BRE BANK SA

ANNUAL REPORT

2002

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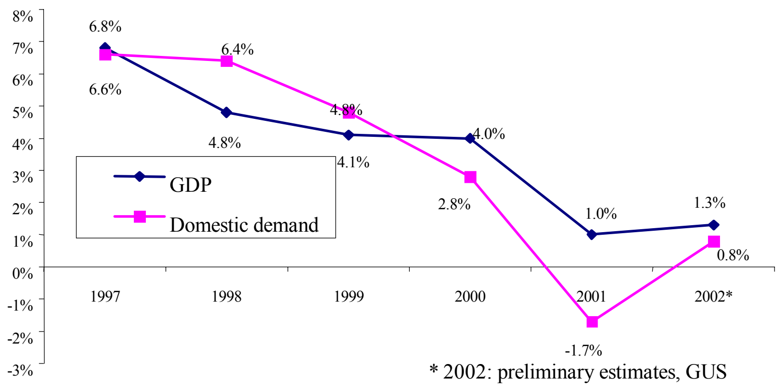
External Environment of BRE Bank SA

I. Macroeconomic Conditions in Poland in 2002

I.1. Weak Economic Activities

The year 2002 was a time of low dynamics in economic activities. According to preliminary estimates of the Polish Central Office of Statistics (GUS), the GDP growth rate was 1.3%. The GDP rate was steadily growing and reached 0.4% in Q1, 0.8% in Q2, 1.6% in Q3, and ca. 2% in Q4. The main drivers of economic growth in 2002 included private consumption and exports. Growth in private consumption estimated by GUS at 3.3% was a result of decreasing propensity to save and a small increase in the purchasing power of the average pay and pension. Investing activities and the construction and freight transportation sectors continued to suffer from recession trends in 2002. Collective consumption remained at a very low level.

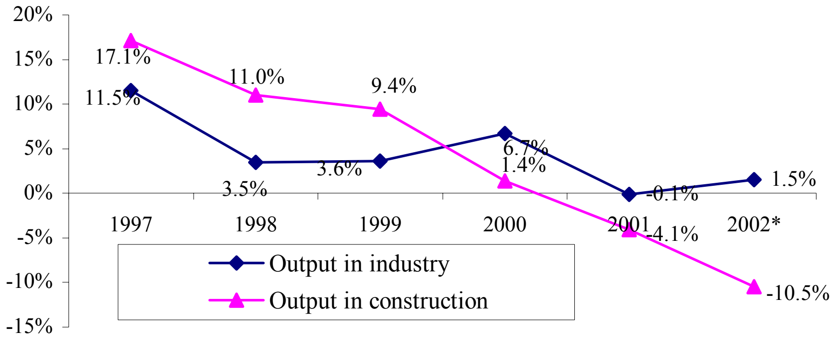
GDP and Domestic Demand



Gross investment in fixed assets fell by 7.2%. The investment process was hindered by weak financial results of companies, their low net profitability and high indebtedness affecting their capacity to accumulate capital and to grow, as well as barriers in sales and a relatively high real cost of credits despite interest rate cuts.

Industrial output of companies employing more than 9 persons each was 1.5% higher in 2002 than in 2001. As employment fell, labour productivity in industry improved by ca. 8%. The output of the construction sector went down by 10.5% due to decreased demand for new investments and repair work. The difficult situation of the housing construction sector further aggravated. Only 99.1 thousand apartments were completed in 2002, down 6.5% compared to 2001.

Output



* 2002: companies which employ over 9 persons each

I.2. Improving Foreign Trade Results

Despite weak market conditions world-wide, especially in Germany which is Poland's largest trade partner, receipts from exports of goods in 2002 were 9.0% higher than in 2001. This strong growth rate was on the one hand driven by improved effectiveness of exporters, and on the other hand by changing destinations of Polish exports (with a growing share of exports to the Eastern markets of Ukraine and Russia, but also France, Italy and Sweden, and a declining share of exports to Germany). The depreciation of the zloty against the euro also helped to improve the results of exports. Payments for imports of goods in 2002, in the context of limited domestic demand, were 3.2% higher than in 2001. As a result, the deficit of payments for goods was US$ 10.4 billion, down 11.8% compared to 2001. This had a positive bearing on the current account gap which was US$ 6.7 billion. The C/A gap decreased by US$ 462 million; it fell from 3.9% of GDP in 2001 to 3.6% in 2002.

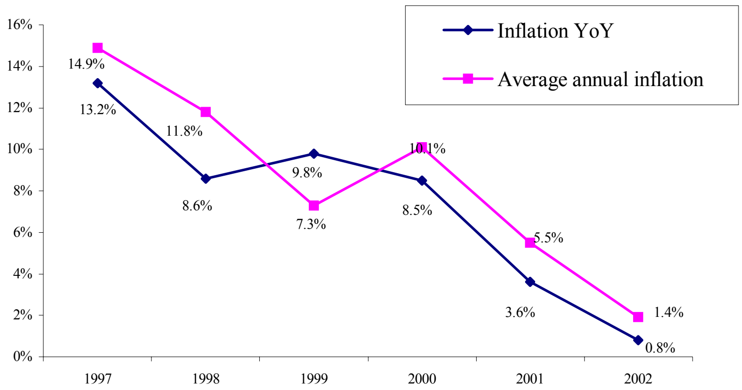
1.3. Growing Unemployment

Low GDP growth, large numbers of University graduates entering the labour market and an insufficient number of job openings, continued structural reform and measures taken by companies to reduce their payroll cost contributed to growing unemployment. The number of the unemployed grew by 102 thousand to 3.22 million people in 2002; the unemployment rate grew by 0.6 points to 18.1%. The average workforce in the corporate sector was 4.91 million people, down 4.4% compared to 2001.

1.4. Fast Falling Inflation

Inflation slowed down significantly in 2002. Year-on-year inflation fell to 0.8% while the average annual Customer Price Index was 1.9%. The slow-down was a result of falling prices of foodstuffs, alcoholic beverages, clothing and footwear, as well as lower price increases in most other categories of consumer products and services compared to 2001 (despite growing fuel prices, which had gone down in 2001).

Inflation



I.5. Monetary Policy

Falling inflation encouraged the Monetary Policy Council (RPP) to continue with interest rates cuts which had begun in February 2001. The interest rates were cut eight times in 2002. The following rates were slashed:

- the main market interest rate on 28-day open market operations from 11.5% to 6.75%;
- the rediscounting rate from 14% to 7.5%;
- the Lombard rate from 15.5% to 8.75%.

Whereas in early 2002 the interest rates were cut by up to 2 percentage points at one go, the last reduction in November was only by 0.25 percentage points. Later in the year the Council slashed the rates by a smaller margin as RPP was concerned with the cumulative effect of the rate reduction cycle as a potential driver of inflation. In addition, fiscal policy was believed to be insufficiently strict and so seen as a threat to stabilisation of low prices.

I.6. Zloty Exchange Rate

Relatively high interest rates, compared to other European countries, and large issues of Treasury securities to finance current needs of the State budget attracted short-term foreign capital to the Polish market and drove speculative demand for the zloty and appreciation of the local currency, especially in periods prior to expected interest rate cuts. In addition, relatively stable economic and political conditions in Poland and advancing EU accession negotiations were conducive to growing bond prices and a strong zloty.

The exchange rates of the main currencies against the zloty followed the trend of the global EUR/US$ rates. Due to the weakening of the US currency, its price in the Polish market declined from 4.23 PLN to 1 US$ in January to 3.83 PLN to 1 US$ in late December 2002, a rate last recorded in 1999. The euro fluctuated between 3.57 and 4.21 PLN to 1 EUR and stabilised in Q4 around 4 PLN to 1 EUR. The average annual fx rate of the US dollar was 4.0800 PLN to 1 US$, down 0.33% year-on-year. The average annual fx rate of the euro was 3,8541 PLN to 1 EUR, up 5.05% compared to 2001.

II. Prevailingly Bearish Capital Markets

Due to deteriorating market conditions in Poland and resulting low interest of companies in raising funds through stock issues, as well as stalling privatisation efforts of the Ministry of the Treasury, only 5 companies were floated on the stock exchange in 2002 while 19 were delisted following decisions of strategic shareholders or financial problems and bankruptcies. As a result, the number of listings on the Warsaw Stock Exchange was for the first time in its history lower than a year earlier.

While investors were less active and trading in stocks and futures dwindled by ca. 21% (down to PLN 63.7 billion and PLN 77.3 billion, respectively), the WIG index grew 3.2% and the NIF index by 1.3% in 2002 and other indices fell: WIG-20 by 2.7%, TechWIG by 39.7%, WIRR by 22.6%.

In the stock market, the share of domestic institutional investors in total trading grew significantly (to 39%), the share of foreign investors remained stable (34%), and the share of retail investors dropped to 27%. The latter were the most active players in the futures market, accounting for 79% of all volumes. Trading in financial instruments was dominated by transactions in equities (92.2%) and bonds (7.7%) while rights, investment certificates and warrants represented a minor share (0.1%).

Sector indices of 2002 confirm growth in prices of stocks of food producers (up 47.7%) and banks (up 17.8%). The IT sector lost 6.6%, the construction sector 11%, and telecommunications companies 24%.

III. Developments in the Banking Sector in 2002

III.1. Declining Financial Standing of Banks

All developments discussed above had a strong impact on the position of banks in 2002 characterised by:

- 4.4% decrease in deposits, mainly due to a 4.1% fall in retail deposits (deposits of non-monetary financial institutions and social security funds also dropped) while corporate deposits grew 1.7%;
- growth in investment in securities, shares of investment funds (investment fund company assets grew by over PLN 10 billion in 2002) and assets under management as alternatives to bank deposits;
- relatively low 5.2% growth in receivables; corporate loans grew only 1.6%;
- growing irregular receivables due to the deteriorating financial standing of many companies (in particular banks were badly hit by the bankruptcy of the Szczecin Shipyard): their share in banks' portfolios moved up from 18.6% to 21.4%;
- provisioning against loans necessitated by the deteriorating quality of portfolios; specific provisions grew by PLN 3.8 billion or 28.4% at 30 September 2002;
- assets of the banking sector grew only 0.6% in Q1-3, mainly due to less active lending and amendments of accounting rules;
- net profit of the banking sector in Q1-3 at PLN 2.7 billion was nearly PLN 1 billion lower than in 2001;
- results of listed banks fell in 2002: of 14 banks, 4 reported losses and 2 recorded lower profitability.

An important factor affecting banks' results was amendment of accounting rules, introducing obligatory recognition of the share in profits and losses of subsidiaries and affiliates in the financial statements. While those profits and losses had previously been disclosed in consolidated statements, now banks have to recognise them in stand-alone statements. As many banks are owners or holders of significant stakes in loss-making leasing companies, insurers and pension funds, their results were adversely affected under the new rules.

III.2. Continued Consolidation and Growing Share of Foreign Capital

As a result of continued consolidations, the number of commercial banks operating in Poland further decreased from 71 at the end of 2001 to 63 after Q3 2002. Powszechny Bank Kredytowy SA and Bank Przemysłowo-Handlowy SA merged as of 1 January 2002. Gospodarczy Bank Wielkopolski SA merged with Pomorsko-Kujawski Bank Regionalny SA. Six other groupings of co-operative banks formed Bank Polskiej Spółdzielczości, which took over Dolnośląski Bank Regionalny SA on the basis of a decision of the Banking Supervision Commission (KNB). Kredyt Bank SA acquired an organised part of the banking business of Polski Kredyt Bank SA. Bank Inicjatyw Społeczno-Ekonomicznych SA took over Bank Cukrownictwa CUKROBANK SA. Nordea acquired LG Petro Bank, but the two banks were not yet merged. Bank Rozwoju Cukrownictwa SA discontinued its business operations. Two new banks started their operations in 2002: MHB Bank Polska SA and Bank of Tokyo Mitsubishi (Polska) SA. Nykredit Bank Hipoteczny received a banking licence in December 2002.

