BRE Bank SA

Registered auditor's report on the audit of the financial statements as at and for the year ended 31 December 2002

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's report of the above-mentioned Polish company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Registered Auditor's Report on the financial statements to the Shareholders and the Supervisory Board of BRE Bank SA

This report has been prepared in connection with our audit of the financial statements of BRE Bank S.A., Warsaw, ul. Senatorska 18 (hereinafter called *the Bank*). The audited financial statements comprise:

(a) the introduction;

(b) the balance sheet as at 31 December 2002, showing total assets and total equity and liabilities of PLN 24,849,566 thousand;

(c) the statement of off-balance sheet items as at 31 December 2002, showing a total of PLN 153,150,315 thousand;

(d) the income statement for the year ended 31 December 2002, showing a net loss of PLN 379,221 thousand;

(e) the statement of changes in equity for the year ended 31 December 2002, showing a decrease in equity of PLN 850,187 thousand;

(f) the cash flow statement for the year ended 31 December 2002, showing a decrease in cash and cash equivalents of PLN 351,776 thousand;

(g) additional notes and explanations.

The financial statements were signed by the Bank's Management Board and the person responsible for maintaining the accounting records on 27 February 2003. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the Shareholders and the Supervisory Board of BRE Bank SA signed on 27 February 2003, concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

This report contains 40 consecutively numbered pages and consists of:

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On behalf of PricewaterhouseCoopers Sp. z o.o.:

Antoni F. Reczek
Chairman of the Management Board
Registered auditor
No. 90011/503

Registered Audit Company
No. 144

Warsaw, 27 February 2003

I. General information about the Bank

(a) The Bank was formed on the basis of Resolution No. 99 of the Council of Ministers signed on 20 June 1986.

The Bank began operating on 2 January 1987. The Bank was formed on the basis of a Notarial Deed drawn up at the State Notarial Office in Warsaw on 11 December 1986. On 23 December 1986, the Bank was entered in the Commercial Register, Section B, maintained by the District Court in Warsaw with the reference number 14036.

On 11 July 2001, the District Court in Warsaw, 19th Business Division of the National Court Register issued a decision that the Bank be entered in the National Court Register with the reference number KRS 0000025237.

(b) On 24 June 1993, the Bank was assigned a tax identification number NIP 526-021-50-88. For statistical purposes the Bank was assigned a REGON number 001254524 on 2 June 1998.

(c) The Bank's share capital amounts to PLN 91,882,000 and consists of 22,970,500 shares with a nominal value of PLN 4 each.

(d) In the audited period, the Bank's operations comprised:

- maintaining bank accounts;
- accepting savings and term deposits;
- clearing cash transactions;
- granting cash loans and consumer loans as defined in separate regulations;
- conducting transactions with bills of exchange and cheques;
- issuing banking warranties;
- issuing banking guarantees and opening letters of credit;
- issuing securities, trading in securities and maintaining security deposit accounts;
- trading in foreign currencies and the financial servicing of cross-border transactions;
- servicing government loans;
- performing requested tasks related to issuing securities;
- custody of objects and securities and providing safe deposit facilities;
- conducting futures and forward transactions;
- purchasing and selling purchased receivables;
- acting as a representative bank as defined in the Act on debentures;
- acquisition of shares in banks, commercial companies and partnerships and acquisition of participation units and investment certificates in Poland and abroad;
- providing business and financial advice;
- canvassing on behalf of pension funds;
- forming and participating in the formation of banks and commercial companies in Poland and abroad;
- acting as a depositary as defined by the provisions of the Act on the organisation and functioning of pension funds;
- acting as a depositary as defined by the provisions of the Act on investment funds;
- maintaining registers of pension fund members and registers of investment fund participants;
- performing tasks within the scope of insurance agency services;
- purchasing and selling real estate;
- undertaking or purchasing shares and rights arising from shares in other entities;

I. General information about the Bank (cont.)

- exchanging purchased receivables for a debtor's assets, on terms agreed upon with the debtor, whereby the Bank is obliged to sell the said assets within a period not exceeding 3 years from the date of their acquisition.

(e) The following people were on the Bank's Management Board in the audited period:

- Wojciech Kostrzewa – Chairman of the Management Board
- Anton M. Burghardt – Deputy Chairman of the Management Board
- Sławomir Lachowski – Deputy Chairman of the Management Board
- Krzysztof Kokot – Deputy Chairman of the Management Board
- Jan Zieliński – Deputy Chairman of the Management Board
- Henryk Okrzeja – Deputy Chairman of the Management Board
- Wiesław Thor – Member of the Management Board from 2 November 2002
- Alicja Kos-Gołaszewska – Member of the Management Board

(f) The Bank had the following related entities as at 31 December 2002:

AMBRESA Sp. z o.o.	-	subsidiary
ServicePoint Sp. z o.o.	-	subsidiary
Famco S.A.	-	subsidiary
Skarbiec Serwis Finansowy Sp. z o.o.	-	subsidiary
BMF (UK)	-	subsidiary
BMF Capital	-	subsidiary
Czwarty Polski Fundusz Rozwoju Sp. z o.o.	-	subsidiary
BRELINVEST Sp. z o.o. Fly 1 Sp. komandytowa	-	subsidiary
BRELINVEST Sp. z o.o. Fly 2 Sp. komandytowa	-	subsidiary
AMBRESA Sp. z o.o. – BRELLA Sp. komandytowa	-	subsidiary
Promes Sp. z o.o.	-	subsidiary
Intermarket Bank AG	-	subsidiary
Dom Inwestycyjny BRE Banku S.A.	-	subsidiary
BRE Leasing Sp. z o. o.	-	subsidiary
PTE Skarbiec-Emerytura S.A.	-	subsidiary
Rheinhyp - BRE Bank Hipoteczny S.A.	-	subsidiary
BRE International Finance B.V.	-	subsidiary
BRE Corporate Finance S.A.	-	subsidiary
Bank Częstochowa S.A.	-	subsidiary
Skarbiec Asset Management Holding S.A.	-	subsidiary
BRE.locum Sp. z o. o.	-	subsidiary
BRE Agent Transferowy Sp. z o. o.	-	subsidiary
Skarbiec TFI S.A.	-	subsidiary
BRE Asset Management S.A. (currently Skarbiec Investment Management)	-	subsidiary
Serwis Finansowy Sp. z o.o.	-	subsidiary
CIMC Midas plc	-	subsidiary
Billbird S.A.	-	subsidiary
Tele-Tech Investments Sp. z o. o.	-	associate
Transfinance Slovakia	-	subsidiary, indirectly via Intermarket

I. General information about the Bank (cont.)

		and Transfinance a.s.
Vartimex s.r.o.	-	associate, indirectly via Transfinance a.s.
PBR-Faktor Sp. z o.o.	-	associate, indirectly via Polfactor
BREL-AG Sp. z o.o.	-	associate, indirectly via BRE Leasing
BREL-BUD Sp. z o.o.	-	associate, indirectly via BRE Leasing and Tele-Tech
BREL-FIN Sp. z o.o.	-	subsidiary, indirectly via BRE Leasing
BRELIM Sp. z o.o.	-	subsidiary, indirectly via BRE Leasing
BRELINVEST Sp. z o.o.	-	subsidiary, indirectly via BRE Leasing
BREL-MAR Sp. z o.o.	-	associate, indirectly via BRE Leasing and Tele-Tech
eCard S.A.	-	associate
Xtrade S.A.	-	associate
BREL-RES Sp. z o.o.	-	associate, indirectly via Tele-Tech and BRE Leasing
BREL-AL Sp. z o.o.	-	associate, indirectly via BRE Leasing
Regionalne Towarzystwo Budownictwa Społecznego SA in liquidation	-	in liquidation
Elektrim S.A.	-	associate, designated for sale
Optimus S.A.	-	associate, designated for sale
Polska Grupa Zarządzania Funduszami Sp. z o.o.	-	subsidiary, indirectly via Ambresa Sp. z o.o. Suspended operations
Magyar Factor Rt.	-	associate, indirectly via Intermarket
Polfactor S.A.	-	direct associate (subsidiary – if indirect interest taken into account)
Transfinance a.s.	-	direct associate (subsidiary – if indirect interest taken into account)

II. Information about the audit

a) PricewaterhouseCoopers Sp. z o.o. was appointed auditor to the Bank by Resolution No. 4/02 of the BRE Bank SA Supervisory Board of 25 April 2002 in accordance with paragraph 31 of the Bank's Memorandum of Association.

b) PricewaterhouseCoopers Sp. z o.o. and the registered auditor conducting the audit are independent of the audited entity within the meaning of Art. 66 Clause 2 of the Accounting Act.

c) The audit was conducted in accordance with an agreement dated 3 June 2002 in the following periods:

- Interim audit from 21 November 2002 to 23 December 2002
- Final audit from 2 January 2003 to 27 February 2003

III. The Bank's results and financial position

The observations below are based on knowledge obtained during the audit of the financial statements.

