INTRODUCTION TO THE 2002 FINANCIAL REPORT

1. *Company Profile*

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

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

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

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

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

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

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

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

1) banking operations:

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

2) other operations:

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

2. *Time Limits for the Operation of the Bank*

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

3. *Financial Period*

The presented Financial Report covers data for the period starting 1 January 2002 and ending 31 December 2002, as well as data for the period starting 1 January 2001 and ending 31 December 2001 presented in a comparable format (information about adjustments of the opening balance – see section 7).

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

The Management Board of BRE Bank SA consist of:

1. Wojciech Kostrzewa – President, General Director
2. Anton M. Burghardt – Deputy President, Bank Director
3. Sławomir Lachowski – Deputy President, Bank Director
4. Krzysztof Kokot – Deputy President, Bank Director
5. Jan Zieliński – Deputy President, Bank Director, Chief Financial Officer
6. Henryk Okrzeja – Deputy President, Bank Director
7. Wiesław Thor – Management Board Member, Bank Director
8. Alicja Kos-Gołaszewka – Management Board Member, Bank Director.

By resolution of the Fifteenth General Meeting of Shareholders of BRE Bank SA held on 25 April 2002, 9 Members of the Supervisory Board were elected for a joint term of 2 years, including:

1. Alberto Crippa
2. Gromosław Czempiński
3. Christian R. Eisenbeiss
4. Andrzej Księżny
5. Andreas de Maiziere
6. Teresa Mokrysz
7. Jan Szomburg
8. Krzysztof Szwarc
9. Nicholas Teller

5. *Consolidated Financial Statements*

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

As at 31 December 2002, BRE Bank SA was the holding company and a significant investor of 29 companies. The Bank's Consolidated Financial Statements cover the following companies:

Company	Stake in votes (direct and indirect)	Consolidation method
• BRE Agent Transferowy Sp. z o.o.	100.00%	acquisition accounting
• BRE Asset Management SA	100.00%	acquisition accounting
• PTE Skarbiec-Emerytura SA	100.00%	acquisition accounting
• SKARBIEC TFI SA	100.00%	acquisition accounting
• BRE Corporate Finance SA	100.00%	acquisition accounting
• BRE International Finance B.V.	100.00%	acquisition accounting
• Dom Inwestycyjny BRE Banku SA	100.00%	acquisition accounting
• Bank Częstochowa SA	83.47%	acquisition accounting
• Intermarket Bank AG	54.84%	acquisition accounting
• Transfinance a.s.	77.42%	acquisition accounting
• Polfactor SA	77.42%	acquisition accounting
• BRE Leasing Sp. z o.o.	50.004%	acquisition accounting
• Rheinhyp-BRE Bank Hipoteczny SA	50.00%	acquisition accounting
• Tele-Tech Investment Sp. z o.o.	24.00%	acquisition accounting
• BRE.locum	77.20%	equity method
• BRE-Fundusz Kapitałowy Sp. z o.o.	100.00%	acquisition accounting*)
• BRE Private Equity Sp. z o.o.	62.00%	acquisition accounting*)

*) Companies sold in the course of the financial year

Pursuant to the requirements of the Accountancy Act (as amended), BRE Bank SA includes in its Consolidated Financial Statements all subsidiaries and affiliates

important from the viewpoint of financial statements, other than those acquired with the sole purpose to be sold.
Pursuant to the requirements of the Regulation of the Minister of Finance dated 12 December 2001 concerning rules of drawing up consolidated financial statements of banks and consolidated financial statements of financial holdings, as of 1 January 2002, those subsidiaries and affiliates which meet the criteria of classification as banks, credit institutions, or financial institutions in the sense of the Banking Law, are covered by the consolidated financial statements based on the acquisition accounting method. The equity method is only used for BRE.locum Sp. z o.o. which does not meet those criteria (the company is involved in real estate development business).

6. *On-going Concern*

The Consolidated Financial Statements are drawn up on the basis of on-going concern of BRE Bank SA in the foreseeable future. There are no factors which might be a threat to on-going business.

7. *Comparability Adjustments*

BRE Bank SA adjusted the presentation of comparable data both in the financial statements of the Bank but it did not apply the new valuation policies to those data.

