

## **Letter by the President of the Management Board of BRE Bank SA**

**Dear Shareholders,**

After many successful years, 2002 proved a difficult time, maybe the most difficult in the sixteen-year history of BRE Bank. Due to many external factors and resulting internal business decisions of the Bank, despite measures taken by the Management Board to optimise the financial results, BRE Bank closed the year at a loss of PLN 200.1 million on a stand-alone basis (excluding the valuation of subsidiaries and affiliates). The Bank's loss including its share in the results of subsidiaries and affiliates was PLN 379.2 million.

The main factors which affected the Bank included:

- very difficult economic conditions affecting the financial standing of many Polish companies, including bank clients and financial institutions, and additional provisioning required, especially in late 2002);
- legislative change, especially change in accounting rules for equity investment in subsidiaries and affiliates, charged more heavily than ever before against the Bank's income statement;
- material decrease in the value of securities in the Bank's investment portfolio as a result of bearish conditions on the Warsaw Stock Exchange;
- necessary investment in the growth of strategic companies of the BRE Bank Group, most of which though growing steadily had not yet broken even;
- necessary further investment in the growth of the retail banking business;
- postponed finalisation of several capital transactions (including the sale of a package of shares of PTE Skarbiec-Emerytura, shares in ITI) due to unfavourable market conditions, deferring expected gains until a later time;
- decision not to spin off and sell a package of shares of mBank.

In addition to those factors, the negative results of 2002 were also due to a renewed very rigorous rating of BRE Bank's credit and investment portfolio. As a result of the process, significant additional provisions were set up and the Bank continued to reduce its investment in equities.

The strategic and financial investment business suffered the most from those unfavourable trends. The results generated by the corporate banking business also declined. Retail banking is still to break even: mBank at the turn of 2003 and 2004, MultiBank a year later. As a result, investment banking was the main source of revenue in 2002.

It must be emphasised that in spite of the negative financial result at 31 December 2002, BRE Bank's main safety ratios remained at a high level. The Bank's liquidity was at a level considered safe under international standards. The Bank carries out daily monitoring of the market risk of the trading portfolio and the banking ledger, the liquidity risk, and the credit risk. The solvency ratio of BRE Bank at 31 December 2002 was 10.01%, i.e., above the 8% floor limit set in the Banking Law.

The Bank works to improve its risk measurement system. This important issue was acknowledged as the Supervisory Board appointed Mr Wiesław Thor to Management Board Member responsible for credit and market risk on 2 November 2002.

In spite of much weaker financial results, the Bank's market position improved, in particular in investment banking. The Bank continued to develop its very successful and awarded retail banking business. The share of mBank in this fast growing market segment increased from 25% to 28.5% while its retail deposits accounted for nearly 20% of the Bank's client deposits. MultiBank entered the market with a wide range of products offered to retail clients and microenterprises, including innovative financial plans which combine loans and savings.

The Bank strengthened its position in strategic investments as PTE Skarbiec-Emerytura took over PTE BIG Banku Gdańskiego and the two pension funds were merged in January 2003. Those subsidiaries which manage clients' assets were integrated in Skarbiec Asset Management Holding and the value of assets under management grew by over 40% to PLN 3.8 billion in 2002.

The Bank started to reduce and restructure its portfolio of equity investment and continues the process in 2003 with executed agreements to sell Telbank and Elektrim shares, soon to enable the Bank to release provisions and to realise capital gains.

The Bank's image remained very strong, both in Poland and abroad, as BRE Bank received numerous awards and distinctions, including the fifth position in the *BusinessWeek* ranking of Top 40 Banks in Central and Eastern Europe, the third position in the *Gazeta Bankowa* ranking of the Best Banks 2002, the fourth position in the category of financial service providers in the ranking of Top 300 Potentially Most Competitive Companies in the Single European Market, and the Future Award of the Konrad Adenauer Foundation.

Mr Krzysztof Szwarz, Chairman of the Supervisory Board of BRE Bank, received a high State distinction of the Federal Republic of Germany, the Cross of Merit of the Order of Merit.

BRE Bank used the past year for internal reform. In order to cut costs, the Bank restructured the workforce and the payroll: 300 employees were made redundant under a mass reduction scheme while the pay of remaining staff was verified. With the support of an external partner, about a third of reduced employees found new jobs within 2 months. The Bank also adjusted its organisation to better face up to new challenges; the new structure is in force as of 1 January 2003. With a lean structure, the Bank can rationalise its operating costs.

I am certain that all those measures will enable the Bank to restore profitability and to improve its return on your investment. It is a priority of the Bank to achieve return on equity at 15% in 2005.

Dear Shareholders!

On behalf of the Management Board of BRE Bank, I want to thank you for your unwavering confidence which survived the events of 2002. I must emphasise that we have learned many lessons in this past year, the most difficult one in the history of the Bank, and we have made relevant decisions and taken corrective action to put the Bank back on the growth track and to ensure satisfaction of BRE Bank shareholders.

President of the Management Board

Wojciech Kostrzewa