The share of foreign investors in the banking sector further grew in 2002. Of investors from 15 countries, the most active were German and US institutions. The largest growth was reported in the investment of German companies (up PLN 325.8 million), Dutch companies (up PLN 197.3 million), Belgian companies (up PLN 161.4 million), and US companies (up PLN 130.4 million).

III.3. Growth of e-Banking

Banks worked to strengthen their position in the e-banking market in 2002. At the year-end, 18 banks offered an on-line service, including mBank, Inteligo and Volkswagen Bank direct. The number of e-banking clients grew more than two-fold to nearly 1.2 million at the end of 2002, including over 540 thousand clients of virtual banks. The largest share of the internet banking market is still that of mBank (28.5%), followed by Inteligo (acquired by PKO BP from BGB Polska in 2002) and Bank Zachodni WBK.

The number of bank cards grew by 12.5%, from 14.4 million at the end of 2001 to 16.2 million after Q3 2002. Clients made 342.3 million card transactions for over PLN 78.5 billion. Banks and Euronet installed ca. 600 new ATMs in 2002; there are now almost 7 thousand ATMs in Poland.

Report of the Management Board
on the Business of BRE Bank SA in 2002

I. Reasons for Weak Results in 2002

The past year was the most difficult one in the entire history of the Bank. The Bank closed the year at a loss of PLN 200.1 million on a stand-alone basis (excluding the share in the profit/loss of subsidiaries and affiliates subject to equity accounting valuation totalling PLN 179.1 million). The Bank's loss including the valuation of Group companies was PLN 379.2 million, compared to a projected profit of PLN 408 million.

The year was very difficult and complex, mainly due to very harsh macroeconomic conditions described in section I "External Environment of BRE Bank SA."

The results of the Bank were strongly affected by the change of accounting rules, described in the section on the banking system, introduced in the amended Accountancy Act. As of 1 January 2002, under the new Polish Accounting Rules, the Bank has to record equity investment in subsidiaries and affiliates subject to equity accounting valuation. This accounting requirement significantly affected the Bank's stand-alone income statement while previously the valuation has only been recognised in the consolidated income statement. Given the large investment of BRE Bank in stocks and shares of other companies, including strategic subsidiaries and affiliates, the effect of the change was very strong.

The change of the accounting rules was reflected in the 2002 opening balance as retained profit/loss to be covered of previous years at (PLN 228.8 million), recognised under equity. On 30 September 2002, accounting regulations were changed once more; as a result, valuation of securities available for sale held in the portfolio is recognised in equity rather than the income statement.

Due to the change of accounting rules, the stand-alone results of BRE Bank – which holds a large portfolio of stocks and shares in other companies – were reduced by PLN 179.1 million representing the share in the profit/loss of subsidiaries and affiliates subject to equity accounting valuation.

In addition, due to prevailingly bearish capital markets, the negative balance of provisions against permanent diminution of financial assets was PLN 63 million.

Another important issue was related to the share of irregular receivables from clients and the public sector which grew from 11.6% at the end of 2001 (based on comparable data) to 22.5% at the end of 2002 according to the format of the Bank's financial statements SAB 2002 in compliance with binding regulations. Under NBP reporting requirements, the share of irregular loans is 19.9%, compared to an average 21.4% in the banking sector (based on NBP data). From the point of view of the entire risk portfolio of BRE Bank (including off-balance sheet commitments under unused loans, guarantees, and letters of credit), irregular receivables stood at 14.1%.

A higher share of irregular loans was largely a result of a conservative approach to the risk assessment of the loan portfolio and a very rigorous rating of receivables. It was also partly due to a decrease in regular loans following the repayment of a large loan at PLN 980 million by a public institution in late 2002.

The high provisions for loans and guarantees derived from a very conservative approach to the rating of the portfolio and entailed a heavy burden to the financial results. However, the loan portfolio was provisioned to the maximum extent. The net balance of specific provisions for loans and guarantees set up and released (including provisions for receivables from financial institutions) was (PLN 376.8 million); much of those provisions were set up in Q4 2002.

The Bank decided to set up large general risk provisions of PLN 102.8 million in Q4 2002, compared to PLN 16.2 million at the end of Q3 2002. The balance of the provisions was PLN 119.0 million at the end of 2002. The net balance of provisions set up and released added PLN 55.2 million to the Bank's loss.

It must be noted that if irregular loans are understood to include only those loans where the repayment of principal or interest is overdue for at least 90 days (default portfolio under Basel II), such debt was only PLN 597.6 million, representing only 4% of the Bank's portfolio at the end of 2002 (including off-balance sheet items). Provisions set up against such loans combined with accepted security (deducted from the basis for provisions) totalled PLN 608.2 million, more than the default loan portfolio.

An important reason why the actual results were so different from the projection was that several large capital transactions totalling PLN 430 million did not materialise. The Bank planned to sell a minority stake in PTE Skarbiec Emerytura (after its merger with PTE BIG Banku Gdańskiego) and ITI Holding.

The sale of Bank Częstochowa which was to incorporate mBank did not materialise either. The Management Board decided to forego short-term benefits and to invest in further growth of the retail banking business within the organisation of BRE Bank as a source of significant profits in the future. The Extraordinary General Shareholders' Meetings of the two banks held in January 2003 decided to merge the banks (see the section on retail banking).

At the present stage of growth, the operating cost of the retail banking business was a heavy burden and accounted for 22.5% of the Bank's total operating costs including depreciation. As a result, however, BRE Bank has a 28.5% share in the Polish e-banking market, the number of its accounts grew two-fold to 398.4 thousand while deposits grew over 80%. Large expenditures in IT and a branch network laid strong foundations for further expansion in this business segment.

Owing to rationalisation, BRE Bank's operating cost was PLN 470.6 million, much below the budgeted target. Measures taken in 2002 to cut costs (workforce reductions, actions to reduce maintenance costs) will also have a positive bearing in 2003, although for other reasons the cost will be higher than in 2002.

With financial results much different from the target, the Bank did not achieve the ratios expected in 2002. The ratios were weaker than in 2001. Importantly, the solvency ratio was at a safe 10.0%.

	2002	**2001**
	%	%
ROE*/	-20.3	16.7
ROA*/	-1.6	1.7
Cost/income ratio	73.4	54.0
Interest margin*/	1.4	1.8
Solvency ratio	10.0	12.1

*/on the basis of balances in the last 12 months

II. Strong Market Position of BRE Bank

Despite the temporary deterioration of financial results, BRE Bank remained a leading Polish bank in terms of equity and the scale of operations.

The share of the Bank in the main segments of the banking market was as follows:

Corporate Banking	
Corporate loans	5.6%
Corporate deposits	7.2%
Servicing foreign trade transactions	18.0%
Syndicated loans	
• by committed amount	8.7% (fifth position)
• by number of arranged transactions	(first position)
Retail Banking	
Internet banking	28.5% (first position)
Investment Banking	
Trading in T-bills	25.0% (first position)
Interest rate derivatives in PLN*/	second position world-wide, first position among Polish banks
Arranging debt issues:	
short-term debt	
• by amount of debt	12.1% (third position)
• by number of issuers	fourth position
Arranging municipal bond issues	
• by value	8.2% (third position)

*/ according to a *Risk Magazine* ranking

III. The Image of the Bank

III.1. Awards and Distinctions

The achievements of BRE Bank and its position in the Polish banking sector were acknowledged and awarded, including the following distinctions:

- fifth position in the *BusinessWeek* ranking of Top 40 Banks in Central and Eastern Europe;
- third position in the *Gazeta Bankowa* ranking of the Best Banks 2002;
- Rose Without Thorns 2001 award to the Best Bank for the Most Affluent Poles, and the top score and first position of the private banking service in a *Puls Biznesu* ranking;
- Future Award of the Konrad Adenauer Foundation;
- Leader in Controlling 2002 and an award for Modern Management Methods at the Seventh International Controlling Congress;
- fourth position in the category of financial service providers in the ranking of Top 300 Potentially Most Competitive Companies in the Single European Market published by *Polish Market*, the Institute of Economics of the Polish Academy of Sciences, and the Ministry of the Economy.

The Bank was also awarded for its retail banking business – see the section on retail banking.

III.2. The Bank as a Sponsor

The Bank continued to extend support to cultural and educational institutions in 2002. The long-time partners of the Bank include:

- National Museum, Warsaw (the Bank was its Main Sponsor in 2002);

- Zachęta Gallery (the Bank is its Patron since 2002);
- Wilanów Palace Museum (Main Sponsor since April 2002);
- Frederic Chopin Academy of Music, Warsaw;
- Academy of Fine Arts, Warsaw;
- A. Zelwerowicz Theatre Academy, Warsaw.

The Bank supported many other projects, including the acquisition of works of art for museums, exhibits, concerts, etc. The Bank's sponsoring efforts were recognised with the Muzeon award for special friends of the National Museum and the title of Benefactor of the Year 2001 in the category Education.

III.3. Financial Rating

The Bank holds ratings assigned by leading world agencies.

Moody's Investors Service – in 2002, Moody's updated the rating of the financial strength of BRE Bank from D+ to D- (on a scale from A to E; the rating takes account of external risk factors, including economic conditions and the financial system environment).

The other ratings of deposits and debt remained unchanged, including:
- long-term deposits Baa1 (fourth best rate of nine);
- debt (short-term deposits) Prime -2 (second best rate of four);
- outlook of financial strength updated from negative to stable.

The agency explained the update of the rating to D- pointing to the Bank's currently weaker capacity to generate profits, also in its investment banking business, its minor though growing presence in retain banking, and its loan portfolio growing faster than the sector average, which in the opinion of the agency causes higher risks.

Bonds issued by the Bank via BRE International Finance held a strong rating throughout 2002: A3 (for non-subordinated bonds) and Baa1 (for subordinated bonds). The rating was updated from A3 to Baa1 and from Baa1 to Baa2, respectively, in January 2003.

Fitch Ratings sustained its rating of BRE Bank in 2002, including:

- long-term rating BBB+ (good quality of the loan portfolio, expected low credit risks; capacity to repay financial liabilities timely is rated as adequate though unfavourable changes in economic conditions may weaken it);
- short-term rating F2 (second best rate of six, stands for a good quality of the loan portfolio and a satisfactory capacity to repay debt);
- support rating 3 (third best rate of five, means that institutional owners of the Bank have adequate reputation and sufficient resources to provide support if necessary).

The individual rating of D (on a scale of A to E) was updated from C/D in August 2002. This rating means that the Bank has weaknesses of internal and/or external origin.

The long-term outlook of the Bank is still rated as stable.

The agency emphasised that the Bank has a specialised system of monitoring risks and Treasury products. According to the agency, this combined with a lean structure will enable the Bank to adjust to market conditions and to identify stable sources of income in the coming years.

IV. Financial Performance of the Bank in 2002

IV.1. Change in the Bank's Balance Sheet

In order to ensure comparability of data for 2002 with data for 2001, the Bank introduced necessary adjustments in the presentation of comparable data as at 31 December 2001, as discussed in the financial section of the report. The adjusted balance sheet total at the end of 2001 was PLN 24,805.0 million compared to PLN 22,978.6 million disclosed in the annual financial statements for 2001.

