V., a 100% subsidiary of the Bank.

Issues Underwritten by the Bank, as at 31 December 2002

| | Issuer | <u>Underwritten securities</u> | Amount underwritten, PLN | <i>Financial, organisational, and personal links</i> | <i>Marketability of securities</i> |
|----|----------------------|--------------------------------|--------------------------|--|------------------------------------|
| 1. | BRE.locum Sp. z o.o. | Investment Bills | 60 000 000 | <ul style="list-style-type: none"> ▪ 3 Supervisory Board Members; ▪ BRE Bank SA holds 70% of shares and Tele-Tech Investment Sp. z o.o. holds 30% of shares of the company | Marketable |
| 2. | Polfactor S.A. | Investment Bills | 30 000 000 | <ul style="list-style-type: none"> ▪ BRE Bank SA and Intermarket Bank AG each hold 50% of shares in the company; ▪ 2 Supervisory Board Members | Marketable |
| 3. | PKN ORLEN S.A. | Bonds | 50 000 000 | None | 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.

- On 22 October 1999, DeTe Mobil Deutsche Telekom MobilNet GmbH with its registered office in Bonn, Germany (“DeTe Mobil”) filed a suit with the International Arbitration Court at the Austrian Chamber of Commerce in Vienna against BRE Bank SA and Kulczyk Holding SA, TUIR Warta SA, Drugi Polski Fundusz Rozwoju – BRE Sp. z o.o., Elektrim SA (“Defendants”). DeTe Mobil demands, among others, the following:

- 1) Recognising the assignment of shares in PTC Sp. z o.o. made by BRE Bank SA and the other Defendants to Elektrim SA as ineffective in full or in the part in which DeTe Mobil had pre-emptive rights to these shares;
- 2) Obliging the Defendants to provide compensation of US\$ 1,000,000 for damages to DeTe Mobil. The value of the subject matter of litigation is US\$ 135,456,700, of which US\$ 134,456,700 represents the value of the shares in question, whereas US\$ 1,000,000 – the compensation for damages to DeTe Mobil. DeTe Mobil filed a petition with the District Court in Warsaw to issue an interim order to secure the above claims. The District Court in Warsaw dismissed DeTe Mobil’s suit in full, and the ruling on this matter was upheld by the Appeal Court in Warsaw. In May 2001, the procedural part of the proceeding was completed. On 22 March and 10 May 2002, last witnesses were heard by the Court in Warsaw. A judgment of the Arbitration Court is now expected. The judgment of the Arbitration Court will settle the principle of the dispute, i.e., whether the challenged assignment of the shares was effective or not. It is difficult to say when the judgement will be passed given the legal and evidential complexity of the case. Another factor which may affect the proceedings is potential

bankruptcy of Elektrim. In that case, the proceedings against Elektrim should be suspended *ex officio*, although that needs not stop the judgement about the principle as potential bankruptcy of Elektrim will take place after the end of this phase of the proceedings. Further action concerning claims will be subject to limitation under bankruptcy regulations. The Management Board of BRE Bank SA, on the basis of legal opinions, have reasons to believe that the claims of DeTe Mobil stand a small chance of being acknowledged by the Arbitration Court.

- 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 20,262 thousand, 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 the Bank (very unlikely), the court will not adjudicate an amount higher than that set by Art-B Export-Import in liquidation. The next hearing at the District Court is scheduled for 12 March 2003. 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.
- Pursuant to the agreement concerning the sale of cable.com SA shares, BRE Bank SA holds a call option on the shares granted by 4 companies which bought the shares from BRE Bank SA; those companies hold put options extended by BRE Bank SA.

Contingent commitments received

As at 31 December 2002, contingent commitments received by BRE Bank SA were PLN 587,520 thousand, including PLN 452,865 thousand of guarantees received as security of extended loans and guarantees and PLN 134,655 thousand of foreign banks' loans granted but not drawn.