The main adjustments of the balance sheet as at 31 December 2001 include:

Assets
- receivables from the public sector at PLN 961,132 thousand were shown under a separate item;
- securities acquired directly from the issuer were moved from debt securities to receivables from financial institutions and receivables from clients and the public sector – PLN 696,822 thousand and PLN 149,030 thousand, respectively;
- receivables in respect of securities acquired under buy-back arrangements at PLN 54,965 thousand and debt securities subject to repo transactions at PLN 1,077,759 thousand were recognised in the balance sheet;
- perpetual usufruct of land at PLN 53,017 thousand was moved from intangible fixed assets to fixed assets;
- start-up cost of expansion at PLN 3,106 thousand was moved from intangible fixed assets to accruals;
- development expenditures at PLN 13,911 thousand were moved from fixed assets to intangible fixed assets;
- the deferred tax asset was adjusted by PLN 720,017 thousand.

Liabilities
- liabilities to the public sector at PLN 167,845 thousand were shown under a separate item;
- liabilities in respect of securities sold under buy-back arrangements at PLN 1,132,724 thousand were recognised in the balance sheet;
- liabilities under financial instruments which are the balance sheet effect of the valuation of derivatives at PLN 1,597,198 thousand were shown under a separate item (previously under special funds and other liabilities);

- liabilities under cash security deposits (*kaucja*) at PLN 1,404,312 thousand were moved from special funds and other liabilities to liabilities to financial institutions at PLN 1,146,641 thousand and liabilities to clients and the public sector at PLN 257,671 thousand;
- the deferred tax liability was adjusted by PLN 719,633 thousand.

8. Effect of the Adoption of New Accounting Rules

The Bank converted the 2001 closing balance into the opening balance as at 1 January 2002. The effect of changes recognised in the income statement of previous years was (PLN 228,772 thousand) and the effect recognised in revaluation reserves was PLN 15,146 thousand. This included the following items:
- equity method valuation of subsidiaries and affiliates (PLN 246,727 thousand);
- valuation of equity securities at fair value PLN 18,302 thousand, including PLN 20,802 thousand recognised in the revaluation reserves and (PLN 2,500 thousand) recognised in the income statement of previous years;
- valuation of debt securities at fair value PLN 5,484 thousand, including PLN 235 thousand recognised in the revaluation reserves and PLN 5,249 of an adjustment of the valuation of debt securities marked for trading recognised in the income statement of previous years;
- compounded interest on regular receivables moved from suspended income to the income statement of previous years PLN 2,598 thousand; discount of purchased receivables moved likewise PLN 1,249 thousand;
- interest due and not due on watch receivables recognised in 2001 under interest income charged to the income statement of previous years (PLN 1,739 thousand);
- valuation of a derivative embedded in an agreement concerning the acquisition of an IT system PLN 6,823 thousand;
- recognition of deferred tax affecting the income statement following the conversion PLN 6,275 thousand and deferred tax affecting the revaluation reserves (PLN 5,891 thousand).

At 1 January 2002, the securities portfolio was reviewed and rated depending on the intention of the purchase. Debt securities are rated as follows:

- "Designated for trading" – where the intention is to generate profits owing to short-term (up to 3 months) price fluctuations. In general, the portfolio comprises securities previously rated as trading securities.

- "Held to maturity" – acquired with the intention of actual keeping till maturity. This category comprises NBP bonds acquired as a result of the reduced mandatory reserve rate not subject to the provisions of Resolution No. 5/6/PPK/2002 of the Management Board of the National Bank of Poland dated 8 February 2002.

- "Loans given and own receivables" – acquired as a result of the provision of cash to the other party (issuer).

- "Available for sale" – other securities which do not meet the criteria of instruments "Designated for trading", "Held to maturity", and "Loans given and own receivables". In general, the portfolio comprises securities previously rated as investment securities.

Debt securities rated as "Designated for trading" and "Available for sale" are stated, as of 1 January 2002, at fair value while those rated as "Held to maturity" and "Loans given and own receivables" at depreciated cost.

Equity securities are rated as follows:

- "Designated for trading" – where the intention is to generate profits owing to short-term (up to 3 months) price fluctuations. In general, the portfolio comprises securities previously rated as trading securities.

- Shares and stocks in subordinated companies, i.e., subsidiaries which the Bank controls or jointly controls, and affiliates where the Bank is a significant investor.

- "Available for sale" – other securities which do not fit into the other categories.