IV.1.1. Minor Growth in Assets

The assets of the Bank amounted to PLN 24,849.6 million at 31 December 2002, up 0.2% compared to the end of 2001. The break-down of the assets and the change in individual lines are shown in the table below.

	2002		2001		Change
	PLN'000	%	PLN'000	%	2002/2001
Total assets	24 849 566	100.0%	24 804 960	100.0%	0.2%
Cash, transactions with the central bank	360 538	1.5%	738 276	3.0%	-51.2%
Receivables from financial institutions	3 265 405	13.1%	3 290 107	13.3%	-0.8%
Receivables from clients	9 275 400	37.3%	9 019 260	36.4%	2.8%
Receivables from the public sector	50 367	0.2%	961 132	3.9%	-94.8%
Debt securities	5 312 796	21.4%	4 787 196	19.3%	11.0%
Stocks and shares	1 517 142	6.1%	1 440 059	5.8%	5.4%
Tangible fixed assets	874 989	3.5%	860 284	3.4%	1.7%
Other assets	2 690 058	10.8%	2 629 596	10.6%	2.3%
incl. transactions in securities and financial instruments	2 411 489	9.7%	2 199 611	8.9%	9.6%
Accruals	910 861	3.7%	750 931	3.0%	21.3%
Other assets	592 010	2.4%	328 119	1.3%	80.4%

The assets of the Bank in 2002 were affected by several factors, mainly including:

- growth in the portfolio of securities by PLN 525.6 million, mainly as a result of significant growth in the portfolio of T-bills;

- growth in receivables from clients by 2.8% combined with fast decrease in receivables from the public sector due to the repayment of a large loan of PLN 980 million in late December 2002. The aggregate portfolio of receivables from clients and the public sector fell 6.6% compared to 2001. Receivables from clients stated at the net amount in the balance sheet were also affected by higher specific provisions (PLN 639.8 million at 31 December 2002, compared to PLN 250.8 million at 31 December 2001);

- decrease in cash in hand and transactions with the central bank by PLN 377.7 million was due to a large balance of cash in hand at 31 December 2001 ensuring liquidity in the acquisition of European currencies replaced by the euro; these most current assets were lower at 31 December 2002;

- high investment of the Bank in stocks, shares, other securities and other financial assets as a result of growing investment in strategic subsidiaries and affiliates despite a falling balance sheet value of held securities due to bearish capital markets and reductions of the financial investment portfolio;

- significant growth in "Transactions in securities and financial instruments," mainly as a result of a different result in respect of the valuation of derivatives. Unrealised gains from valuation are disclosed in the assets while unrealised losses are stated in the liabilities under "Other liabilities under financial instruments." These items are taken off the balance sheet when transactions in such instruments are closed. Given the very large scale of such transactions at the bank (off-balance sheet commitments related to purchase/sale transactions were PLN 145.9 billion at 31 December 2002, up ca. PLN 4.2 billion compared to 31 December 2001), they had a material impact on the balance sheet.

IV.1.2. Liabilities and Change in Sources of Financing

	2002		2001		Change
	PLN'000	%	PLN'000	%	2002/2001
Total liabilities	24 849 566	100%	24 804 960	100,000%	0.2%
Liabilities to financial institutions	6 690 955	26.9%	8 174 019	33.0%	-18.1%
Liabilities to clients and the public sector	10 127 671	40.8%	9 865 388	39.8%	2.7%
Liabilities under securities sold with a buy-back clause	1 942 315	7.8%	1 132 724	4.5%	71.5%
Other liabilities under financial instruments	2 233 465	9.0%	1 597 197	6.4%	39.8%
Provision	918 972	3.7%	784 317	3.2%	17.2%
Subordinated liabilities	1 005 524	4.0%	-	-	-
Equity (excl. this year's result)	1 961 718	7.9%	2 096 504	8.5%	-6.4%
This year's result	-379 221	-1.5%	336 180	1.3%	-212.8%
Other liabilities	348 167	1.4%	818 631	3.3%	-57.5%

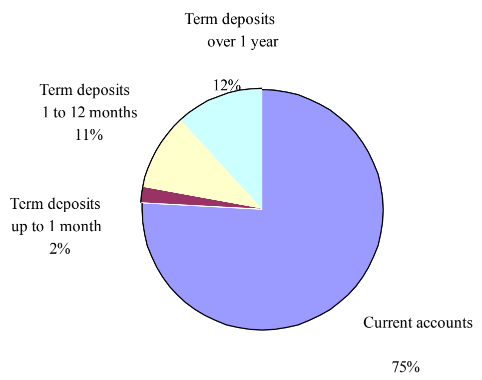
The main change in the liabilities involved a significant decrease in liabilities to financial institutions, down PLN 1,483.1 million (both in 2002 statements and in comparable 2001 data, this item includes a cash security deposit [*kaucja*] of BRE International Finance B.V. previously disclosed under special funds and other liabilities). BRE Bank reduced these liabilities as the Bank took two subordinated loans in 2002 (see section "Change in Equity"); their balance sheet value was PLN 1,005.5 million at 31 December 2002, disclosed under "Subordinated liabilities."

In 2002, the Bank used a new source of financing as it implemented a scheme to issue certificates of deposit and/or BRE Bank bonds. The scheme provides for issues worth up to PLN 1 billion. Funds raised through such issues stood at PLN 25.3 million in the liabilities of the Bank at 31 December 2002 (disclosed as liabilities in respect of issues of debt securities) under "Other liabilities." The purpose of the issue was to extend the average maturity of liabilities and to finance the Bank's lending operations.

The Bank's equity (excluding the financial result of this year and subordinated loans) dropped by 6.4% due to changes of the accounting rules. The equity including the result of this year but excluding subordinated loans (i.e., the Bank's book value) fell 34.9% at 31 December 2002. The change in equity is discussed in section IV.2.

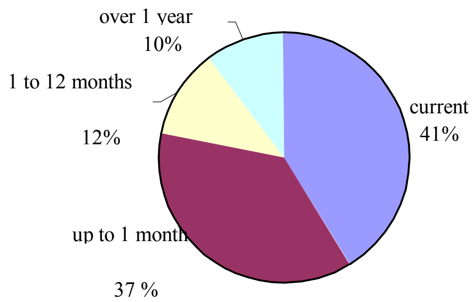
The main item of the liabilities, i.e., liabilities to clients and the public sector, grew 2.7%, mainly due to an additional PLN 879 million of retail deposits at mBank and MultiBank. Those represented 11% of client deposits at 31 December 2001 and as much as 19.5% at 31 December 2002. Retail deposits by maturity (according to the classification of the savings deposit balance) were as follows:

Savings Deposits by Maturity



Other deposits, i.e., corporate and private banking deposits, fell 2.3% at 31 December 2002. The deposits by maturity were as follows:

Other Liabilities to Clients by Maturity



The largest share in deposits by currency was that of PLN deposits (80.3%), followed by US$ deposits (10.7%) and euro deposits (8.6%).

IV.2. Shareholders and Change in Equity

Commerzbank AG remained the main shareholder of BRE Bank in 2002 with a stake of 50%. The pension fund Commercial Union OFE BPH CU WBK held more than 5% of the capital of BRE Bank.

Change in equity is shown in the table below.

PLN'000	2002	2001
Share capital	91 882	91 882
Supplementary capital	748 738	748 738
Revaluation reserve	-3 045	7 969
Other reserves	1 352 915	1 247 915
Profit (loss) from previous years	-228 772	
Equity (excl. this year's result)	1 961 718	2 096 504
This year's net profit (loss)	-379 221	336 180
Equity (incl. this year's result)	1 582 497	2 432 684
Subordinated loan*/	754 789	
Total equity	2 337 286	2 432 684

*/ only the amount included at the year-end in the calculation of equity according to the solvency ratio formula; the full amount of the subordinated loan was PLN 925.0 million

Pursuant to the resolution of the General Shareholders' Meeting of BRE Bank held on 25 April 2002 concerning distribution of 2001 profits, PLN 229.7 million (over 68%) of the total PLN 336.2 million was allocated to dividend pay-out while PLN 105 million was added to equity (other reserves).

Equity grew in 2002 due to a subordinated loan. This took place in two stages. On 27 March 2002, the Bank issued bonds with a nominal value of EUR 200 million. Another issue on 26 September 2002 raised EUR 50 million. Both issues were acquired in full by Atlas-Vermögensverwaltungs GmbH ("Atlas"), Germany, a financial institution 100% owned by Commerzbank. The maturity of the bonds is 10 years. The bonds can be redeemed before maturity subject to the approval of the Banking Supervision Commission. The Commission allowed the Bank to include in its supplementary capital, pursuant to Art. 127.3.2(b) of the Banking Law, PLN 724 million of the first issue and EUR 50 million (converted according to the prevailing exchange rate) of the second issue. The amount allowed for the supplementary capital in respect of both loans was PLN 925.0 million at 31 December 2002.

Pursuant to the principles of calculation of equity, the amount included in the capital cannot be more than 50% of the Bank's first-tier and supplementary capital calculated according to the solvency ratio formula. Consequently, PLN 754.8 million of subordinated loans was included in the capital at 31 December 2002. The Bank's balance sheet stated subordinated liabilities in the full amount of the loans converted at the euro exchange rate prevailing on 31 December 2002 applied to both loans, i.e., PLN 1,005.5 million.

Following the change of the accounting rules, equity was reduced by PLN 239.8 million, including PLN 228.8 million of 2001 losses estimated using accounting rules in force as of 2002, and PLN 11.0 million of decrease in the revaluation reserve.

IV.3. Financial Results of the Bank in 2002

IV.3.1. The Bank's Revenue

The results of the Bank derive from net income shown in the table below.

	2002		2001		Change
	PLN'000	%	PLN'00	%	
Interest income	1 472 137		1 807 514		-18.6%
Interest expenses	1 145 364		1 445 232		-20.7%
Net interest income	326 773	40.2%	362 282	40.1%	-9.8%
Commission income	171 326	21.0%	201 985	22.4%	-15.2%
Income from stocks and shares	22 905	2.8%	20 076	2.2%	14.1%
Result on financial transactions	-100 222	-12.3%	-141 525	-15.7%	-29.2%
FX result	393 243	48.3%	461 131	51.0%	-14.7%
Profit on banking operations	**814 025**	**100.0%**	**903 949**	**100.0%**	**-9.9%**

Net interest income, a traditional source of the Bank's revenue, accounted for 40.2% of the profit on banking operations, just like in 2001. However, in terms of volumes, net interest income fell 9.8%, mainly due to lower interest margins and growth rate of the loan portfolio. The Bank's net interest margin was 1.80% in 2001 and only 1.35% in 2002.

Including interest income from swaps, recognised under the fx result (PLN 217.0 million in 2001 and PLN 180.3 million in 2002), the interest margin was higher: 2.9% in 2001 and 2.1% in 2002.

The largest share in income was that of the fx result at PLN 393.2 million, including:

- fx margin of PLN 88.6 million generated on fx transactions with clients of the Bank;
- fx gains and losses at PLN 304.6 million. The largest item of PLN 180.4 million was the above mentioned realised interest income and cost on fx swaps recorded at the Bank as two separate fx transactions. In fact, such revenue is interest income. Other income includes mainly the result on the Bank's fx position.

The negative result on financial transactions (PLN 100.2 million) includes a profit on transactions in securities and other financial instruments (PLN 20.4 million) and losses on trading in derivatives (PLN 120.6 million).