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

Not applicable

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 of BRE Bank SA to the state budget or local authorities in respect of the right of perpetual usufruct of land with buildings and structures used by the Bank charged to the cost of 2002 totalled PLN 2,978 thousand, mainly including the real estate in Warsaw, Senatorska St. and Królewska St. (PLN 2,495 thousand), the real estate in Poznań (PLN 118 thousand), and the real estate in Katowice with the offices of the local branch of the Bank (PLN 162 thousand). The liabilities of 2002 were paid.

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

BRE Bank SA did not discontinue any of its activities in 2002 and does not plan to discontinue any activity in the following period.

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

In 2002, BRE Bank SA did not incur any costs of assets under construction, started investment, and asset improvement.

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

In 2002, BRE Bank SA incurred capital expenditure of PLN 155,904 thousand in non-financial assets; it plans to invest PLN 217,251 thousand in 2003. The Bank incurred capital expenditure of PLN 675,261 thousand to acquire strategic stocks, shares and units of participation in 2002; it plans to invest ca. PLN 62,681 thousand in 2003.

16.1. Material transactions with companies associated with BRE Bank SA

In January 2002, the company Skarbiec Asset Management Holding SA ("SAMH") was registered. It is 100% owned by the Bank and is the focal point of the Group's asset management operations. SAMH comprises companies operating as managers of investment funds, investment consultants, and a transfer agent. The following stocks and shares were sold to SAMH in 2002:.

- shares in BRE Agent Transferowy Sp. z o.o., gross value PLN 5,066 thousand;
- shares in Serwis Finansowy Sp. z o.o., gross value PLN 31,697 thousand (company now in liquidation);
- shares in Skarbiec TFI SA, gross value PLN 33,966 thousand;
- shares in BRE Asset Management SA, gross value PLN 4,780 thousand (name of the company changed to Skarbiec Investment Management SA in January 2003).

In an effort to clean up its investment portfolio, BRE Bank SA made the following transactions with its subsidiary BRE – Fundusz Kapitałowy Sp. z o.o. ("FK"):

1. On 17 December 2002, BRE Bank SA acquired from FK shares of FAMCO SA representing 100% of the share capital and votes of the company. The cost of the acquired shares was PLN 2,839.7 thousand
2. On 17 December 2002, BRE Bank SA acquired from FK shares of POLFACTOR SA representing 50% of the share capital and votes. The cost of the acquired shares was PLN 4,803 thousand.
3. On 24 December 2002, BRE Bank SA acquired from FK outside the regulated market the following shares:
 - shares of I NFI representing 14.47% of the capital and votes for PLN 15,246.2 thousand;
 - shares of V NFI VICTORIA representing 15.41% of the share capital and votes for PLN 10,690.8 thousand;
 - shares of XIII NFI FORTUNA SA representing 3.26% of the share capital and votes for PLN 3,279.95 thousand;
 - shares of Polski Koncern Naftowy ORLEN SA representing 0.62% of the share capital and votes for PLN 59,939 thousand.

4. In addition, on the same date, the Bank acquired from FK under civil law contracts the following shares and investment bills:
 - shares of Billbird SA representing 51% of the capital and votes for PLN 3,296 thousand. In addition, FK agreed to sell to the Bank shares of a new issue of Billbird SA (following the registration of a capital increase) representing 14.19% of the increased capital and votes. FK received a down payment of PLN 3,330 thousand in respect of those shares;
 - investment bills of Zakłady Azotowe Kędzierzyn SA for PLN 3,648.5 thousand.
5. On 27 December 2002, the Bank acquired from FK, under previously executed agreements, bonds with a total nominal value of US\$ 50,900,000 issued by International Trading and Investment Holdings SA ("ITI").

The total value of transactions closed between 1 October and 27 December 2002 between BRE Bank and FK was PLN 303,110 thousand.