The financial statements do not take account of inflation. The consumer price index (from December to December) amounted to 0.8% in the audited year (3.6% in 2001).

The Bank introduced adjustments to the opening balances for the year 2002 due to the introduction of the New Accounting Act and regulations governing the accounting policies to be applied by banks. The effects of the changes of PLN 228,772 thousand were recorded on the balance sheet as *Accumulated losses*. The most significant adjustments related mainly to the valuation of subsidiaries and associates using the equity method, as a result of which losses of PLN 226,944 thousand and PLN 19,783 thousand were recorded accordingly. The following subsidiaries and associates had the largest impact on the valuation: PTE Skarbiec Emerytura S.A. PLN (156,645) thousand, BRE Fundusz Kapitałowy Sp. z o.o. PLN (23,251) thousand, Szeptel S.A. PLN (24,743) thousand and Bank Częstochowa S.A. PLN (7,324) thousand.
Moreover, *Accumulated losses* also included the valuation of financial instruments held for trading amounting to PLN 12,072 thousand.
A detailed description of the adjustments is presented in the *Introduction to the financial report*.

The following factors had a significant impact on the Bank's results of operations and on its financial position as at the balance sheet date:

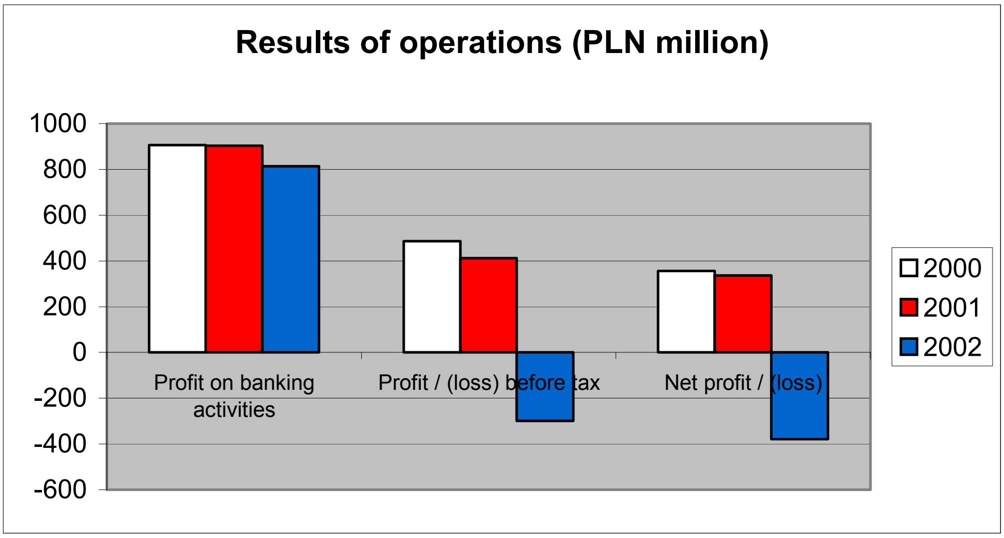
1. In the audited year from 1 January to 31 December 2002, the Bank's total assets increased slightly by PLN 44,606 thousand (i.e. by 0.2%). The structure of the Bank's assets did not change significantly compared with the prior year. As far as the structure of liabilities and equity is concerned, the share of amounts due to the financial sector decreased. The decrease in the Bank's financing with amounts due to the financial sector was possible as a result of obtaining two subordinated loans from Atlas-Vermögensverwaltung GmbH, a 100% subsidiary of Commerzbank AG.

2. In 2002, the Bank incurred a net loss of PLN (379,221) thousand. The loss was a result of showing, in the income statement for 2002, the share in profits and losses of subordinated entities recorded using the equity method, in accordance with the requirements of the new accounting policies to be applied by banks. This share, comprising also amortisation of goodwill and the recognition of negative goodwill, amounted to PLN (179,144) thousand. Moreover, in 2002 there was an increase in the Bank's costs of provisions and write-downs in respect of financial fixed assets. The difference between the amount of provisions and write-downs recorded and released was PLN (494,920) thousand. This was due to an increase in the gross balance of non-performing loans (from PLN 1,168,578 thousand as at 31 December 2001 to PLN 2,196,409 thousand as at the end of the current financial year) and increased degree to which the non-performing portfolio was covered by specific provisions (from 20.7% to 28.1%).

3. The level of net loss was also affected by the failure to execute plans to sell shares in PTE Skarbiec-Emerytura S.A. and ITI Holdings S.A., as well as the Bank withdrawing from the sale of mBank as part of selling Bank Częstochowa S.A. Moreover, as a result of a considerable drop in the value of Szeptel S.A. shares, the Bank was not able to realise the anticipated gain on sale of these shares.

4. In 2002, the Bank continued the dynamic development of its derivative trading operations and retail banking. In 2002, action was undertaken with a view to merging Bank Częstochowa with BRE Bank.

III. The Bank's results and financial position (cont.)



Material factors affecting the Bank's results, profitability and financial position:

1. **Net interest income** – in the audited year, there was a decrease of PLN 35,509 thousand (i.e. of 9.8%) compared with the prior year, due to a reduction in the interest rates set by the National Bank of Poland in 2002. Interest income and costs in the audited year amounted to PLN 1,472,137 thousand and PLN 1,145,364 thousand accordingly, which constitutes a decrease of PLN 335,377 thousand and PLN 299,868 thousand respectively, compared with the prior year (PLN 1,807,514 thousand and PLN 1,445,232 thousand accordingly). At the same time, the interest margin (calculated as net interest income to interest income) increased from 20% in the prior year to 22.2% in the audited year.

2. **Result on financial transactions** – in 2001, the Bank recorded a loss on financial transactions of PLN (141,525) thousand, while in the audited year, the loss on these transactions amounted to PLN (100,222) thousand.

   The result on financial transactions in securities in the audited year was PLN 20,379 thousand, compared with PLN (19,559) million in the prior year. The result on transactions in securities was significantly affected by changes in the accounting policies pertaining to the valuation of securities available for sale. In accordance with the new regulations, decreases and increases resulting from changes in the fair value of securities available for sale, excluding impairment, previously recorded in the result on financial operations, are now recorded in revaluation reserve. As at 31 December 2002, the amount of PLN (4,873) thousand related to this item.

   Losses on other financial transactions (mainly transactions in derivatives) amounted to PLN 120,601 thousand in the audited year (PLN 121,966 thousand in 2001). Of that amount, PLN 67,650 thousand related to loss on transactions in futures designated as interest rate hedges for the portfolio of Treasury bonds denominated in foreign currencies.