Both the very high fx result and the loss on transactions in derivatives should be considered in conjunction as they often account for two sides of the same transaction.

The net commission income at PLN 171.3 million was lower than in 2001 when it included large one-off commissions on capital transactions.

Income from stocks, shares and other rights at PLN 22.9 million, including mainly dividend, was 14.1% higher than in 2001.

IV.3.2. The Bank's Operating Cost

PLN'000	2002	2001	Change
Bank's operating cost	470 607	433 015	8.7%
including: payroll	160 822	169 650	-5.2%
social security and other benefits	47 179	39 228	20.3%
maintenance cost	250 481	210 414	19.0%
	12 125	13 723	-11.6%
Depreciation	125 875	116 480	8.1%

Costs grew 8.7%: the payroll cost fell but the cost of social security and other benefits, mainly for retail banking staff, increased. The workforce at the Bank grew from 2,728 to 3,041 persons in 2002, but the growth only applied to retail banking.

Growth in maintenance costs by 19.0% was mainly a result of expansion of MultiBank (17 new branches opened) and promotion expenses necessary at this stage, as well as IT costs.

IV.3.3. Change in Provisions

PLN'000	2002	2001	Change
Provisions and revaluation	-804 350	-387 517	107.6%
Released provisions and reverse revaluation	309 430	330 134	-6.3%
Net provisions	**-494 920**	**-57 383**	**762.5%**

Necessary additional provisions, discussed in the introduction to the report, were among the main reasons for the Bank's loss in 2002.

The net balance of provisions set up and released was PLN 494.9 million, including

- specific provisions for loans and guarantees PLN 376.8 M
- provisions against permanent diminution PLN 62.9 M
- general risk provisions PLN 55.2 M

IV.3.4. Financial Result

PLN'000	2002	2001	Change
Gross profit	-299 045	411 720	-172.6%
Income tax	-98 968	75 540	-231.0%
due	534	74 360	-99.3%
deferred	-99 502	1 180	-8532.4%
Bank's stand-alone net profit/loss	-200 077	336 180	-159.5%
Share in the profit/loss of subsidiaries and affiliates subject to equity accounting valuation	-179 144		
Net profit/loss	-379 221	336 180	-212.8%

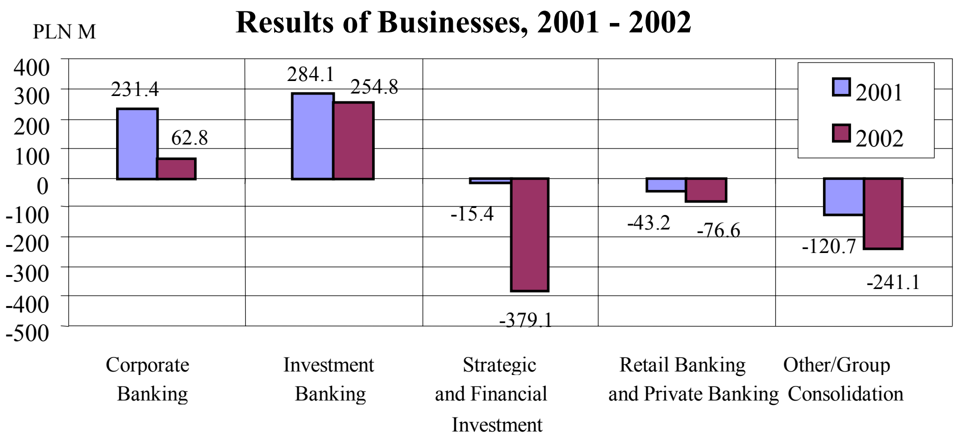
The Bank closed the year at a net loss of PLN 200.1 million on a stand-alone basis (excluding the share in the profit/loss of subsidiaries and affiliates subject to equity accounting valuation). The Bank's net loss including the valuation of subsidiaries and affiliates (PLN 179.1 million) was PLN 379.2 million.

V. The Bank's Net Financial Result by Business

The table below shows the share of the Bank's businesses in the income and cost and the net result. Nearly all of the income and direct operating costs were allocated to the businesses, including the cost of capital and the cost of provisions set up in each business. The line "Other" includes unassigned income of units which are not part of separate businesses and the cost of cost centres, the Management Board, and other unassigned cost, such as the fee to the Bank Guarantee Fund. The line "Other" also includes the cost of financing of strategic investment.

	Corporate Banking	Investment Banking	Startegic Investment	Financial Investment	Retail Banking + Private Banking	Other/ Group Conso-lidatio	TOTAL BRE
PROFIT ON BANKING OPERATIONS adjusted for credit risk provisions	219 249.2	387 669.1	68 752.0	(296 602.2)	29 849.0	(89 813.6)	319 103.3
Other income/cost	(732.1)	1 205.4	(0.0)	(25 973.2)	(2 257.0)	5 974.7	(21 782.2)
Bank's operating cost / depreciation – direct cost	131 261.1	35 024.3	4 385.9	19 559.8	133 989.7	272 260.9	596 481.6
OPERATING PROFIT	87 256.0	353 850.1	64 366.1	(342 135.2)	(106 397.7)	(356 098.5)	(299 159.2)
Extraordinary gains/losses	0	0	0	0	38.9	75.4	114.4
BRE stand-alone gross profit	87 256.0	353 850.1	64 366.1	(342 135.2)	(106 358.8)	(356 023.0)	(299 044.7)
BRE stand-alone income tax	24 431.7	99 078.0	18 022.5	(95 797.8)	(29 780.5)	(114 922.1)	(98 968.2)
BRE stand-alone net profit	62 824.3	254 772.1	46 343.6	(246 337.3)	(76 578.3)	(241 100.9)	(200 076.5)
Share in the net profit/loss of subsidiaries and affiliates subject to equity accounting valuation			(94 634.5)	(84 509.8)			(179 144.4)
BRE Bank net profit/loss	62 824.3	254 772.1	(48 291.0)	(330 847.6)	(76 578.3)	(241 100.9)	(379 221.3)

The chart below shows the change in the result of the businesses compared to 2001. Strategic investments are shown jointly with financial investments as they formed one business in 2001. This business suffered the strongest deterioration in financial results.



V.1. Corporate Banking

V.1.1. Client Outreach

Despite difficult conditions in this business due to economic recession in 2002, the Bank expanded its operations in this core business. This was helped by the intense efforts of the salesforce. Approximately 5 thousand corporate clients were serviced by account managers. SME clients were offered standard product packages EFEKT and EFEKT Plus introduced in early 2003.

Sales through electronic distribution channels also grew. The volume of business was enhanced through the implementation of a corporate internet portal. A growing number of clients used BRESOK and interBRESOK systems. At 31 December 2002, electronic banking systems had 8.5 thousand users, up 0.6 thousand compared to 2001. The number of large clients (power and gas companies, telecommunication operators, insurers) using the automated bill processing system also increased. Preparatory work was underway to implement a new Customer Relationship Management (CRM) system.

The branch network of BRE Bank was rationalised in 2002 as the Branches in Dąbrowa Górnicza and Gliwice were closed as of 30 November 2002. There were 23 branches including 11 regional branches at 31 December 2001.

V.1.2. Growing Volume of Foreign Trade Transactions Serviced

Servicing foreign trade transactions is an important segment of corporate banking. The Bank is one of the market leaders: its share in servicing foreign trade transactions was 18% in 2002 (17% in 2001).

The Bank's product offer for corporates trading with foreign partners includes short-term loans as well as a range of more secure financial instruments: factoring, forfaiting, loans secured with KUKE insurance policies, letters of credit, bank guarantees, stand-by letters of credit, guarantee carnets (single transit guarantees: EUR 7,000 carnets obligatory in the EU). Clients are also offered instruments hedging against fx risk, consulting on risk assessment, and intelligence concerning the standing of trade partners.

The value of foreign trade transactions serviced by the Bank in 2002 was US$ 15,409.0 million, compared to US$ 14,165.8 million in 2001 (up 8.8%). This was mainly due to export transactions which grew 18.5% to US$ 7,498.5 million, while import transactions (US$ 7,910.5 million) were up 0.9% compared to 2001.

Servicing foreign trade transactions generated significant revenue, mainly through fx margins and commissions.

V.I.3. Credit Provisions as the Main Reason for Weak Results of Corporate Banking

In addition to fx margins on transactions with corporate clients, net interest and commissions were the main sources of revenue. The profit on banking operations was PLN 219.2 million, including credit risk provisions set up in this business. The issue of growing irregular loans and necessary additional provisions, discussed in section VI.2, significantly reduced the results of the business. Including direct operating costs and taxation of the corporate banking business, its net profit was PLN 62.8 million.

V.2. Investment Banking – The Most Profitable Business of BRE Bank

This business is quite diversified as it covers money and capital market transactions, trading in derivatives, arranging debt issues, custodial services, transactions with financial institutions, and specialised finance. This business generated the highest profit at the Bank in 2002.

V.2.1. Money Market

BRE Bank was an active participant in the PLN and FX money markets in 2002, trading both with clients and in the interbank market. The majority of transactions included deals in securities such as T-bills and T-bonds as well as NBP bills, placements and deposits, and fx swaps.

The Bank was an active player in the securities market. The Bank was mainly involved in buying and selling securities in the primary and secondary market, as well as repo and reverse repo deals in the interbank market. Most popular instruments included government and NBP securities. The liquidity portfolio mainly comprised T-bills and was kept at its optimum to secure the Bank's current liquidity.

The Bank's clients were interested in investing in securities, both in the primary and secondary market, and in intermediation services offered by the Bank to banks and clients. The volume of BRE Bank's trading in T-bills grew to 25% of total gross trading in the banking sector and once again gave the Bank the first position in the IAD (Dealer Activity Index) ranking of NBP. The Bank also took the first position in the NBP ranking of Money Market Dealers as the most active player in the domestic money market, fx market, and securities and derivatives markets.

Under an agreement executed by the Bank with the Minister of Finance in 2002, the Bank holds the status of Treasury Securities Dealer as of 2 January 2003.

BRE Bank remained a leading counterparty for foreign banks in PLN transactions. Consequently, the Bank is one of the most active players in the banking sector in the market of deposits, placements, and fx swaps in PLN. In a *Risk Magazine* ranking based on a survey carried out among market players, BRE Bank took the second position world-wide (after JP Morgan Chase) and the first position among Polish banks in the market of interest rate derivatives in PLN.

The volume of transactions in instruments hedging corporate clients against fx risk grew considerably. The volume by product was as follows:

- fx options – PLN 14,486 million (up 194% compared to 2001);
- CIRS/forwards – PLN 114,141 million (up 60% compared to 2001).

Due to such intense trading of corporate clients, the position of BRE Bank as a market maker in the local fx market was reinforced.

V.2.2. Equity Derivatives

In 2002, BRE Bank continued to issue further series of European call and put warrants for stocks listed on the Warsaw Stock Exchange and for stock indices WIG-20, TechWIG, and NIF.

In November 2002, the Bank introduced a new innovative product: investment deposits for institutional and private banking clients. The deposits combine the benefits of standard term deposits and capital market investments. They offer additional, potentially unlimited profits, typical of investments in stock and commodity markets, while keeping the investment safe as in a bank deposit. The Bank also offers exotic options (barrier options and Asian options) which accompany already offered plain vanilla options, sold in single or compound deals.