On 31 December 2002, BRE Bank SA and FSZ Sp. z o.o. entered into an agreement whereby BRE Bank SA sold shares of BRE – Fundusz Kapitałowy Sp. z o.o. ("FK") representing 100% of its share capital and votes. The value of the shares in the books of the Bank was 0. In addition, the Bank made a contingent transaction selling shares in the increased capital of FK which will represent 13.03% of the increased capital of FK. The shares will be transferred on the date of court registration of the increased capital of FK. The balance sheet value of the shares in the books of the Bank upon registration will be 0. The transaction was made as part of the effort to clean up the structure of equity investment of BRE Bank SA.

In 2002, the Bank gave loans worth PLN 69,474 thousand to associated companies.

The Bank's total balance sheet exposure to subsidiaries and affiliates under granted loans was PLN 402,111 thousand at 31 December 2002, representing 3.0% of the total balance sheet exposure of the Group to the financial and non-financial sector.

With regard to subsidiaries and affiliates, the Bank pursues lending policies based on market conditions.

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

There were no joint ventures at BRE Bank SA in 2002.

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 2002, the Bank wrote off irrecoverable receivables of PLN 21,733 thousand charged to provisions. No irrecoverable receivables were written off charged to costs,

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

BRE Bank SA set up provisions of PLN 2,000 thousand for severance pay to employees made redundant in the workforce reduction process. The Bank also set up provisions for the President's bonus fund (PLN 2,649 thousand) and provisions for outstanding holiday leaves (PLN 1,500 thousand). No additional provisions were set up for future liabilities in respect of retirement allowances or jubilee awards. Payments were made from provisions set up in previous periods.

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 5,697 thousand in 2002.

22. Information about the custodial business

The BRE Bank SA Custodial Service Bureau 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 number of employees

The average number of employees of BRE Bank SA in 2002 was 2,921 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 2002 remuneration amounted to:

| | |
|------------------------------|---------------------|
| BRE Bank SA Management Board | PLN 11,131 thousand |
| Supervisory Board | PLN 1,604 thousand |

In addition, in this period, members of the Management Board of BRE Bank SA received PLN 372 thousand in respect of their participation in the management boards and supervisory boards of the Bank's subsidiaries and affiliates.

Members of the Management Board of BRE Bank SA acceded the BRE Bank SA management stock option programme and executed agreements with BRE Bank SA entitling them to purchase a total of 181,000 options for BRE Bank SA shares in a new issue planned for 2003.

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 2002:

| | |
|---------------|----------------------|
| Housing loans | PLN 1,000.0 thousand |
|---------------|----------------------|

| | |
|-------------|----------------------|
| Other loans | PLN 5,153.0 thousand |
| | CHF 110.0 thousand |
| Guarantee | 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 loans of private banking credits.

As at 30 June 2002, Members of the Supervisory Board had no outstanding loans from the Bank.

Debt of Bank employees (except Management Board Members) was PLN 12,199 thousand in respect of housing loans and PLN 3,950 thousand in respect of cash advances.

Interest on housing loans amounts to 1% p.a.

Interest on cash advances granted by BRE Bank SA to its employees is calculated according to the bill of exchange variable rediscounting rate. Interest on foreign currency loans is calculated according to market terms. 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 30 June 2002.

27. Information on significant events of previous years disclosed in the Financial Statements for 2002

There were no significant events of previous years at BRE Bank SA disclosed in the Financial Statements for 2002.