III. The Bank's results and financial position (cont.)

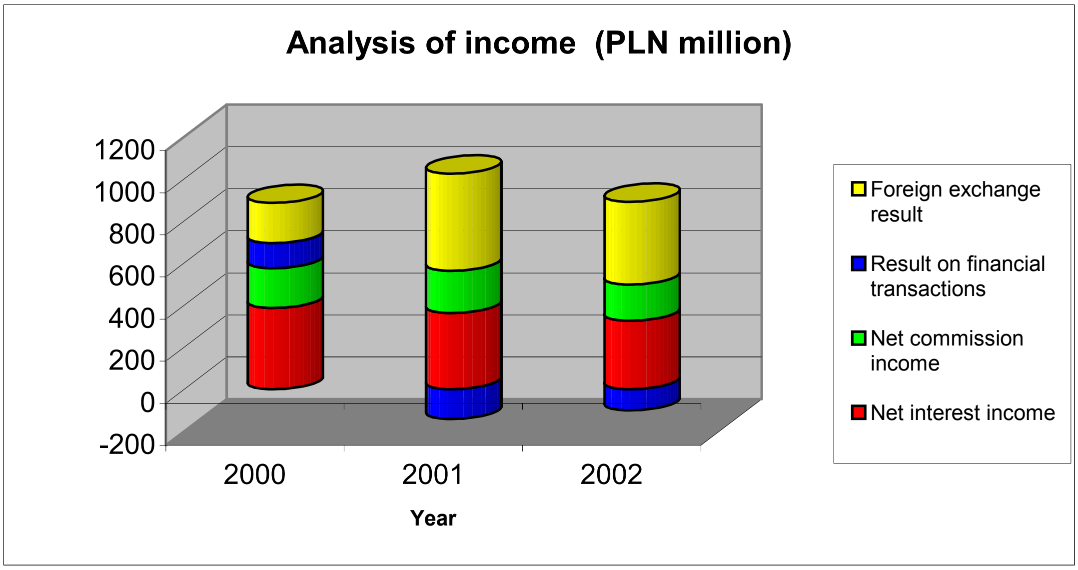
3. **Foreign exchange result** – decreased from PLN 461,131 thousand in 2001 to PLN 393,243 thousand in the current year. The decrease was due to the fact that the Bank slowed down its activities in the foreign exchange market and the volume of transactions concluded was lower. Therefore, off-balance sheet liabilities relating to spot and forward transactions decreased by 25.6%. The decrease in the foreign exchange result was mainly due to the following factors: a decrease in the net realised gain on settled forward transactions of PLN 128,547 thousand, a decrease in the realised net result on foreign exchange margin of PLN 36,748 thousand and a decrease in unrealised net gains on revaluation of PLN 34,527 thousand, which was partly offset by an increase in the unrealised result on valuation of FX forward transactions (of PLN 28,326 thousand) and FX options (of PLN 101,818 thousand).

4. **Other operating income** – decreased by PLN 128,496 thousand (i.e. by 80.1%). The decrease was mainly due to the higher than average income earned in 2001, resulting from the sale and lease back of 5 buildings (proceeds of PLN 72,110 thousand) and compensation obtained from the State Treasury as a result of a court decision regarding a dispute concerning real property (including statutory interest of PLN 40,971 thousand).

5. **Costs of banking operations** – in the period under analysis increased by PLN 37,592 thousand (i.e. by 8.7%) due to an increase in running costs accompanied by a decrease in salaries. A detailed analysis of these costs has been presented in Note 26.

6. **Net provisions and write-downs** – there was an increase from PLN 57,383 thousand in 2001 to PLN 494,920 thousand in the current year. This was related to an increase in gross non-performing loans from the non-financial sector of PLN 1,027,831 thousand and an increase in the degree to which the non-performing portfolio is covered by specific provisions (from 20.7% to 28.1%).

   In addition, the Bank recorded write-downs of financial assets of PLN 82,862 thousand, while the balance of reversals of such write-downs amounted to PLN 19,903 thousand. The write-downs recorded mainly related to the impairment of shares of: Szeptel S.A., Pozmeat S.A., Optimus S.A. and BRE Fundusz Kapitałowy Sp. z o.o.



III. The Bank's results and financial position (cont.)

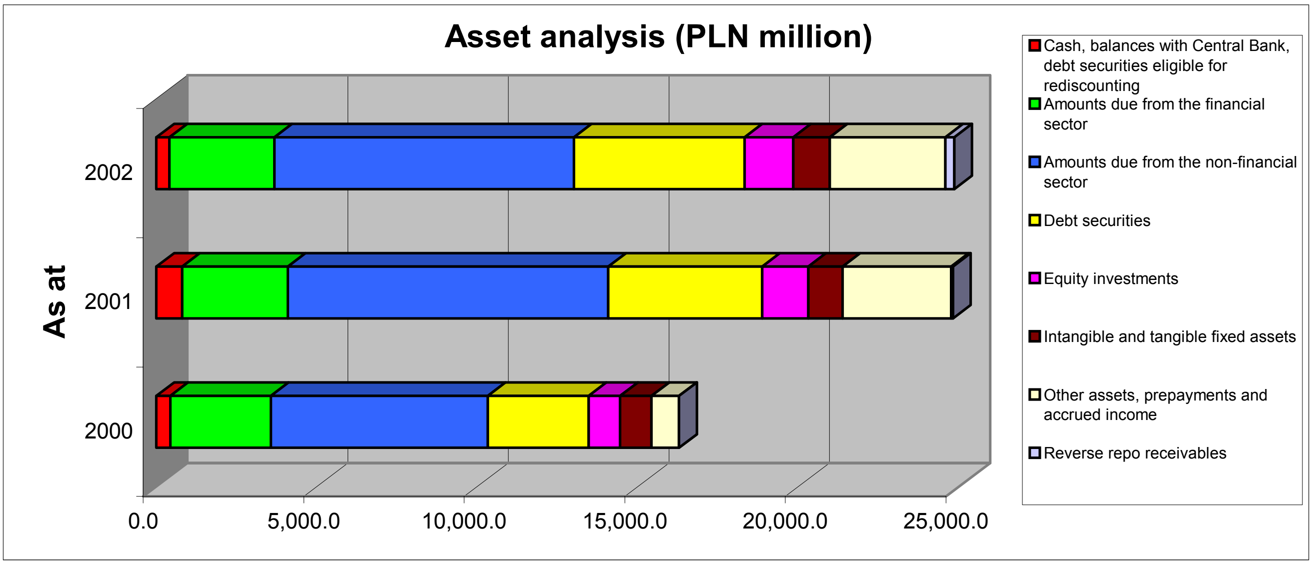
7. **Corporate income tax** – in the current reporting year, the corporate income tax disclosed in the income statement was negative and amounted to PLN 98,968 thousand. This was due to a negative deferred income tax charge of PLN 99,502 thousand, of which PLN 59,324 thousand related to recording the tax loss for the year 2002 (of PLN 219,717 thousand) as a temporary difference as at 31 December 2002.

8. **Share in the net results of subordinated entities recorded using the equity method** – in accordance with the new accounting policies, in 2002 the Bank for the first time recorded subordinated entities using the equity method. The share in net results of 27 subordinated entities (including amortisation of goodwill) recorded using the equity method amounted to PLN (179,144) thousand in 2002. The largest amounts related to the following: BRE Fundusz Kapitałowy S.A. – PLN (45,774) thousand, Skarbiec Asset Management Holding S.A. – PLN (44,048) thousand, PTE Skarbiec Emerytura S.A. – PLN (38,107) thousand, Szeptel S.A. – PLN (33,368) thousand and Bank Częstochowa S.A. – PLN (13,701) thousand.

Material factors affecting the structure of the Bank's assets and liabilities & equity as at 31 December 2002

In 2002, funds acquired in the form of deposits from the financial and non-financial sectors and loans from banks remained the main source of the Bank's financing. Compared with the respective balances as at 31 December 2001, amounts due to the financial sector decreased by PLN 1,483,064 thousand, which was offset by drawing a subordinated loan of PLN 1,005,524 thousand and by an increase in the amounts due to the non-financial sector of PLN 311,574 thousand. Additionally, the Bank signed a contract for the issue of debt certificates amounting to PLN 1 billion. As at 31 December 2002 the nominal value of issued certificates was only PLN 25,500 thousand.

The proportion of amounts due to the public sector in the Bank's assets decreased by PLN 910,765 thousand. Surplus funds thus obtained enabled the Bank to increase its lending activities to the non-financial sector and increase the debt security portfolio. Compared with the balance as at 31 December 2001 amounts due from the non-financial sector as at the balance sheet date were higher by PLN 256,140 thousand and the balance of debt securities increased by PLN 525,600 thousand.



III. The Bank's results and financial position (cont.)

1. **Amounts due from the non-financial and public sectors** – the net balance as at 31 December 2002 was PLN 9,325,767 thousand (PLN 9,980,392 thousand as at 31 December 2001), which constituted a 6.6% decrease. This was largely due to the Bank withdrawing from financing a large public sector entity, which explains the decrease of nearly 95% in the portfolio of amounts due from the public sector (i.e. of PLN 910,765 thousand).