V.2.3. Debt Issue and Trading

BRE Bank is one of the leading arrangers of debt securities in the Polish market. It had the third position among bank arrangers of short-term debt issues at the end of 2002. The Bank's share in the market of short-term debt securities was 12.13% at 31 December 2002. The Bank took the fourth position by the number of issuers (Fitch Polska, Rating & Rynek, 31 December 2002, No. 24 (136)). The Bank was in the second position in the market of bonds with maturities over 1 year. In 2002, BRE Bank together with other banks entered into agreements arranging large debt issue programmes, among others, for:

- Volkswagen Group companies operating in Poland – issue of bonds and certificates of deposit with a nominal value of PLN 1 billion guaranteed by Volkswagen AG and Volkswagen Financial Services AG;
- PKP SA – issue of bonds with a nominal value of PLN 1 billion guaranteed by the State Treasury;
- Telekomunikacja Polska SA – bond issue programme with a nominal value of PLN 1 billion.

In 2002, BRE Bank executed a PLN 500 million short-term debt issue programme agreement with Rheinhyp-BRE Bank Hipoteczny SA and joined a PLN 700 million certificate of deposit issue programme of AIG Bank Polska SA.

A major development in BRE Bank's debt market operations came with the arrangement and implementation in December 2002 of an issue of municipal bonds for the Municipality of Wrocław; the nominal value of the bonds is PLN 80 million, they are redeemable in 2006, 2008, 2010, and 2012. This was a second issue of municipal bonds arranged and implemented by BRE Bank. The Bank took the third position in terms of the value of debt under municipal bond issues (PLN 185 million).

V.2.4. Custody

The custodial business in 2002 was characterised by the following developments:

- clients' assets in safe-keeping grew 21.26% (to nearly PLN 36 billion at 31 December 2002) due to both a growing portfolio of existing clients and the acquisition of new customers;
- the share of BRE Bank as a depository in transactions cleared through the National Depository for Securities was over 13% by number (monthly average) and over 12% by value (monthly average) in 2002;
- the share of the assets of BRE Bank clients in the assets deposited with the National Depository was over 16% in 2002.

The Bank offered a comprehensive service of safe-keeping and dealing in securities both in Polish and foreign capital markets based on high-class computer systems ensuring the safety of deposited securities and a broad range of reports for clients. A new version of the IT system supporting securities operations was implemented. The Bank also adopted a new format of SWIFT messages in accordance with ISO 15022.

V.2.5. Transactions with Financial Institutions

At 30 December 2002, BRE Bank had 1,530 correspondents (banks with which BRE Bank had exchanged swift and/or telex keys), including 39 nostro correspondents and 102 loro correspondents.

At the end of 2002, BRE Bank had access to two credit lines granted by foreign banks under insurer guarantee plafonds, a credit line from KfW, Frankfurt, and a line of the European Investment Bank (EIB) to finance SME investment contracts.

Four loans taken by BRE Bank from foreign banks (including one EIB credit line) were repaid while two new EIB agreements were executed in 2002. One agreement concerns a EUR 30 million long-term (15-year) transaction loan to finance the Saturn project (see "Syndicated Loans") while the other is a EUR 30 million 10-year credit line. Neither loan was operative at 31 December 2002.

There were 16 active loans at 31 December 2002 (including the two EIB loans) totalling the equivalent of PLN 2.96 billion (including 2 lines without a set amount).

There were 62 active loans totalling the equivalent of PLN 647 million granted by BRE Bank to other banks at 31 December 2002.

V.2.6. Syndicated Loans

Polish banks arranged 20 large syndicated loans in 2002; they contributed ca. PLN 5.6 billion to the projects. BRE Bank was an active player in the market: it arranged 6 syndicated loans and participated in another 7 syndications totalling the equivalent of PLN 1,511.7 million. The contribution of the Bank represented a third of that amount. The largest single commitment was PLN 102.7 million to finance a Saturn Management project: the loan is used to modernise a combined heat and power plant of the cellulose and paper producer Frantschach Świecie. Other large commitments include a loan to Telekomunikacja Polska SA where the Bank contributed PLN 100 million, and PLN 85.3 million extended to the Gdynia Shipyard (the loan was fully repaid by the borrower).

The Bank single-handedly financed 14 projects totalling PLN 212 million, mainly financing real estate lease-back deals, mergers and acquisitions.

The Bank's commitment under syndicated loans, including projects financed single-handedly, was PLN 700.9 million or 7.5% of the loan portfolio of BRE Bank at 31 December 2002.

V.2.7. High Profitability of Investment Banking

The Bank's operations described above generated significant revenue owing to interest and fx gains combined with losses on financial transactions. The net profit on banking operations was PLN 387.7 million. Including costs and taxation of the investment banking business, its net profit was PLN 254.8 million.

V.3. Strategic Investment

This business involves management of the portfolio of BRE Bank Group companies, including all strategic subsidiaries and affiliates, as well as management of units of participation. This includes a growing role of companies managing clients' assets, integrated in a holding structure in 2002.

Skarbiec Asset Management Holding SA ("SAMH"), a company 100% owned by BRE Bank, was registered in January 2002 as a focal point of the Group's asset management operations. The holding comprises the following companies

- Skarbiec TFI SA (100% owned by SAMH);
- PTE Skarbiec Emerytura SA (there is no equity investment, unlike in other companies; PTE will be still owned by BRE Bank and possibly another investor and will continue to manage the pension fund while using the investment consulting service of SAMH);
- BRE Asset Management SA – the name of the company was changed to Skarbiec Investment Management SA as of January 2003 (it is 100% owned by SAMH); the company manages all assets of the holding invested in BRE AM and Skarbiec TFI, and provides consulting to PTE Skarbiec Emerytura;
- BRE Agent Transferowy Sp. z o.o. (100% owned by SAMH), responsible for back office operations in the holding (it keeps records, books of account, registers of fund clients);
- Skarbiec Serwis Finansowy Sp. z o.o. responsible for acquisition of clients, marketing, and sales at SAMH.

The purpose of the integration was to improve the effectiveness of the asset management business through planned 10-15% cost reductions, client outreach based on reorganisation of the salesforce, enhanced cross-selling, and improved asset management based on a modern risk monitoring system.

Milestones of 2002 included the merger of PTE Skarbiec Emerytura SA and PTE BIG Banku Gdańskiego SA. The pension fund managers were merged in August 2002 through a transfer of all assets of PTE BIG Banku Gdańskiego to PTE Skarbiec Emerytura in return for shares representing 38.61% of the combined capital. After the merger, BRE Bank held 61.39% of the shares and votes of the merged pension fund manager while the remaining shares and votes were held by BIG Bank Gdański SA ("BIG BG"). In September 2002, BRE paid PLN 382.5 million for the package held by BIG BG and became a 100% owner of the merged pension fund manager. The open-ended pension funds managed by the company merged in January 2003. Assets under management totalled PLN 1,206 million at 31 December 2002, giving the company a fifth position among 16 pension fund managers in the Polish market. The number of subscribers was 629.4 thousand at 31 December 2002.

The Bank plans to sell a package of shares in the merged pension fund manager. The transaction, originally scheduled for 2002, was postponed until a later date.

V.3.1 Change in the Portfolio, Results of the Strategic Investment Business

The portfolio at cost grew by PLN 397.9 million to PLN 1,120.6 million and its balance sheet value was PLN 866.2 million at 31 December 2002, up 59.5% compared to 2001. The main reasons for the growth include the above mentioned acquisition of PTE BIG Banku Gdańskiego, the acquisition of Polfactor SA and Famco SA from BRE Fundusz Kapitałowy, and capital increases at the following companies:

SAMH	by PLN 134.1 M,
PTE Skarbiec- Emerytura SA	by PLN 30.0 M
BRE Corporate Finance SA	by PLN 1.0 M
BRE Leasing Sp. z o.o.	by PLN 0.8 M

Some assets were sold, including the entire 50% stake in BRE Private Equity Sp. z o.o. as the Bank updated its policy of NIF management. The Bank's subsidiary Tele-Tech Investment Sp. z o.o. sold the other 50% of BRE Private Equity shares. The share capital of Dom Inwestycyjny BRE Banku was reduced by PLN 8 million.

The strategic investment business closed 2002 at a loss of PLN 48.3 million. Main revenue items include the result on financial transactions and dividend income. The loss was caused by the share in profits and losses of subsidiaries and affiliates subject to equity accounting valuation. The participation of the business in their loss was (PLN 94.6 million), including goodwill depreciation which was PLN 11.7 million at PTE Skarbiec Emerytura and amounted to PLN 14.4 million for all strategic investments.

The business operations and the results of asset management companies and other companies in the portfolio, including:

- Dom Inwestycyjny BRE Banku SA;
- BRE Corporate Finance SA;
- BRE Leasing Sp. z o.o.;
- Rheinhyp-BRE Bank Hipoteczny SA;
- Intermarket Bank AG;
- Transfinace a.s.;
- Polfactor SA

will be presented in the consolidated financial statements 2002.

V.4. Financial Investment

V.4.1. Change in the Portfolio

Financial investment comprises the Bank's portfolio designated for trading and available for sale, special purpose vehicles, and portfolio of restructured companies acquired in debt-to-equity conversion in previous years. The portfolio (at cost) grew by PLN 198.2 million to PLN 1,176.6 million at 31 December 2002. This was a result of the disposal of shares of 3 companies combined with market acquisitions of shares of 11 companies as well as the take-over of the assets of BRE Fundusz Kapitałowy Sp. z o.o. ("BRE FK").

In 2002, the Bank merged two special purpose vehicles: Pierwszy Polski Fundusz Rozwoju BRE Sp. z o.o. and Drugi Polski Fundusz Rozwoju BRE Sp. z o.o. The name of the merged company was changed to BRE FK. The Bank took over all its assets: shares of 7 companies, ITI Holdings SA convertible bonds, investment bills of 2 companies, and receivables of one company. Subsequently, BRE Bank sold all shares of BRE FK. The company had reported losses due to the high cost of financing through issues of securities and, more recently, due to a decreasing value of shares in its portfolio. A high loss was recorded on the sale but at the same time provisions set up in previous years were released.

The asset value of another special purpose vehicle, Tele - Tech Investment Sp. z o.o., was PLN 64.8 million at 31 December 2002 (down by PLN 90.9 million compared to 31 December 2001).

The balance sheet value (including provisions) of the portfolio of financial investment changed by PLN 141.1 million compared to the end of 2001 due to a higher balance of provisions and share value fluctuations in 2002.

The acquisition of Elektrim shares was an important financial investment of 2002. The Bank held a package of 21.6% shares at 31 December 2002. Elektrim shares were acquired to provide BRE Bank with capital gains following restructuring of the company. However, the planned process did not materialise in 2002 while a falling market price of the shares forced the Bank to set up large provisions. Given lack of further prospects, the Bank decided to divest in February 2003 and executed an agreement to sell the entire package (plus 9.8% taken over by the Bank as a loan collateral) to Polsat Media. The shares will be sold in two tranches, in June and September 2003, at an expected profit of ca. PLN 20.3 million. Taking account of the executed sale agreement, Elektrim shares are recognised in the balance sheet at fair value rather than marked-to-market (selling price close to the average cost).

Szeptel was another investment with a negative effect on the financial investment business. A part of the 23.6% stake (including 2.14% held by BRE FK and sold to a third party) was sold in December 2002; the package dropped to 16.5% at 31 December 2002 and the recorded loss on the sale was PLN 19.2 million. Most of the remaining package was sold in early January 2003 at a loss (while provisions were released) and the Bank retained only 0.46% of the shares.