Equity securities rated as "Designated for trading" and "Available for sale" are stated, as of 1 January 2002, at fair value; if the fair value cannot be reasonably set, they are shown at depreciated cost. Shares and stocks in subordinated companies are valuated based on the equity method.

At 1 January 2002, debt securities and equity securities rated as "Designated for trading" and "Available for sale" were shown at fair value.

The presentation policy was changed for the income tax. The deferred income tax liability and asset are shown separately in the balance sheet. Change in their balances, if the deferred tax liability and asset relate to items shown under equity, is also shown under equity.

The auditor made no reservation about the audited financial statements.

9. Accounting Policy

a) Basis of the Report

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

- Accountancy Act of 29 September 1994 (Journal of Laws No. 121, item 591, as amended);
- Banking Law dated 29 August 1997 (Journal of Laws No. 140, item 939, as amended) ("Banking Law");
- Regulation of the Minister of Finance dated 10 December 2001 concerning specific accounting rules for banks (Journal of Laws No. 149, item 1673, as amended);
- Regulation of the Minister of Finance dated 10 December 2001 concerning rules of provisioning against the risk related to banks' operations (Journal of Laws No. 149, item 1672);

- Regulation of the Minister of Finance dated 12 December 2001 concerning specific rules of recognition, methods of valuation, scope of disclosure, and mode of presentation of financial instruments (Journal of Laws No. 149, item 1674);
- Corporate Income Tax Law dated 15 February 1992 (Journal of Laws No. 106, item 482, as amended) ("Corporate Income Tax Law");
- Regulation of the Minister of Finance dated 12 December 2001 concerning the model chart of accounts for banks (Journal of Laws No. 152, item 1727);
- Regulation of the Council of Ministers dated 16 October 2001 concerning current and periodic reports submitted by issuers of securities (Journal of Laws from 2001 No. 139, item 1569);
- Regulation of the Council of Ministers dated 16 October 2001 concerning specific conditions to be met by issue prospectuses and abridged prospectuses (Journal of Laws No. 139, item 1568, as amended).

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

b) Description of the Adopted Accounting Rules (Policy), including the Methodology of Valuation of Assets and Liabilities and the Income and Cost, Determining the Financial Result, and Preparing the Financial Statements and Comparable Data

Bills eligible for rediscounting at the Central Bank

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

Amounts due from financial institutions, clients and the public sector

Extended credits and loans and other own amounts due, not designated for trading, are stated at amount due including interest.
Amounts due are stated in the balance sheet in net amounts, i.e., at the nominal value plus accrued interest not due, due, and to be compounded, less specific provisions for receivables classified as "watch", "substandard", "doubtful", and "lost".
The Bank's balance sheet does not comprise credits and amounts due purchased or subject to factoring where a large part of risks and benefits of such items remains with the seller of such receivables.

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

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

Debt securities and equity securities

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

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

Equity securities

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

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

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

Other stocks and shares are rated as "Designated for trading" and "Available for sale" and stated at fair value.

Debt securities

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

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

A decrease or an increase in value, determined on the valuation date, i.e., as at the month-end, separately for each type of security, is recorded in the books of account.
The result of periodical valuation of securities rated as "Designated for trading" is credited or charged to income or cost of financial transactions and that of securities rated as "Available for sale" is recognised in the revaluation reserves.

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

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

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

Intangible and tangible fixed assets

Intangible and tangible fixed assets are stated at cost less accumulated amortisation/depreciation. Amortisation/depreciation is calculated on a straight-line basis, in accordance with the principles and rates specified in the Corporate Income Tax Act. In the past, the Bank's tangible fixed assets were revalued periodically in accordance with the principles specified in the applicable regulations. The revaluation of the said assets is reflected in the revaluation reserve in the balance sheet.
The Bank's intangible fixed assets include the cost of successfully completed development work incurred before implementation. The cost includes costs directly related to the implementation of new technologies and the justified part of costs indirectly related to the implementation. The period of depreciation is not more than 5 years.
The Bank has depreciated the principal categories of its tangible and intangible fixed assets using the following rates:

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

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

Accruals and prepayments

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

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

Liabilities

The Bank's liabilities mainly arise from deposits accepted from customers and inter-bank deposits and loans. Liabilities are stated at depreciated cost, except liabilities designated for trading which are stated at amounts due including interest.