   The portfolio of amounts due from the non-financial sector increased slightly in the audited year. The gross balance of amounts due from the non-financial sector as at 31 December 2002 was PLN 9,915,165 thousand, compared with PLN 9,270,085 thousand as at the end of 2001, which constitutes a 7.0% increase in this portfolio. Due to the considerable increase (155.1%) in the level of write-downs recorded, net amounts due from the non-financial sector as at 31 December 2002 were characterised by a 2.8% increase. The higher level of write-downs recorded in the second half of 2002 was mainly due to adopting a more stringent interpretation of the regulations concerning selected exposures.

2. **Debt securities** – in 2002, the balance increased by PLN 525,600 thousand. The increase resulted from an increase in the portfolio of debt securities issued by the State Budget of PLN 573,410 thousand, whereby the balance sheet value of Treasury bonds increased by PLN 105,383 thousand (i.e. by 6.1%), and Treasury bills increased by PLN 468,027 thousand (i.e. by 20.6%). At the same time, the balance of debt securities issued by subsidiaries and other entities decreased slightly by PLN 47,810 thousand.

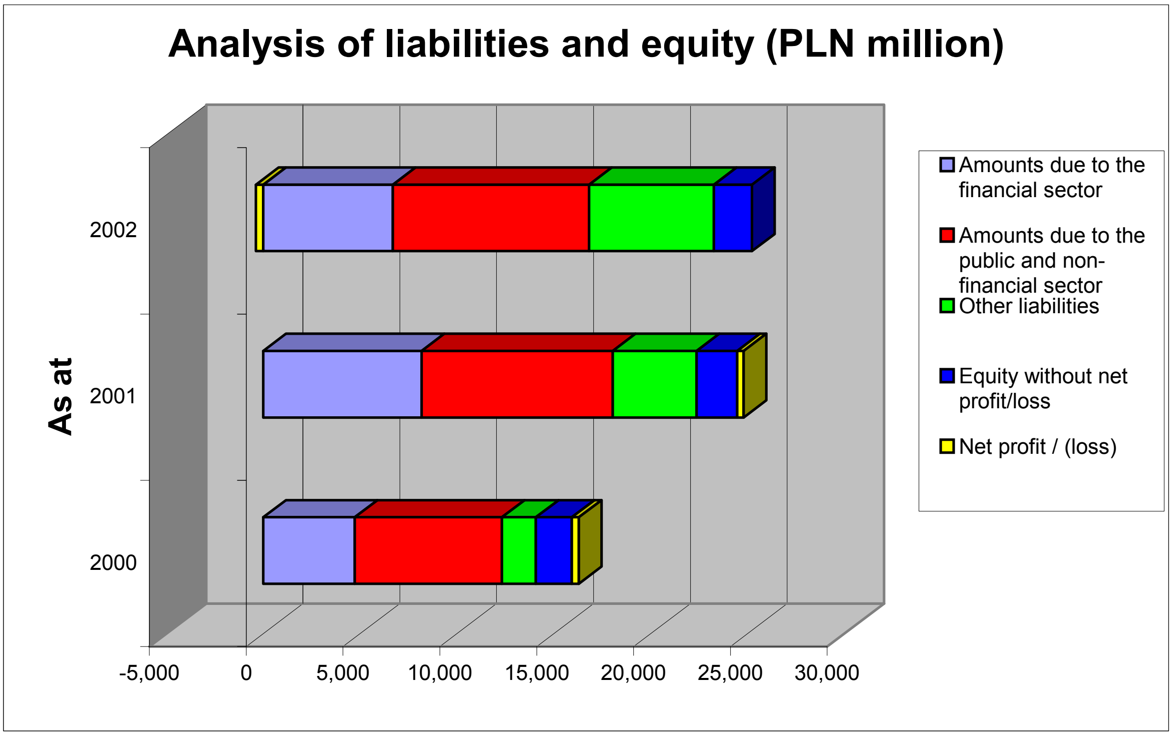
3. **Equity investments –** the total balance of equity investments increased by PLN 77,083 thousand in the current year. This resulted from adjustments in the valuation of these investments as at 1 January 2002 and changes during the financial year. Compared with the restated prior year figures, the increase was still higher and amounted to PLN 305,508 thousand. The increase was mainly due to investments in shares in subsidiaries (up by PLN 421,938 thousand), accompanied by a decrease in the value of shares in associates of PLN 78,198 thousand, other securities of PLN 31,655 thousand and minority interest of PLN 6,577 thousand.

4. **Other assets** – the balance increased by PLN 60,462 thousand (i.e. by 2.3% in 2002). The increase was a result of higher balances relating to trading in securities and transactions in financial instruments (of PLN 211,878 thousand - i.e. of 9.6%) as a result of the higher volume of transaction concluded. Moreover, the balance of "debtors" decreased by PLN 24,684 thousand. At the same time, there was a decrease in receivables relating to overpaid corporate income tax of PLN 77,992 thousand to PLN 62,515 thousand as at 31 December 2002.

5. **Amounts due to the financial sector** – the balance as at 31 December 2002 amounted to PLN 6,690,955 thousand (PLN 8,174,019 thousand as at 31 December 2001), which constitutes a decrease of PLN 1,483,064 thousand (i.e. of 18.1%). The decrease was mainly due to lower cash in savings and deposit accounts (of PLN 1,621,424 thousand - i.e. of 33.7%) compared with the prior year. This change was mainly the result of a decrease in the balance of deposits placed by banks and other financial institutions of PLN 2,840,366 thousand (i.e. of 61.4%).

6. **Amounts due to the non-financial sector** – an increase of PLN 311,574 thousand (i.e. of 3.2%) in 2002 compared with the balance as at 31 December 2001. The increase was mainly due to an increase in cash in mBank clients' bank accounts of PLN 791,389 thousand compared with the end of 2001, up to PLN 1,828,889 thousand, accompanied by a decrease in the deposits of other entities. This is consistent with the Bank's policy which is to increase the share of the retail sector in the structure of financing the Bank's operations (mBank + Multibank).

III. The Bank's results and financial position (cont.)



7. **Issue of debt securities** – as at 31 December 2002, the balance of liabilities in respect of issuing debt securities amounted to PLN 25,286 thousand. The balance consisted of certificates of deposit issued by the Bank, the maximum value of which in accordance with the Debt Security Issue Programme Agreement may amount to PLN 1,000,000 thousand.

8. **Subordinated liabilities** – as at 31 December 2002 amounted to PLN 1,005,524 thousand (at the end of the prior year there were no such liabilities). The balance comprises two subordinated loans of PLN 925,010 thousand, interest on the loans of PLN 474 thousand and foreign exchange differences arising of PLN 80,040 thousand. The balance of subordinated liabilities is the result of issuing, during the financial year, subordinated debentures of EUR 250,000 thousand. The total amount was acquired by Atlas - Vermogensverwaltungs-Gesellschaft MBH, Germany, which is a financial institution 100% owned by Commerzbank AG – the strategic shareholder of BRE Bank SA. The Bank was granted permission by the Banking Supervision Commission to classify the funds obtained as the Bank's supplementary funds. Therefore, as at 31 December 2002, PLN 754,789 thousand was recorded as part of supplementary funds.

9. **Managing liquidity, FX and interest rate risks** – the Bank has advanced tools for measuring and controlling liquidity and market risks, in particular FX and interest rate risks. Individual types of risk are managed on a daily basis. The Bank has a system of internal limits which take into account the external requirements of the banking supervision bodies (such as the capital requirements per individual risk type). The system of measures and limits used by the Bank comprises the calculation of Value at Risk (VaR) and Earnings at Risk (EaR), analysis of the interest rate gap, sensitivity analysis, maximum and total foreign currency position, capital adequacy and exposure. Moreover, as far as the liquidity risk is concerned, the Bank monitors the liquidity ratio for up to 1 month, the so-called ratio ensuring liquidity and the risk of losing deposits.

IV. Discussion of financial statements components

The figures for the 2001 financial year have been restated with regards to their presentation, without applying the new valuation principles. A detailed reconciliation of the closing balances for the year 2001 with the opening balances for the year 2002 has been presented in the introduction to the Bank's financial statements. In this report the effect of the most significant opening balance adjustments resulting from the amended accounting policies has been presented in the individual notes.