Optimus also had an adverse impact on the results of this business. The loss on the sale of part of the package was PLN 24.1 million. The Bank held 19.49% of shares at 31 December 2002. During the year, the Bank paid PLN 8.6 million for shares acquired from the ITI Group in partial execution of put options on Optimus shares.

The planned sale of some ITI shares did not materialise in 2002.

V.4.2. High Loss of the Financial Investment Business

In spite of income earned by selling all or some shares in held packages (Stomil, DB 24, Wonlok, Centrostal), the financial investment business closed the year at a loss of PLN 330.8 million due to the following factors:

- share in the profit/loss of subsidiaries and affiliates subject to equity accounting valuation;

- revaluation of financial assets and other provisions;
- result on financial transactions;
- cost of financing the investment.

In 2003, BRE Bank plans to sell further large investments in the portfolio of shares in order to reduce the Bank's equity investment. The disposal of Szeptel shares in early 2003 and the planned sale of Elektrim and Telbank as well as the expected pick-up of the stock market should ensure better results of the business in 2003 and the years to come.

V.5. Retail Banking and Private Banking

The newest business of BRE Bank, retail banking, grew the most dynamically. The number of accounts at mBank grew two-fold and that of MultiBank grew 9 times. The Bank's retail deposits were growing fast and reached PLN 1,946 million at 31 December 2002, compared to PLN 1,067 million at the end of 2001.

V.5.1. mBank

According to a report of the E-Banking Council at the Polish Banking Association, the share of mBank in the total number of clients using the internet to access bank accounts was 28.5% at the end of 2002. This proves the great success of BRE Bank's first retail project which went live in late 2000. At 31 December 2002, mBank had 329.7 thousand clients who deposited PLN 1.82 billion in 398.4 thousand accounts.

mBank's website is the main channel to acquire new clients as 52% clients opened their accounts that way. Another 20% of clients opened accounts through the call centre, 18% through portals, and 10% through other networks.

In addition to its main products, the two accounts eKonto and eMAX and term deposits, mBank introduced a range of new products in 2002, including:

- revolving loans;
- business account mBIZNES KONTO;
- insurance of payment cards – the Secure Card Package;
- mLokata – a short-term savings deposits with a fixed interest rate;
- mTRANSFER;
- eM eKARTA;
- direct debits;
- mBIZNES MAX – deposits for microenterprises.

mBank clients can buy units of participation in selected investment funds over the internet since early 2003.

mBank received many awards and distinctions in 2002, including the annual award of the business journal *Gazeta Giełdy Parkiet* in the category of the Most Interesting New Financial Product 2001, the Internet Now award in the second edition of a contest for top internet service, and Portfele Roku 2002 awarded by the Polish edition of *BusinessWeek*.

V.5.2. MultiBank

BRE Bank's other retail project launched in late 2001, an internet bank with a branch network, was growing fast in 2002. MultiBank had 42.2 thousand clients who deposited PLN 126.2 million at 31 December 2002.

The MultiBank product offer expanded in 2002 and included the following:

- Account MultiKonto Business Class;
- Financial Plans WWJ and MultiPlan;
- Accounts MultiKonto Business Expert and MultiKonto Business;
- FX accounts;
- Financial Plan MultiPlan Offset;
- Account MultiKonto Aquarius;
- Car loans indexed to fx rates;
- Credit cards;
- Educational loans;
- netk@rta in the accounts MultiKonto jestem and MultiKonto my;
- Youth MultiKonto account.

Financial Plans are innovative products. The Financial Plan WWJ (All-In-One) combines current accounts, payment cards, housing loans, car loans, cash loans, and mortgage loans. MultiPlan combines loans, current accounts, savings accounts, term deposits, and payment cards. The products help to reduce the interest cost of loans and fees and to enhance effective savings. Under Financial Plans, clients submitted 1,449 credit applications totalling PLN 267.5 million, of which PLN 150.3 million was granted in loans at 31 December 2002.

While the product offer expanded, the branch network was also growing: 17 new branches opened in 2002 and 21 Financial Service Centres were fully operational.

The main awards and distinctions won by MultiBank in 2002 include:

- Award of the NBP President for the Best Financial Product in the category Banking (Financial Plans);
- First position in a *Rzeczpospolita* ranking of credit cards for VISA Credit; MultiBank also won a strong second position with VISA Platinum Credit and a third position with VISA Gold Credit in a *Rzeczpospolita* ranking of best and most prestigious credit cards;
- First position of MultiKonto in a *Newsweek Polska* ranking of checking accounts, second position in the category of best 3-month deposits, third position in the category of best 12-month cash loans;
- Title of IT Leader for excellent implementation of high-tech solutions in banking and business operations – award in the IT Leader 2002 competition in the category Finance and Banking.

V.5.3. Updated Organisational Strategy of the Retail Banking Business

BRE Bank originally planned to spin mBank off and transfer it to Bank Częstochowa. In 2002, the Management Board updated the organisational strategy of the retail banking business. Retail banking should in the mid-term become an important source of profitability and have a stabilising effect of the income base, absorbing market cycles which cause fluctuation in the revenue of corporate and investment banking. BRE Bank made large investments in mBank and MultiBank in order to develop the retail banking business as a strategically important segment and specialisation of the Bank.

Following the analysis of many scenarios, the Bank decided to select the most favourable option and keep mBank in the organisation of BRE Bank as a source of profitability as of 2005. The scenario of merging BRE Bank and Bank Częstochowa proved financially more viable than continued restructuring of Bank Częstochowa.

In late January 2003, after the receipt of necessary approvals, the Extraordinary General Shareholders' Meetings of the two banks adopted merger resolutions. The merger will take place without a capital increase at BRE Bank. The shareholders of Bank Częstochowa will receive 1 BRE

Bank share for 20 Bank Częstochowa shares. BRE Bank will take over ca. PLN 80 million of assets and ca. PLN 60 million of deposits of Bank Częstochowa clients.

As a result of the merger, the position of BRE Bank in the retail banking market will strengthen thanks to the client base of Bank Częstochowa and an expanded product offer in the traditional region of Bank Częstochowa operations.

V.5.4. Private Banking (PB)

The private banking business of BRE Bank, established years ago, was acknowledged in 2002 as the Bank was named the Best Bank for the Most Affluent Poles and won the first position in a *Puls Biznesu* ranking.

Private banking deposits of PLN 2,153 million were 22.8% lower than in 2001 due to fast growing portfolio investments (T-bills, Polish and foreign bonds, units of participation, assets under management including those managed by BRE Bank subsidiaries). Private banking clients' assets under management grew 93.2% compared to 2001 and stood at PLN 1,449 million. However, private banking deposits remained an important part (21.3%) of the Bank's client deposits.

V.5.5. Results of the Business

In spite of the impressive success and the popularity enjoyed by both retail banking projects, they are still at a stage where costs (relating to the development of the Financial Service Centre network, new IT applications, staff recruitment, and intense advertising and promotion) are higher than the revenue. mBank is projected to break even at the turn of 2003 and 2004 while MultiBank at the turn on 2004 and 2005.

As a result, the business reported a loss of PLN 76.6 million in 2002, mainly due to high operating costs at PLN 134.0 million.

VI. BRE Bank's Lending and Guarantee Policy

VI.1. Objectives and Principles of the Lending and Guarantee Policy

The main objective of BRE Bank's lending and guarantee policy is top-quality comprehensive customer service including credit-risk products. In pursuing its lending and guarantee policy, the Bank strives to maximise profits by expanding its lending business while actively mitigating credit risk. The guiding principles of the policy derive from the Bank's By-laws and the Banking Law.

The Bank's offer of credit-risk products is addressed to corporate clients, local governments, and retail clients. The Bank grants PLN and FX loans:

to corporate clients:

- to finance current business,
- to finance investment.

Investment loans should not, as a rule, be more than 60% of the total planned investment. In the case of projects with exceptional returns and appropriate collateral, loans may account for up to 75% of total investment. Any exposure beyond that level must be approved unanimously by a higher decision-making body.

to retail clients:

- consumer loans (cash loans, instalment loans, car loans, etc.);

- to finance investment by private individuals (purchase of real estate, loans to finance equity investment, etc.).

The Bank buys cash receivables from companies and financial institutions under leasing transactions, trade contracts (domestic and international), and other.

In addition, the Bank:

- issues PLN and FX guarantees and carries out other documentary transactions;
- opens letters of credit carrying credit risk;
- offers forward instruments hedging against fx and interest rate risk;
- arranges and participates in syndications to finance large investment projects;
- issues debt securities and offers other money market and capital market instruments;
- offers credit-risk products to other banks;
- offers credit-risk products via special external companies and through modern distribution channels (internet, telephone, etc.).

Credit decisions involving risk products are made by decision-making bodies whose composition, tasks and regulations, including limits of authority, are set by the President of the Management Board in a regulation notified to the Executive Committee of the Supervisory Board. Decisions of special importance to the quality of the Bank's credit risk portfolio take into account opinions of a Senior Lender, a credit risk assessment specialist. The amount of exposure and risks of the client or the transaction are those parameters which escalate the case to the competent decision-making body.

The Bank strives to mitigate credit risk through diversification of its loan portfolio. This is based, among others, on analyses of the structure of the Bank's portfolio including conclusions and recommendations regarding the Bank's exposure per sector and per region. The methodology of managing and monitoring credit risk is discussed in the section "Risk Management at BRE Bank."

VI.2. Loan Portfolio

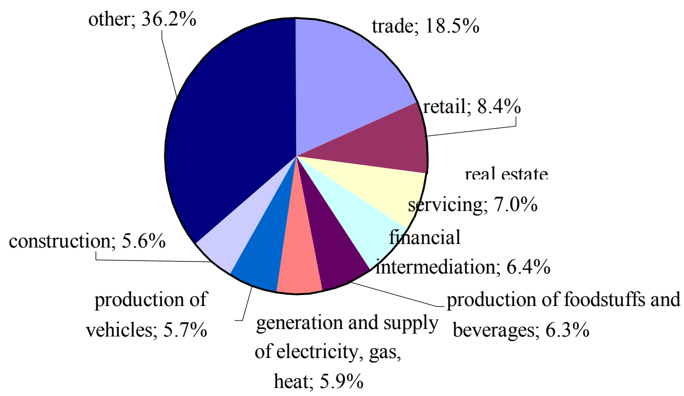
Net amounts receivable from clients and the public sector were PLN 9,325.8 million at 31 December 2002.

The average interest rate on PLN corporate loans offered by BRE Bank was 11.39% in 2002.

Of loans granted to clients, the largest share was traditionally that of loans to retail and wholesale trade companies (18.5%), followed by loans to real estate service providers (7%), financial intermediaries (excluding insurers and pension funds, 6.4%), producers of foodstuffs and beverages (6.3%), generation and supply of electricity, gas, heat and hot water (5.9%), and the construction sector (5.6%). Retail loans accounted for 8.4%.

The structure of loans at 31 December 2002 by borrower is presented in the chart below.

Portfolio by Borrower

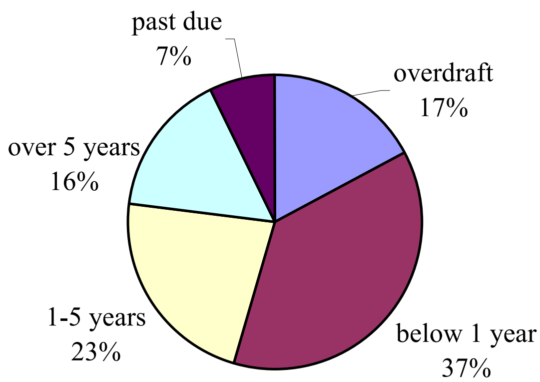


The lending structure at 31 December 2002 was as follows:

• investment loans	39.4%
• working capital loans	30.8%
• overdraft facilities	18.0%
• revolving loans	8.1%
• purchased receivables	1.8%
• other loans	2.0%

In terms of the currency structure, PLN loans to clients accounted for 51.5% of the portfolio (49.7% in 2001).