Specific and general provisions

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

Transfers to the general risk provisions are determined in accordance with Art. 130.2 of the Banking Law. Amounts to be transferred are calculated as 1.5% of the loan portfolio based on the average value of outstanding credits and cash loans less the value of credits and loans which are covered in full by specific provisions. The general risk provisions can be used against unidentified risks of banking operations.
The Bank sets up provisions against the future cost of jubilee awards, retirement allowances and outstanding holiday on an accruals basis.
All provisions for risks and losses are taken into account in determining the financial result of the Bank.

Deferred tax

The Bank determines deferred income tax assets and sets up provisions for temporary differences between the assets and liabilities shown in the books of account and their value for tax purposes and the tax loss deductible in the future.
Deferred income tax assets and liabilities are set taking based on tax rates applicable in the year when the tax liability originated.
Deferred income tax assets and liabilities are shown separately in the balance sheet.
Change in the balances of deferred income tax assets and liabilities since the last financial year, if the deferred tax assets and liabilities relate to items shown under equity, is disclosed in the income statement or under equity.

Equity

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

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

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

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

The profit of previous years includes all adjustments of the opening balance due to changed accounting policies of BRE Bank SA. It was credited with compounded interest from regular receivables, accrued discount on regular receivables, valuation of debt and equity securities designated for trading at fair value, equity method valuation of stocks and shares in subordinated companies, and debited with due and non-due interest from watch receivables. All adjustments include the effect of deferred tax. The net profit/loss of the year represents a profit/loss as shown in the income statement. The net profit is presented net of the corporate income tax charge and movement in the deferred tax liability.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Polish zloty on a daily basis, using the mid exchange rate quoted by NBP prevailing on a given day, including the exchange rate prevailing on the last business day of the reporting period. Both realised and unrealised foreign exchange gains and losses are recognised in the income statement for a given period.

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

Off-balance sheet derivatives and forward and future transactions

As at the balance sheet date both off-balance sheet derivatives and forward and future transactions are valued. The supreme policy in the valuation of off-balance sheet instruments is valuation at present market value (fair value).
Quoted derivatives and forward and future transactions are valued based on current stock exchange quotations as at the valuation date. Other derivatives and forward and future transactions are valued using mathematical models, based on current financial data as at the valuation date.

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

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

“Market risk” instruments

Warrants for securities

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

Futures

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

Interest rate instruments

Forward Rate Agreement (FRA)

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

Interest Rate Swap (IRS)

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

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

Interest rate options

Interest rate options are stated at nominal value on off-balance sheet accounts. The premium received/paid on sale/purchase of the option is disclosed in “Other assets” or „Other liabilities under financial instruments” until cleared. Options are valued using a mathematical model and disclosed in the balance sheet in correspondence with the “Result on financial transactions” in the income statement. The valuation of options (increase/decrease) is shown separately for options purchased and options sold.

Currency futures and forwards

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

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

The profit/loss on forward transactions is calculated by comparing the discounted forward transaction rate as at the valuation date with the mid rate quoted by NBP prevailing on that date.

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

Determining the financial result

Interest income

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

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

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

Interest on irregular and watch is included in income on a cash basis and recorded in the income statement upon receipt.

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

Interest income also comprises capital gains on debt securities sold.

Interest expense

Interest expense comprises interest paid and accrued on clients' deposits and own securities issued by the Bank, calculated based on depreciated cost.
Interest payable is calculated on a cumulative basis as at the end of each day. Costs relating to a given reporting period are recorded in the income statement on an accruals basis.

Commission

Commission mainly comprises income other than interest received on loans and bank guarantees granted. Commission also comprises the Bank's fees for conducting cash transactions, maintaining accounts for clients, making money transfers, fees relating to

letters of credit, and other charges. Commission also comprises income from brokerage activities. Commission is considered immaterial or a direct fee for specific activities and is credited to the income statement when paid.
Commission cost which comprises payments made in connection with loans raised, re-financing transactions, letters of credit, collection procedures and exchange transactions is considered immaterial and charged to costs when paid.

Income from shares and other securities

This income includes dividends received from entities in which the Bank holds shares. Dividends are recognised in the income statement upon receipt.