BALANCE SHEET as at 31 December 2002

	Note	31.12.2002 PLN'000	Restated 31.12.2001 PLN'000	Change PLN'000	Change (%)	31.12.2002 Structure (%)	Restated 31.12.2001 Structure (%)
ASSETS							
Cash and balances with the Central Bank	1	360,538	738,276	(377,738)	(51.2)	1.5	3.0
Debt securities eligible for rediscounting at the Central Bank		49,021	66,683	(17,662)	(26.5)	0.2	0.3
Amounts due from the financial sector	2	3,265,405	3,290,107	(24,702)	(0.8)	13.1	13.2
Amounts due from the non-financial sector	3	9,275,400	9,019,260	256,140	2.8	37.3	36.3
Amounts due from the public sector	3	50,367	961,132	(910,765)	(94.8)	0.2	3.9
Amounts due in respect of purchase of securities with a resale clause		283,731	54,965	228,766	416.2	1.1	0.2
Debt securities	4	5,312,796	4,787,196	525,600	11.0	21.4	19.3
Shares in subsidiaries	5	852,493	657,499	194,994	29.7	3.4	2.7
Shares in co-subsidiaries		0	0	0	0.0	0.0	0.0
Shares in associates	6	22,520	120,501	(97,981)	(81.3)	0.1	0.5
Shares in other entities	7	12,830	20,954	(8,124)	(38.8)	0.1	0.1
Other securities and other financial assets	8	629,299	641,105	(11,806)	(1.8)	2.5	2.6
Intangible assets	9	259,258	206,471	52,787	25.6	1.0	0.8
Tangible fixed assets	10	874,989	860,284	14,705	1.7	3.5	3.5
Other assets	11	2,690,058	2,629,596	60,462	2.3	10.8	10.6
Prepayments and accrued income		910,861	750,931	159,930	21.3	3.7	3.0
Total assets		**24,849,566**	**24,804,960**	**44,606**	**0.2**	**100%**	**100%**

IV. Discussion of financial statements components (cont.)

BALANCE SHEET as at 31 December 2002 (cont.)

	Note	31.12.2002 PLN'000	Restated 31.12.2001 PLN'000	Change PLN'000	Change (%)	31.12.2002 Structure (%)	Restated 31.12.2001 Structure (%)
LIABILITIES AND EQUITY							
Amounts due to the Central Bank		1,532	2,718	(1,186)	(43.6)	0.0	0.0
Amounts due to the financial sector	12	6,690,955	8,174,019	(1,483,064)	(18.1)	26.9	32.9
Amounts due to the non-financial sector	13	10,009,117	9,697,543	311,574	3.2	40.3	39.1
Amounts due to the public sector	13	118,554	167,845	(49,291)	(29.4)	0.5	0.7
Liabilities in respect of sale of securities with a repurchase clause		1,942,315	1,132,724	809,591	71.5	7.8	4.6
Issue of debt securities	14	25,286	0	25,286	100.0	0.1	0.0
Other liabilities in respect of financial instruments	15	2,233,465	1,597,197	636,268	39.8	9.0	6.4
Special funds and other liabilities	16	98,957	66,829	32,128	48.1	0.4	0.3
Accruals, deferred income and suspended income	17	222,392	749,084	(526,692)	(70.3)	0.9	3.0
Provisions	18	918,972	784,317	134,655	17.2	3.7	3.2
Subordinated liabilities	19	1,005,524	0	1,005,524	(100.0)	4.0	0.0
Share capital	20	91,882	91,882	0	0.0	0.4	0.4
Supplementary capital	20	748,738	748,738	0	0,0	3.0	3.0
Revaluation reserve	20	(3,045)	7,969	(11,014)	(138.2)	0.0	0.0
Other reserves	20	1,352,915	1,247,915	105,000	8.4	5.4	5.0
Accumulated losses		(228,772)	0	(228,772)	(100.0)	(0.9)	0.0
Net profit/(loss)		(379,221)	336,180	(715,401)	(212.8)	(1.5)	1.4
Total liabilities and equity		**24,849,566**	**24,804,960**	**44,606**	**0.2**	**100%**	**100%**

IV. Discussion of financial statements components (cont.)

INCOME STATEMENT for the financial year ended 31 December 2002

	Note	31.12.2002 PLN'000	Restated 31.12.2001 PLN'000	Change PLN'000	Change (%)	31.12.2002 Structure (%	Restated 31.12.2001 Structure (%
Interest income		1,472,137	1,807,514	(335,377)	(18.6)	59.9	59.8
Interest expense		(1,145,364)	(1,445,232)	299,868	(20.7)	(41.6)	(55.4)
Net interest income	21	**326,773**	**362,282**	**(35,509)**	**(9.8)**		
Commission income		227,000	242,434	(15,434)	(6.4)	9.2	8.0
Commission expense		(55,674)	(40,449)	(15,225)	37.6	(2.0)	(1.5)
Net commission income		**171,326**	**201,985**	**(30,659)**	**(15.2)**		
Income from shares, other securities and other financial instruments with variable yield		22,905	20,076	2,829	14.1	0.9	0.7
Result on financial transactions	22	(100,222)	(141,525)	41,303	(29.2)	(3.6)	(5.4)
Foreign exchange result	23	393,243	461,131	(67,888)	(14.7)	16.0	15.3
Profit on banking activities		**814,025**	**903,949**	**(89,924)**	**(9.9)**		
Other operating income	24	31,915	160,411	(128,496)	(80.1)	1.3	5.3
Other operating expenses	25	(53,697)	(45,879)	(7,818)	17.0	(1.9)	(1.8)
Overhead costs of the Bank	26	(470,607)	(433,015)	(37,592)	8.7	(17.1)	(16.6)
Depreciation and amortisation		(125,875)	(116,480)	(9,395)	8.1	(4.6)	(4.5)
Provisions and write-downs	27	(804,350)	(387,517)	(416,833)	107.6	(29.2)	(14.8)
Release of provisions and reversal of write-downs		309,430	330,134	(20,704)	(6.3)	12.6	10.9
Net provisions and write-downs		(494,920)	(57,383)	(437,537)	762,5		
Operating profit/(loss)		**(299,159)**	**411,603**	**(710,762)**	**(172.7)**		
Net extraordinary gains		114	117	(3)	(2.6)	0.0	0.0
Profit/(Loss) before tax		**(299,045)**	**411,720**	**(710,765)**	(172.6)		
Corporate income tax	28	98,968	(75,540)	174,508	231.0		
Gain/(Loss) on share in subordinated entities recorded using the equity method	29	(179,144)	0	(179,144)	(100.0)		
Net profit/(loss)		**(379,221)**	**336,180**	**(715,401)**	**(212.8)**		
Total income		2,456,989	3,022,048	(565,059)	(18.7)	100.0	100.0
Total costs		(2,756,034)	(2,610,328)	(145,706)	5.6	(100.0)	(100.0)
Profit/(Loss) before tax		**(299,045)**	**411,720**	**(710,765)**	**(172.6)**		

IV. Discussion of financial statement components (cont.)

Presentation of the Company's financial position and results of operations

	31.12.2002	**31.12.2001**
Profit/(Loss) before tax for the year	PLN (299,045) thousand	PLN 411,720 thousand
Total assets	PLN 24,849,566 thousand	PLN 24,804,960 thousand
Net assets	PLN 1,582,497 thousand	PLN 2,432,684 thousand
Equity acc. to KNB (*Banking Supervision Commission*) KNB 8/98	PLN 1,883,046 thousand	PLN 1,807,921 thousand
Total regulatory capital requirement, including the requirement concerning risk of excessive capital exposure acc. to KNB 2/200)	PLN 1,555,290 thousand	PLN 1,800,144 thousand
Capital adequacy ratio acc. to KNB 5/2001 (KNB 5/1998)	10.01 %	12.05 %
ROE (net profit/average equity) (1)	-18.89%	14.47%
ROA (profit before tax / average assets) (1)	-1.53%	1.64%
Working assets (debt securities, gross normal, watch and substandard loans – net of interest)	PLN 16,917 thousand	PLN 17,292 thousand
Cost/income ratio (costs of banking operations / result on banking operations)	57.81%	47.90%
Gross profitability (profit before tax/total income)	-12.17%	13.62%
Return on loans (interest and commission on loans/average gross performing and substandard loans to non-financial and public sectors) (1)	9.51%	13.78%
Cost of borrowings (interest expense/average deposits) (1)	8.39%	10.62%
Equity to liabilities and equity (average equity/average total liabilities and equity) (1)	8.09%	11.31%
Loans to assets (average gross loans to customers and the public sector/average total assets) (1)	40.67%	41.90%
Non-performing loans to total loans (average gross non-performing loans to customers and the public sector/average total gross loans to customers and the public sector) (1)	22.47%	11.60%
Working assets to total assets	68.08%	69.71%
Liquidity I (assets due within 1 month/liabilities due within 1 month) (2)	0.86	0.69
Liquidity II (assets due within 3 months/liabilities due within 3 months) (2)	0.85	0.66
(Loss) / Earnings per share	PLN –16.51	PLN 14.64
Book value per share	PLN 68.89	PLN 105.90

(1) Average balances were calculated on the basis of individual balances as at the beginning and the end of the current and previous year.
(2) Liquidity ratios as at the end of 2002 include the entire balance of trading debt securities as amounts which mature within up to 1 month.
(3) Individual ratio amounts may differ from those presented in the financial statements due a different method of calculation.