Receivables from Clients by Maturity



According to the annual financial report SAB 2002, irregular receivables represented 22.5% of gross amounts receivable from clients (the credit portfolio including commercial papers acquired directly from the issuer), compared to 11.6% in 2001 (based on comparable data). Of irregular receivables, sub-standard loans were 7.8% of the portfolio (3.1% in 2001), doubtful loans were 9.2% (5.1% in 2001) and loss loans 5.5% (3.5% in 2001).

Security in the form of borrower's property or accounts was PLN 4,560.1 million at 31 December 2002, including cash security deposits (*kaucja*) and funds blocked in BRE accounts at 34.2%, pledge at 22.4%, mortgage at 41.0%, and listed stocks and securities at 2.4%. The remaining part of the loan portfolio was secured with guarantees, sureties, assignment, contractual receivables, and insurance policies.

Provisions for amounts receivable from clients and the public sector were PLN 639.8 million at 31 December 2002, including PLN 618.1 million of provisions for irregular loans, which implies a coverage ratio of such irregular loans at 28.1% (20.7% in 2001).

If irregular loans are understood to include only those loans where the repayment of principal or interest is overdue for at least 90 days (default portfolio under Basel II), such debt was only PLN 597.6 million, representing only 4% of the Bank's portfolio at the end of 2002 (including off-balance sheet items). Provisions set up against such loans combined with accepted security (deducted from the basis for provisions) totalled PLN 608.2 million, more than the default loan portfolio.

The Bank issued 65 enforcement titles in 2002. The Bank issued 8 extracts from its books in cases where the borrower had not accepted voluntary enforcement or where the deadline of such enforcement had elapsed.

VI .3. Guarantees Given

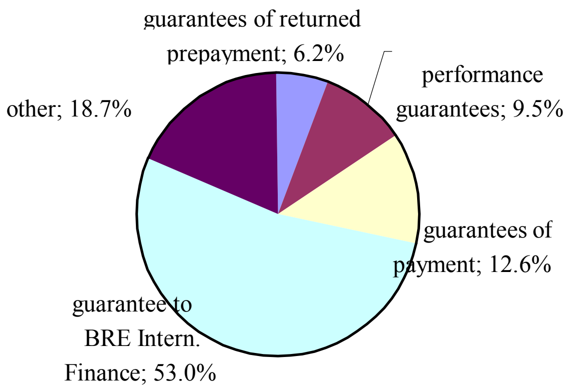
Off-balance-sheet liabilities in respect of guarantees given were PLN 2,524.0 million at 31 December 2002, up 2.9% compared to 2001.

The largest share (53.9% of the portfolio) was that of guarantees given to financial intermediaries excluding insurers and pension funds (mainly a PLN 1,306.6 million guarantee of redemption of eurobonds issued in 2000-2001 given to BRE International Finance B.V.).

Guarantees granted to retail and wholesale trade companies accounted for 11.2% of the portfolio, to the construction sector – 10.2%, and to companies involved in generation and supply of electricity, gas, heat and hot water – 4.1% of the portfolio.

Guarantees by type are shown in the chart below (the guarantee to BRE International Finance is shown separately).

Guarantees Granted by Type



VII. Risk Management at BRE Bank

VII.1. Managing Credit Risk

The credit risk of a client and a transaction is assessed based on a rating and scoring system where the credit risk is measured with specific criteria and rated accordingly.

From the execution of an agreement concerning a credit-risk product until the client repays all dues under the agreement, the Bank monitors the situation of the client (the financial standing of the corporate or retail client), the financed transaction, and the accepted security.

The Bank sets up provisions for standard costs of credit risk for all credit-risk products provided to corporate clients. The provisions are internally allocated to a fund used to cover potential losses from such products.

The Bank's total exposure with all credit-risk products per client or group of clients with mutual organisational or equity relations as a percentage of the Bank's equity is subject to limitations set out in the Banking Law.

All decisions concerning rated clients or transactions of special importance to the credit risk portfolio are at each time reviewed by a Senior Lender, a credit risk assessment specialist. The Senior Lender's position in the credit process gives him or her a full picture of credit risk independently of sales aspects presented by the Bank's salesforce.

As of 1 January 2002, the Bank implemented a credit risk rating system SONAR. It is an IT system which supports the Bank's tools to rate and monitor credit risk of clients and groups. The system has an analytic module which provides comprehensive portfolio analyses.

The Management Board of the Bank decided in 2002 to introduce special procedures concerning clients whose credit risk is high. Actions were taken to improve the quality of security of the Bank's debt and in justified cases exposures were reduced or eliminated. Transactions with new high-risk clients depend on the availability of marketable security mitigating such risks.

VII.2. Managing Financial Risk

The Bank implemented significant change in managing and monitoring financial risks in 2002. The change affected three areas, including:

- process organisation;
- risk measurement and limit setting methodologies;
- IT tools supporting the process.

The measures taken by the Bank were aimed at compliance with capital adequacy regulations amended in 2002 (CAD II) and preparation for the requirements of the New Capital Accord (Basel II). The change was implemented taking into account the growing complexity of portfolios of financial instruments, increasing demands of clients vis-à-vis the Bank's product offer, and significantly higher risks relating to global economic conditions.

Organisational change was introduced gradually in previous years and in 2002, mainly to better align the organisational structure to the tasks faced by individual units, to reinforce the separation of risk management and operational functions, to extend the responsibilities of the risk management line, and primarily to monitor capital adequacy under regulatory requirements.

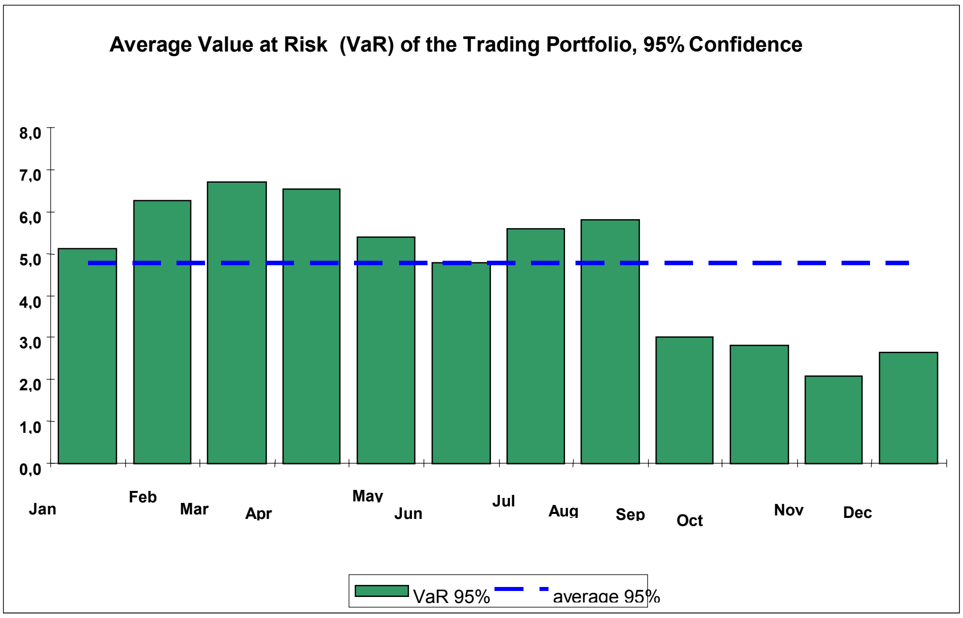
With regard to methodologies of risk measurement, the Bank was working to develop and optimise its measurement methods and techniques, to implement new tools, and to better integrate the measurement of risks and financial results of the Bank. The Bank implemented measurement of the credit risk of the portfolio using the Credit Value at Risk (CVaR) methodology. Measurement of systematic risk was combined with measurement of non-systematic risk based on modelling and scenarios, mainly through stress-testing. The Bank adjusted its measurement of return on regulatory capital to the updated capital adequacy regulations (CAD II) while working to apply risk adjusted performance management (RAPM) as a tool to manage the Bank's operations and effectiveness.

The Bank also uses Value at Risk (VaR) risk measurement methods applied by most financial institutions world-wide (especially those which hold portfolios of derivatives) to measure and manage market risk. Regulators are also interested in VaR applications. The Basel Committee developed documentation which defines and regulates capital adequacy methods based on internal VaR models.

VaR is an aggregate statistical measure of probable loss: it determines the loss caused by regular market behaviour based on specific criteria. VaR aggregates all market risks to which a portfolio is exposed.

In order to optimise the use of its equity, the Bank considers approaching the General Inspectorate of Banking Supervision (GINB) for approval to use the VaR method in estimating capital requirements of the market risk of the trading ledger. The market risk method is now only used internally as a tool to monitor and set limits of the market risk of the trading portfolio and its components. In 2002, the aggregate market risk of the Bank's trading ledger (including fx rate risk, interest rate risk, and the risk of the volatility of those rates) measured by VaR was on the average PLN 4.7 million, well within the internal limits.

The chart below shows VaR by month for 2002. With the annual average VaR of PLN 4.7 million, VaR (i.e., probable loss) was much lower in September–December 2002 as risks were considerably reduced.



As VaR Is a measure of the market risk assuming regular behaviour of financial markets, it is complemented by detailed analyses of market behaviour in boundary conditions, i.e., stress-testing.

Formal verification of the adopted VaR model is based on back-testing comparing actual change in the portfolio with VaR estimates.

Regarding IT support of risk management, the Bank implemented significant changes in 2002, mainly in IT systems which now support an extended range of more frequent analyses and measurements. The Bank implemented a SAS/Risk Dimensions application which supports daily calculation of capital requirements for all risks and helps to monitor the solvency ratio on a continuous basis. Other change includes enhancement of software used to measure the market risk of the trading portfolio and its integration with software used to measure the interest rate risk of the banking ledger.

VIII. IT Developments at BRE Bank

Main IT developments at the Bank in 2002 included:

- implementation of a central accounting system GLOBUS at the Head Office and Branches and restructuring of the Bank's Data Warehouse to be completed at the turn of 2003 and 2004;

- implementation of the corporate portal version 1.0 and development of the next version including the portal's Transaction Module to be implemented in Q2 2003;

- development of BRElink, a middleware platform based on BEA technology as a mechanism supporting effective data transmission between different applications running in the banking environment and giving access to banking services through various user channels;

- implementation and development of the intranet (which went live on 14 January 2002), implementation of an application integrating the intranet with BRElink and linking business processes to intranet applications;

- implementation the E-Procurement System Buysite which helps the Bank and its subsidiaries to buy in the internet B2B market and to digitalise the procurement process of the organisation's administration based on internet auctions;

- implementation of further versions of the Altamira system at mBank and MultiBank: 6 mBank versions and 5 MultiBank versions were implemented in 2002;

- modernisation of the WAN infrastructure; the project involves the modernisation of the Bank's existing corporate WAN and the development of a new network for MultiBank; both networks are based on the same ATM backbone; the new WAN ensures reliability and availability up to BRE Bank standards, encryption at the software and the hardware level, traffic prioritisation, secure interfaces with external networks, integrated management and settlement system, and easy scalability;

- implementation of the Windows 2000 project to modernise the software and hardware platform of BRE Bank; planned completion in Q2 2003;

- implementation of the Report Distribution and Filing System SDiAR;

- implementation of the Autodealing system to distribute fx quotations to Branches and to record fx transactions with negotiated internal rates; the system will go live in Q1 2003.