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

- On 6 January 2003, BRE Bank SA received from Dom Inwestycyjny BRE Banku SA confirmation of registration which states that under an agreement dated 18 June 2002 Triang Holding B.V. returned to BRE Bank SA the legal title to 12,500,000 shares of International Trading and Investments Holdings SA Luxembourg ("ITI Holdings") as the public offering of ITI Holdings shares did not materialise.
- On 29 January 2003, BRE Bank SA acquired 200 registered ordinary shares (with a nominal value of HUF 1,000,000 per share) of Magyar Factor Rt. with its registered office in Budapest from Kereskedelmi és Hitelbank Rt. The shares represent 50% of the share capital and 50% of votes of Magyar Factor Rt. The cost of the shares was HUF 550,000,000 (the equivalent of PLN 9,380,250 at the mid exchange rate quoted by NBP on 29 January 2003). The transaction was financed with own funds of BRE Bank SA. Prior to the transaction, BRE Bank SA held no shares of Magyar Factor Rt.
- On 6 February 2003, 200 certificates of deposit issued by BRE Bank SA were cancelled.
- On 6 February 2003, BRE Bank SA executed two agreements with TCF Sp. z o.o. and Polsat Media SA concerning the sale of shares of Elektrim SA. The transactions under the agreements will be finalised in two tranches in June and September 2003. The average selling price of the shares is higher than the average cost of the shares. Following the transactions, BRE Bank SA will hold no shares of Elektrim SA. BRE Bank SA and Polsat Media SA also executed an agreement concerning restructuring of a loan taken from BRE Bank SA by a natural person and secured with Elektrim SA shares.
- On 22 January 2003, BRE Bank SA was informed of the registration by the District Court in Kraków on 10 January 2003 of an increase of the share capital of Billbird SA with its

registered office in Kraków, a subsidiary of BRE Bank SA, by PLN 637,027 to PLN 4,490,368 through an issue of 637,027 shares with a nominal value of PLN 1 per share.

Following the registration, the share capital of Billbird SA is divided into 4,490,368 shares with a nominal value of PLN 1 per share, giving 4,490,368 votes at the General Meeting of Shareholders of Billbird SA.

On the date of registration, i.e., 10 January 2003, the increased capital was acquired by BRE – Fundusz Kapitałowy Sp. z o.o.

On 24 January 2003, 637,027 shares of Billbird SA representing 14.19% of the share capital and votes of Billbird SA were transferred from BRE – Fundusz Kapitałowy Sp. z o.o. to BRE Bank SA. In addition, on 23 January 2003, BRE Bank SA sold 312,143 shares of Billbird SA representing 6.95% of the share capital and 6.95% of votes of Billbird SA to Internet Investment Fund SA. The transaction is another step in the implementation of the investment agreement executed with Internet Investment Fund Sp. z o.o., reported by BRE Bank SA in its current report dated 7 March 2002.

Following these transactions, BRE Bank SA holds 2,290,088 shares of Billbird SA representing 51% of the share capital and 51% of votes of Billbird SA.

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

In 2002, BRE Bank SA made two issues of subordinated bonds with a nominal value of EUR 200,000,000 and EUR 50,000,000, maturing in 2012. The Bank obtained relevant decisions of the Banking Supervision Commission approving the inclusion in the Bank's supplementary capital of the first tranche of the subordinated loan of PLN 724,000,000 and the second tranche in the amount converted according to the mid rate quoted by NBP. The Bank may include in its supplementary capital subordinated loans up to 50% of the first-tier equity. As at 31 December 2002, subordinated loans of PLN 749,494 thousand were included in the supplementary capital.

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 main differences between data disclosed in the Financial Statements and previously published Financial Statements are discussed in the Introduction to the Financial Statements, section 7, Comparability Adjustments.

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

Compared to the previous financial year, changes were introduced in the applied accounting policies and the methodology of drafting financial statements. The change of the accounting policies as of 1 January 2002 is based on the Act amending the Accountancy Act dated 9 November 2000 (Journal of Laws No. 113, item 1186) with secondary legislation. The legal acts which constitute the basis of the report are listed in the Introduction to the Financial Statements, Accounting Policies, item (a), The Basis of the Report, and the effect of the adoption of the new accounting policies is described in section 8, Effect of the Adoption of New Accounting Rules.

Given the long period of obtaining future real economic benefits from investment, the period of depreciation for the goodwill of Bank Częstochowa SA and PTE Skarbiec-Emerytura SA was set at 20 years.

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. On-going Concern

There is no uncertainty concerning on-going 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.