IV. Discussion of financial statement components

Balance sheet as at 31 December 2002

1. Cash and balances with the Central Bank

As at 31 December 2002, the balance of "Cash and balances with the Central Bank" amounted to PLN 360,538 thousand (PLN 738,276 thousand in 2001).

The 51.2% decrease in the balance of "Cash and balances with the Central Bank" in the current year was mainly due to the balance of the current account with the NBP going down by PLN 357,314 thousand as a result of a drop in this balance in the last few days of the year. The average balance of cash in the current account with the NBP in December 2002 amounted to PLN 511,260 thousand. As at the balance sheet date the declared mandatory reserve deposit in the NBP decreased compared with the prior year as a result of the Monetary Policy Council reducing the mandatory reserve rate to 4.5% (resolution no. 20/2001 of 19 December 2001), and amounted to PLN 515,741 thousand (PLN 566,978 thousand as at 31 December 2001).

2. Amounts due from the financial sector

As at the balance sheet date, the net balance of "Amounts due from the financial sector" amounted to PLN 3,265,405 thousand which, compared with PLN 3,290,107 thousand as at the end of 2001, represented a 0.8% decrease (in gross terms, the decrease amounted to 1.1% from PLN 3,364,650 thousand to PLN 3,328,860 thousand). The balance of "Amounts due from the financial sector" also dropped as a percentage of total assets from 13.2% as at 31 December 2001 to 13.1% as at the end of 2002.

Current amounts due increased by PLN 67,654 thousand (i.e. by 7.9%) whereas term amounts due decreased by PLN 92,356 thousand (i.e. by 3.8%). The decrease in term amounts due was mainly due to the decrease in gross loans, deposits and borrowings by PLN 158,125 thousand.

The amounts due from the financial sector also include debentures of financial entities purchased on the primary market, and thus, classified as originated loans in accordance with the financial asset categories, with a total balance sheet value of PLN 157,090 thousand. These debentures were issued by the following companies: BRE Fundusz Kapitałowy Sp. z o. o., Tele-Tech Investments Sp. z o. o., AMBRESA Sp. z o.o., Euro-Invest S.A. and Hestia Investment Sp. z o.o. Moreover, this item comprises NBP bonds, with a balance sheet value of PLN 332,447 thousand, which are also classified as originated loans in accordance with the financial asset categories.

As at 31 December 2002, the largest part of gross amounts due from the financial sector was from Polish financial institutions (67.1% of the total balance). The Bank's other major exposures related to financial entities from countries such as Great Britain (14.0% of the total balance) and Austria (8.0% of the total balance). Amounts due from financial institutions from the former Soviet Union countries (Belarus, Russia, Latvia and Kazakhstan) and Turkey constituted 7.1% of the total balance. These entities have appropriate ratings assigned to them by international rating agencies.

IV. Discussion of financial statement components

3. Amounts due from the non-financial and the public sectors

The balance of "Amounts due from the non-financial and the public sectors" as at 31 December 2002 was PLN 9,325,767 thousand (PLN 9,980,392 thousand as at 31 December 2001), which represented a decrease of 6.5%. Compared with 2001 the proportion of "Amounts due from the non-financial and the public sectors" in the structure of assets as at 31 December 2002 decreased from 40.2% to 37.5%.

The decrease was largely the result of a large public sector entity repaying its exposures, which explains the decrease of nearly 95% in the portfolio of amounts due from the public sector (i.e. of PLN 910,765 thousand). The portfolio of "Amounts due from the non-financial and the public sectors" increased slightly in the audited period by PLN 256,140 thousand (i.e. by 2.8%). The gross amount due from the non-financial sector as at 31 December 2002 was PLN 9,915,165 thousand compared with PLN 9,270,085 thousand as at the end of 2001, which represents a 7.0% increase. As a result of a considerable increase in the provisions recorded (by 155.1%) the net amount due from the non-financial sector as at 31 December 2002 is characterised by a 2.8% increase. Amounts due from non-financial entities also comprise the debt securities of non-financial entities purchased on the primary market (and thus, classified as "originated loans") with a total balance sheet value of PLN 258,081 thousand. The closing balance of these debt securities was higher compared with the balance on the restated opening balance sheet, mainly as a result of taking over from BRE Fundusz Kapitałowy Sp. z o.o. the debentures of an entity with a total nominal value of USD 50,900 thousand.

In the current financial year, the structure of the loan portfolio was as follows:

Type of loan	31 December 2002	31 December 2001
Investment loans	30.39%	36.4%
Working capital loans	24.37%	27.1%
Overdrafts	32.27%	15.2%
Other	12.97%	21.3%
Total	**100.0%**	**100.0%**

The currency structure of gross amounts due from the non-financial sector as at 31 December 2002 was characterised by a fairly even distribution of exposures in domestic currency (51.3%) and foreign currencies (48.7%), compared with the considerable excess of domestic currency exposure (55.9%) over foreign currency exposure (44.1%) in 2001.

During the current year, there was no material change in the share of individual foreign currencies. As at 31 December 2002, the Bank's largest foreign exchange exposures were denominated in euros and US dollars (22.5% and 19.2% respectively of the gross amounts due from the non-financial and the public sectors). By comparison, as at 31 December 2001, the share of euros and US dollars in the portfolio of amounts due from the non-financial and the public sectors was 19.4% and 16.0% accordingly.

IV. Discussion of financial statement components

3. Amounts due from the non-financial and the public sectors (cont.)

Both as at the end of the current and previous year, the concentration of the loan portfolio in terms of business segments reflected the Bank's largest exposure as being in the trade sector (17% and 16% respectively). The following sectors: real estate and construction, financial agency services, except for insurance and pension funds, food and beverage production as well as retail were also significant elements in the loan portfolio structure in terms of business segments in the current year.

During the year, the total loan portfolio decreased by 6.6%, which, with loans classified as non-performing going up by 88.0%, led to an adverse change in the loan portfolio structure. The percentage of loans classified as non-performing in the total of "Amounts due from the non-financial and the public sectors" increased from 11.4% as at 31 December 2001 to 22.1% as at 31 December 2002, which was mainly due to the proportion of "doubtful" loans increasing by 4.0 p.p. and the proportion of "loss" loans increasing by 2.1 p.p. The proportion of "sub-standard" loans in the total portfolio increased by 4.6 p.p.

The structure of the loan portfolio in terms of risk was as follows (net of interest accrued):

Loans	**31.12.2002**		**31.12.2001**	
	Balance PLN'000	**Share (%)**	**Balance PLN'000**	**Share (%)**
Normal	6,946,325	69.7%	8,056,149	78.7%
Watch	630,114	6.3%	846,138	8.3%
Non-performing	2,196,409	22.1%	1,168,578	11.4%
including:				
substandard	767,324	7.7%	314,695	3.1%
doubtful	894,844	9.0%	515,348	5.0%
loss	534,241	5.4%	338,535	3.3%
Interest	192,684	1.9%	160,352	1.6%
Total (gross)	**9,965,532**	**100.0%**	**10,231,217**	**100.0%**
Specific provisions	**(639,765)**	**6.4%**	**(250,825)**	**2.5 %**
Total (net)	**9,325,767**		**9,980,392**	

The above analysis shows that, compared with the previous year, in the audited year there was both an increase in the ratio of provisions to total gross loans (from 2.5% to 6.4%) and an increase in the coverage of loans classified as non-performing with specific provisions (from 20.7% to 28.1%). This increase was mainly due to the fact that in the current year loans classified as non-performing included loans to companies for which the Bank held collateral not giving rise to a reduction in the basis for recording provisions, in accordance with the provisions of the Decree of the Minister of Finance, which contributed to the increase in the basis for creating specific provisions for the non-performing loan exposure.