Result on financial transactions

This item comprises gains/losses on the sale of securities and gains/losses on transactions in derivatives recognised upon receipt of payment. It also comprises increases and decreases in the value of securities designated for trading and available for sale, if sold, and the result of the valuation of market risk and interest rate risk derivatives.

Foreign exchange result

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

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

Provisions and revaluation write-offs

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

Specific provisions cover the risks associated with individual transactions. Provisions for risks associated with specific transactions relate to assets and off-balance-sheet liabilities which were analysed on an individual basis and classified as ‘watch,’ ‘sub-standard,’ ‘doubtful’ or ‘loss.’
The classification is performed in accordance with the Regulation of the Minister of Finance dated 10 December 2001 concerning rules of provisioning against the risk related to banks’ operations. The general risk provision is set up in accordance with the provisions of the Banking Law.

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

Assets and liabilities in the Balance Sheet were converted to EUR at the mid rate prevailing on 31 December 2002 quoted by the National Bank of Poland: 1 EUR = 4.0202 PLN. Items of the Income Statement and of the Cash Flow Statement for the twelve months of 2002 were converted to EUR at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of the twelve months of 2002. The average rate was 1 EUR = 3.8697 PLN.

Comparable financial data were converted as follows. Assets and liabilities in the Balance Sheet were converted to EUR at the average rate prevailing on 31 December 2001 quoted by the National Bank of Poland: 1 EUR = 3.5219 PLN. Items of the Income Statement and of the Cash Flow Statement for the twelve months of 2001 were converted to EUR at the rate equal to the arithmetic mean of the mid rates quoted by NBP on the last day of each of the twelve months of 2001. The average rate was 1 EUR = 3.6509 PLN.

The highest rate at the end of the month in the reporting period was that in July (1 EUR = 4.0810 PLN), the lowest rate – that in April (1 EUR = 3.5910 PLN).

Main items of the balance sheet, the income statement, and the cash flow statement [EUR'000]

	31.12.2002	31.12.2001
MAIN ITEMS OF ASSETS		
Cash and transactions with the central bank	89	209
Debt securities eligible for rediscounting at the central bank	12	18
Amounts due from the financial sector	812	934
Amounts due from clients and the public sector	2 319	2 83
Amounts due under securities purchased with a buy-back clause	70	15
Debt securities	1 321	1 35
Shares in subsidiaries	212	186
Shares in joint ventures		
Shares in affiliates	5	34
Shares in other entities	3	5
Other securities and financial assets	156	182
Intangible fixed assets	64	58
Tangible fixed assets	217	244
Other assets	669	746
Prepayments and accrued income	226	213
Total assets	**6 181**	**7 04**

	31.12.2002	31.12.2001
MAIN ITEMS OF LIABILITIES AND EQUITY		
Liabilities to the central bank		
Liabilities to the financial sector	1 664	2 32
Liabilities to clients and the public sector	2 519	2 80
Liabilities under securities sold with a buy-back clause	483	321
Liabilities under issued own securities	6	
Other liabilities due under securities	555	453
Special funds and other liabilities	24	18
Accruals, deferred income, qualified income	55	212
Negative goodwill of subordinated companies		
Provisions	228	222
Subordinated liabilities	250	
Minority capital		
Share capital	22	26
Due shaare capital not paid up (negative figure)		
Own shares (negative figure)		
Supplementary capital	186	212
Revaluation reserve	-	2
Other reserves	336	354
FX gains/losses on the conversion of subordinated companies		
Profit (Loss) of previous years	- 56	
Net profit (loss)	- 94	95
Total liabilities	**6 181**	**7 04**

MAIN ITEMS OF THE INCOME STATEMENT		
Net interest income	84	99
Net commission income	44	55
Result on financial transactions	- 25	3
Result on banking activities	210	247
Operating profit	- 77	112
Extraordinary gains (losses)		
Gross profit (loss)	- 77	112
Net profit (loss)	- 97	92

MAIN ITEMS OF THE CASH FLOW STATEMENT		
Cash at the beginning of the period	445	999
Net cash from operating activities	354	472
Net profit (loss)	- 97	92
Total adjustment	34	- 49
Net cash from investing activities	- 160	8
Investing activity inflows	128	198
Investing activity outflows	288	288
Net cash from financing activities	132	- 3
Financing activity inflows	238	440
Financing activity outflows	105	476
Total net cash flows	- 90	52
Cash at the end of the period	354	472