The capital expenditure of BRE Bank for these major IT projects was PLN 73.9 million in 2002.

IX. Human Resources and Training

IX. 1. Human Capital Measures

IX.1.1. HR Ratios

	31.12.2001		31.12.2002	
	People	FTE	People	FTE
Workforce	**2,728**	**2,639.7**	**3,041***	**2,948.03**
Corporate Banking	2,258	2,199.4	2,291	2,239.05
Retail Banking	474	440.3	750	708.98

* including 197 people whose employment contracts were terminated as of 31 December 2002

Comments:
Growth in the workforce compared to 2001 was mainly due to recruitment in the Bank's retail business (268.68 new FTEs) and in the Clearing Centre CRS which started to work with a new client.

	31.12.2001	31.12.2002
Average age*	**34**	**34**
Corporate Banking	34.9	34.6
Retail Banking	29.3	31.0
Gender structure		
Men	37%	38%
Women	63%	62%
Average period of employment with BRE Bank*	**4.4**	**4.4**
Corporate Banking	5.0	5.2
Retail Banking	1.1	2.7

* in years

	31.12.2002
Promotions* as a % of total workforce	**15%** (453 people)
Promotions* as a % of the target**	**45%** (272 people)

* pay raise and/or new position
** as recommended in the periodic assessment to be implemented within 1 year

Age groups	31.12.2001	31.12.2002
up to 25 years	582/ **21%**	499/ **16%**
25-35 years	1,255/ **46%**	1,531/ **51%**
35-45 years	549/ **20%**	620/ **20%**
	342/ **13%**	391/ **13%**

Education	31.12.2001			31.12.2002		
	Corporate Banking	Retail Banking	**TOTAL**	Corporate Banking	Retail Banking	**TOTAL**
University	50.15% (1.368)	12.42% (339)	**62.57%**	48.54% (1.476)	18.67% (568)	**67.21%**
Secondary+	8.87% (242)	0.91% (25)	**9.78%**	7.20% (219)	1.38% (42)	**8.58%**

Secondary	23.31% (636)	3.88% (106)	**27.19%**	19.11% (581)	4.6% (140)	**23.71%**
Vocational	0.29% (8)	-	**0.29%**	0.33% (10)	-	**0.33%**
Primary	0.14% (4)	-	**0.14%**	0.16% (5)	-	**0.16%**

IX.1.2. Investment in HR

Bank's HR Investment	**31.12.2001**	**31.12.2002**
Employees trained	**2,478**	**2,791**
Employees trained as a % of total workforce	**92%**	**92%**
Target training budget as a % of the Payroll Fund	**9%**	**6%**
Actual training budget as a % of the Payroll Fund	**4.6%**	**3.5%**
Days of training	**4,956**	**5,582**
Hours of training	**39,648**	**44,656**
Hours of training / Employee	**14.5**	**14.7**
Hours of training as a % of working days	**0.7%**	**0.7%**
Man-training	**5,944**	**5,874**
Outsourced man-training	896	506
Outsourced man-training abroad	182	106
Outsourced man-training in Poland	714	400
In-house man-training	5,048	5,145
Employees in adult education:	152	171
Employees in University courses	94	110
Employees in post-graduate courses	58	61

Bank's Investment in Student Internships	**31.12.2001**	**31.12.2002**
Applications from candidates	**519**	**728**
Corporate Banking	308	528
Retail Banking	211	200
Intern students	**211**	**348**
Corporate Banking	159	172
Retail Banking	52	176
Interns employed	**3**	**54**
Corporate Banking	3	2
Retail Banking	-	25
Intern students as a % of total workforce	**8%**	**11%**

IX.2. Main HR Policy Initiatives in 2002

IX.2.1. HR Management Tools

- Standardisation of job descriptions at the Bank continued on the basis of existing job positions in all organisational units; new job description forms were developed, defining standard authority and responsibilities as well as required qualifications;
- Evaluation of job positions in Regional Branches helped to draw conclusions concerning development and modification of the payroll policy;

- Payroll regulations and optimum pay levels were modified for professional groups defined on the basis of job descriptions;
- The annual employee assessment covered 2,296 of 2,760 employees;
- The workforce and the payroll were restructured in H2 2002: employment contracts of 300 employees were terminated, 54% of redundant employees were relieved from the obligation to remain in their positions until the end of the notice; the Bank developed a Professional Support Centre and an educational programme used by nearly 50% of the people made redundant; 34% of the people participating in the outplacement programme found new jobs within 2 months.

IX.2.2. HR Investment

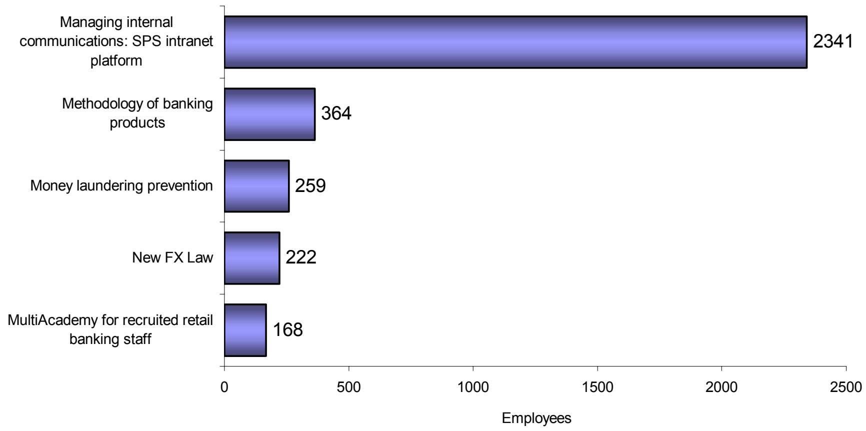
- Bank employees improved their skills concerning implemented IT technologies beyond standard IT qualifications: a comprehensive educational programme SPS accompanied the implementation of the Bank's intranet and trained 2,341 people;
- Comprehensive training initiatives were taken through the application of new IT solutions in the planning work of the training team as part of the implementation of a new IT integrated banking system;
- 168 employees recruited at local retail banking branches participated in a comprehensive training programme MultiAcademy;
- 11 instruction panels for the Bank's managers (137 people) concerning modification and enhancement of HR management tools followed a 2001 review of employee satisfaction and motivation;
- Initiatives to develop management skills of BRE Bank managers involved an assessment of the managerial potential of Regional Branch Directors (Management Development Centre).

IX.2.3. Contacts with the Labour Market

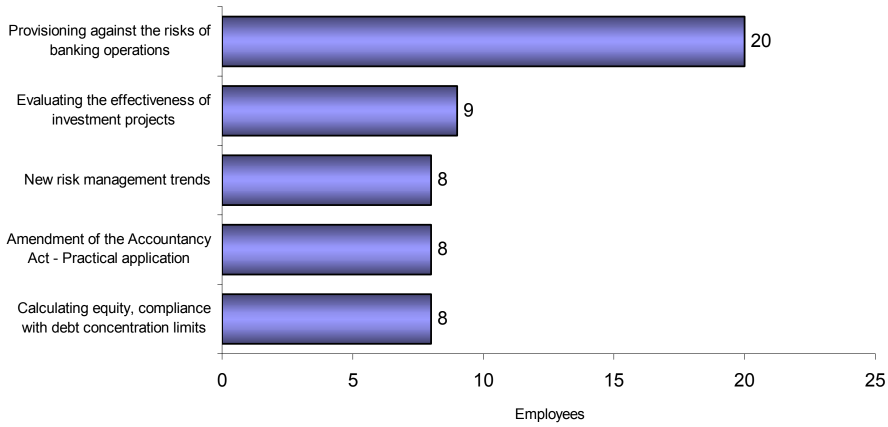
An internet channel for candidates for job positions at BRE Bank was developed and implemented (265 on-line applications). An internet tool for University students interested in internships went live (ca. 300 on-line applications).

IX.2.4. Major In-house and Outsourced Training in 2002

Major In-house Training, 2002



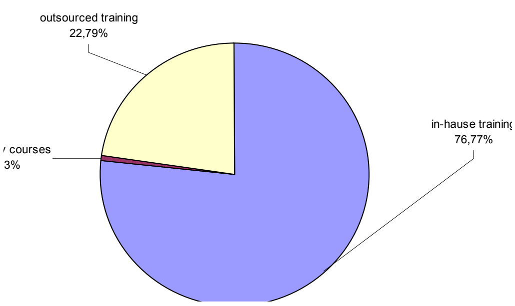
Major Outsourced Training in Poland, 2002



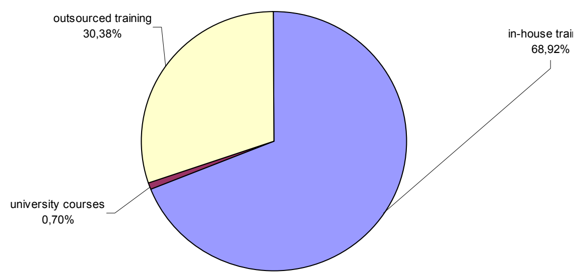
Major Training Abroad

Most of the training abroad was on issues of operating risk management, purchase of receivables, credit collateral, including: Syndicated Lending, SAS RD Technical and Analyst Training, European Credit and Risk Management, Risk Management 2002, Basel Summit, International Forfaiting Conference.

Training by Type, 2001



Training by Type, 2002



X. BRE Bank – The Outlook

The Management Board of BRE Bank will focus on improving the Bank's financial results in the nearest future.

The Bank will continue its policy of reducing financial investment. In early 2003, BRE Bank executed agreements to sell the entire package of Elektrim and Telbank shares. The Bank will strive to dispose of other investments. However, the overarching objective of BRE Bank in closing its positions is to optimise the return on investment. Therefore, the Bank will defer transactions if they may realistically provide bigger gains in the future.

Work is continued to sell some shares of PTE Skarbiec-Emerytura and/or to engage in consolidations in the market. The transaction will close at a high capital gain.

It must be emphasised that much of the Bank's equity investment is in strategic subsidiaries and affiliates of the BRE Bank Group which are now at a growth stage. This requires investment in further expansion. Such investment is of particular importance in the context of Poland's upcoming EU accession and competition of strong EU partners. Equally importantly, the estimated market value of Group companies is several times higher than their book value.

The strategic investment business will remain an important segment for the Bank with an increasing role of management of clients' assets by Skarbiec Asset Management Holding combined with a reduced proprietary portfolio.

Corporate banking will remain a core business of the Bank. BRE Bank will take measures to grow the profitability of this business by:

- growing the SME client base with a standard product offer sold through the internet portal;
- active sales with better incentives and improved organisation of the salesforce;
- updated product offer with easy access to selected products, a growing share of composite products, and enhanced cross-selling.

Retail banking will be the most dynamically growing business. Its product offer will be extended, sales through a network of agents will grow, the branch network will develop in line with actual needs. The first retail project, mBank, should break even in late 2003.

In addition to business development initiatives, the Bank will continue rigorous monitoring and rationalisation of operating costs, including both payroll and maintenance costs.

It is a mid-term priority of the Bank to restore profitability at a level satisfactory to the shareholders in 2003 and later years, and to achieve return on equity at 15% in 2005.