In the current year, the Bank used a part of the previously recorded general banking risk provision (Art. 130 of the Banking Law) to set up the specific provisions for credit risk in certain justified cases.

IV. Discussion of financial statement components

4. Debt securities

The balance of "Debt securities" as at 31 December 2001 amounted to PLN 5,312,796 thousand and accounted for 21.4% of total assets as at that date. Compared with the restated opening balance sheet (PLN 4,787,196 thousand) this item increased by PLN 525,600 thousand (which represented an 11% increase).

As a result of restating the opening balance sheet, debt securities also comprise debt securities against which the Bank entered into repo transactions. Such transactions amounted to PLN 1,077,759 thousand on the opening balance sheet. During the year, the value of these transactions increased to PLN 1,728,870 thousand as at 31 December 2002, which was one of the factors resulting in the increase of debt securities in the Bank's portfolio.

In addition, the increase in "Debt securities" as at 31 December 2002 compared with the balance as at the end of the prior financial year was mainly due to the debt securities issued by the State Treasury increasing by PLN 573,410 thousand (i.e. by 14.3%). Treasury bills increased by PLN 468,027 thousand (an increase of 20.6%), while Treasury bonds increased by PLN 105,383 thousand (6.1%). At the same time, debentures issued by subsidiaries and other entities decreased slightly in the period under analysis.

Debt securities as at 31 December 2002 were classified into available for sale and held for trading. The portfolio of debt securities available for sale comprises Treasury bills blocked by virtue of the requirements of the Bank Guarantee Fund. The total balance sheet value of these T-bills was PLN 45,675 thousand. Also, the portfolio of debt securities available for sale comprised the commercial debentures of a non-financial entity with a total balance sheet value of PLN 44,864 thousand. Other debt securities were shown in the portfolio of debt securities held for trading.

5. Shares in subsidiaries

The balance of "Shares in subsidiaries" amounted to PLN 852,493 thousand as at 31 December 2002 and increased during the year ended 31 December 2002 by 98.0% (i.e. by PLN 421,938 thousand) compared with the data which is comparable in value terms.

This increase was mainly due to:

- the Bank purchasing 38.61% of shares in PTE Skarbiec-Emerytura SA for PLN 382,880 thousand and increasing this Company's share capital by PLN 30,000 thousand;
- purchasing shares and increasing fourfold the share capital of Skarbiec Asset Management Holding SA by a total amount of PLN 134,582 thousand;
- purchasing 100% of shares in Famco S.A. for PLN 2,840 thousand, together with the Bank promising to pay up the unpaid for portion of share capital of PLN 2,500 thousand.

IV. Discussion of financial statement components

5. Shares in subsidiaries (cont.)

This increase was partially offset, *inter alia*, by:

- selling 51% of Skarbiec TFI S.A. shares to Skarbiec Asset Management Holding S.A., the value of the shares sold amounted to PLN 21,434 thousand as at 1 January 2002;
- the impairment, and then sale of 100% of shares held in BRE Fundusz Kapitałowy Sp. z o.o., the value of which as at 1 January 2002 was PLN 27,849 thousand;
- redemption of share capital in Dom Inwestycyjny BRE Banku S.A. of PLN 7,981 thousand;
- withdrawing a portion of a contribution of PLN 14,303 thousand in Ambresa Sp. z o.o. - BRELLA Sp. komandytowa.

Moreover, the balance of the portfolio of shares in subsidiaries was significantly affected by the adopted valuation method. In accordance with the binding provisions, the Bank calculated the value of this portfolio using the equity method, both as at 1 January 2002 (the effect was reflected in "Retained earnings/Accumulated losses") and as at the end of the current financial year. Details of the valuation using the equity method have been given in Note 30 to this report.

A detailed analysis of this item is presented in Notes 7 and 10 to the Bank's financial statements.

6. Shares in associates

The balance of "Shares in associates" amounted to PLN 22,520 million as at the balance sheet date (PLN 120,501 thousand as at 31 December 2001 and PLN 100,718 thousand as at 1 January 2002). As in the case of the subsidiaries, the Bank performed an appropriate valuation of shares in associates using the equity method as at the start and as at the end of the year.

As at 31 December 2002 the balance of "Shares in associates" amounting to PLN 22,520 thousand decreased by 77.6% compared with 1 January 2002. The decrease was mainly due to selling 50% of shares in BRE Private Equity Sp. z o.o., the carrying value of which as at the start of 2002 was PLN 6,079 thousand, and transferring the shares of Szeptel SA and Pozmeat S.A. to "Other securities" (the carrying value of these shares as at the start of 2002 was PLN 61,942 thousand) due to the adopted strategy of selling these shares.

In the audited year, the Bank purchased 50% of shares in Polfactor S.A. with a value of PLN 4,803 thousand from BRE Fundusz Kapitałowy Sp. z o.o.

A detailed analysis of this item is presented in Notes 9 and 10 to the Bank's financial statements.

IV. Discussion of financial statement components

7. Shares in other entities

The balance of "Shares in other entities" was PLN 12,830 thousand as at the balance sheet date (PLN 20,954 thousand as at 31 December 2001 and PLN 19,407 thousand as at 1 January 2002). The balance of "Shares in other entities" decreased by 33.9% in the period from 1 January to 31 December 2002. The key reason for the decrease was a decrease in the value of shares in foreign funds: Poland Investment Fund, Polish PRE-IPO Fund LP, Prospect Poland UK LP (in the case of the two latter funds the shares were impaired).

The Bank classifies shares in other entities as securities available for sale. In accordance with the new accounting policies changes in the fair value of securities available for sale are recorded in "revaluation reserve". In the event of impairment the total decreases/increases in value are reflected in the income statement. A detailed analysis of the balance is presented in Note 11 to the Bank's financial statements.

8. Other securities and other financial assets

As at the balance sheet date, the balance of "Other securities and other financial assets" was PLN 629,299 thousand (PLN 641,105 thousand as at 31 December 2001). As at 1 January 2002, "Other securities and other financial assets" increased by PLN 19,849 thousand as a result of changes in the accounting policies introduced on the basis of the Decree of the Minister of Finance of 12 December 2001 on detailed recognition principles, valuation methods, scope of disclosures and presentation of financial instruments (Dz.U.01.149.1674 of 22 December 2001). According to the above-mentioned provisions, the periodic valuation of securities should be performed at the market price – and not the lower of purchase price and market price. After taking into account the increases in value of quoted securities, in comparison with the quoted price, the opening balance of "Other securities and other financial assets" was PLN 660,954 thousand. The Decree also introduced new classification principles for securities, which are currently presented in two categories: held for trading and available for sale.

During the year ended 31 December 2002, the balance of "Other securities and other financial assets" decreased by PLN 31,655 thousand (i.e. by 4.8%). The decrease was made up of the following items:

- selling the whole of the package of shares held in the Onet.pl S.A. Group with a net carrying value of PLN 27,807 thousand as at the beginning of the financial year; the remaining portion of shares held as at 31 December 2001 in the Onet.pl Group was classified as shares in Optimus S.A. (formerly Optimus Technologie S.A.), a considerable portion of which was sold in the audited year;
- selling shares in Stomil Olsztyn S.A. with a carrying value of PLN 49,036 thousand as at the start of the year;
- selling participation units in a trust fund Skarbiec Kasa, which as at 31 December 2001 carried a value of PLN 77,813 thousand;
- purchasing a package of shares in PKN Orlen with a value of PLN 59,939 thousand;
- purchasing a package of shares in PZU S.A. with a value of PLN 50,499 thousand;
- a decrease in the carrying value of securities classified as "held for trading" of PLN 16,924 thousand.

IV. Discussion of financial statement components

9. Intangible assets

As at the balance sheet date, the balance of "Intangible assets" amounted to PLN 259,258 thousand compared with PLN 206,471 thousand as at 31 December 2001, which represented a 25.6% increase.

In 2001, "Intangible assets" also included start-up and further issue costs (the balance as at 31 December 2001 was PLN 3,106 thousand) and purchased rights to perpetual usufruct of land (the balance as at 31 December 2001 was PLN 53,017 thousand). The Bank restated the opening balance sheet and transferred the start-up and further issue costs of PLN 3,106 thousand to prepayments and deferred costs and the purchased rights to perpetual usufruct of land of PLN 53,017 thousand to tangible fixed assets. Moreover, as a result of restating the opening balance sheet a part of assets under construction and prepayments for assets under construction of PLN 13,911 thousand was transferred from tangible fixed assets to intangible assets.

The increase in the balance of intangible assets in the audited year was mainly due to commissioning the Altamira operating system for use (the operating system of mBank) totalling PLN 59,457 thousand.

Wear and tear of intangible assets measured as a ratio of accumulated amortisation to the cost of intangible assets as at 31 December 2002 was 30.3%. The same ratio measured as at 31 December 2001 was 29.0%. Wear and tear of computer software, constituting 61.1% of total intangible assets, measured as a ratio of accumulated amortisation to the cost of the software, as at 31 December 2002 was 24.0%. The same ratio measured as at 31 December 2001 was 29.7%. The drop in this ratio was due to transferring large investments in software from tangible fixed assets under construction.

A detailed analysis of the balance is presented in Note 14 to the Bank's financial statements.

10. Tangible fixed assets

As at the balance sheet date, the balance of "Tangible fixed assets" amounted to PLN 874,989 thousand compared with PLN 860,284 thousand as at 31 December 2001, which represented a 1.7% increase.

In 2002, the Bank restated its opening balance sheet – as described in the note above.

The increase of tangible fixed assets in the audited year was mainly due to an increase in the balance of assets under construction and prepayments for assets under construction of PLN 17,010 thousand. In 2002 a real estate of PLN 16,024 thousand, obtained in 1999 in return for purchased receivables from Swarzędzkie Fabryki Mebli, was included under "buildings and offices". This real estate was previously shown under "assets designated for sale".

The wear-and-tear of tangible fixed assets, representing the ratio of accumulated depreciation to the gross book value of the Bank's tangible fixed assets as at 31 December 2002 amounted to 28.5% and was higher compared with the same ratio as at 31 December 2001, which amounted to 23.9%. This was mainly due to recognising a depreciation charge for the year.

IV. Discussion of financial statement components

11. Other assets

The balance of "Other assets" as at 31 December 2002 amounted to PLN 2,690,058 thousand, compared with PLN 2,629.596 thousand as at 31 December 2001.

The increase of PLN 60,462 thousand (i.e. by 2.3%) in the balance was mainly due to the balance of settlements in respect of trading in securities and financial instrument transactions increasing by PLN 211,878 thousand (i.e. by 9.6%) as a result of the growth in the volume of transactions. In addition, in the audited year, the balance of "debtors" decreased by PLN 24,684 thousand. The largest decrease in the balance was noted in the case of receivables relating to overpaid corporate income tax, which decreased by PLN 77,992 thousand to PLN 62,515 thousand as at 31 December 2002.

As at 31 December 2002, the balance of settlements in respect of trading in securities and financial instruments transactions totalling PLN 2,411,489 thousand consisted of the following:

- fair valuation of interest rate transactions (PLN 1,622,876 thousand) and premium paid on interest rate options (PLN 344 thousand);
- fair valuation of foreign currency transactions (PLN 706,220 thousand) and premium paid on foreign currency options (PLN 70,850 thousand);
- valuation of transactions in derivatives and index transactions (PLN 10,891 thousand) and premium paid on warrants and options (PLN 308 thousand).

"Debtors" totalling PLN 177,548 thousand also represented a significant component of "Other assets", which was mainly due to prepayments made towards the purchase of shares in PTE Skarbiec Emerytura SA, BRE.locum Sp. z o.o., Multico Sp. z o.o., BPT Telbank, Optimus S.A., cable.com S.A., BRE Corporate Finance S.A., Inteligo Group, and Billbird S.A. totalling PLN 190,518 thousand (PLN 202,232 thousand as at 31 December 2001). Taking into account the substance of these prepayments, they should be allocated to individual share balances, but the Bank discloses them under "Other assets" to comply with the requirements of the National Bank of Poland.

12. Amounts due to the financial sector

As at 31 December 2002, the balance of "Amounts due to the financial sector" was PLN 6,690,955 thousand (PLN 8,174,019 thousand as at the end of 2001).
Compared with the closing balance of the prior year, the opening balance as at 1 January 2002 increased by PLN 1,146,641 thousand, as a result of introducing the new accounting regulations, in accordance with which deposits received (which until now were shown under "Special funds and other liabilities") were classified to the appropriate liabilities balance.

The balance of amounts due to the financial sector decreased by PLN 1,483,064 thousand (i.e. by 18.1%) during the year ended 31 December 2001. This was mainly due to cash in bank accounts and in deposit accounts decreasing by PLN 1,621,424 thousand (i.e. by 33.7%) compared with the prior year. This change was mainly due to a decrease in deposits placed by banks and other financial institutions of PLN 2,840,366 thousand (i.e. of 61.4%).

The proportion of amounts due to the financial sector denominated in foreign currencies increased from 52.1% as at the end of 2001 to 57.6% as at 31 December 2002.

IV. Discussion of financial statement components

13. Amounts due to the non-financial and the public sectors

As at the balance sheet date, the balance of "Amounts due to the non-financial and the public sectors" was PLN 10,127,671 thousand (PLN 9,865,388 thousand as at 31 December 2001). As at the end of 2002 the balance of "Amounts due to the non-financial sector" amounted to PLN 10,009,117 thousand (PLN 9,697,543 thousand as at the start of 2002), while the balance of "Amounts due to the public sector" reflected PLN 118,554 thousand (PLN 167,845 thousand as at the start of 2002).

The increase in "Amounts due to the non-financial sector" of PLN 311,574 thousand (i.e. of 3.2%) was mainly a result of cash balances in the accounts of mBank clients increasing by PLN 791,389 thousand compared with the end of 2001 (i.e. up to PLN 1,828,889 thousand). This was consistent with the Bank's policy to increase the retail sector's share in the structure of financing the Bank's operations.

Moreover, there was a change in the structure of "amounts due to the non-financial sector". The proportion of term deposits decreased from 64.2% as at 31 December 2001 to 52.3% as at 31 December 2002. The decrease was mainly due to interest rate fluctuations and accumulating a considerable amount of cash in the accounts of mBank customers, where current accounts prevail.

14. Issue of debt securities

As at 31 December 2002, the balance of liabilities in respect of issuing debt securities was PLN 25,286 thousand. At the end of the prior year, this item was not present in the financial statements.

"Issue of debt securities" comprises certificates of deposit issued by the Bank on the basis of the Debt Security Issue Programme Agreement concluded on 24 September 2002. As at 31 December 2002, certificates of deposit with a nominal value of PLN 25,500 thousand were valued using the amortised cost method.

The maximum value of the issue in accordance with the Debt Security Issue Programme Agreement concluded may amount to PLN 1,000,000 thousand.

15. Other liabilities relating to financial instruments

As at 31 December 2002, "Other liabilities relating to financial instruments" amounted to PLN 2,233,465 thousand compared with PLN 1,597,197 as at 31 December 2001, and comprised the fair valuation of transactions in securities and other financial instruments. The increase in the balance compared with 31 December 2001 was mainly due to increasing the fair valuation of interest rate swaps (an increase of liabilities in this respect of PLN 312,304 thousand) and increasing the fair valuation of FX (by PLN 333,871 thousand).

IV. Discussion of financial statement components

15. Other liabilities relating to financial instruments (cont.)

As at 31 December 2002, the balance comprised:

- fair valuation of interest rate transactions (PLN 1,587,782 thousand) and premium received on interest rate options (PLN 518 thousand);
- fair valuation of FX transactions (PLN 541,563 thousand) and premium received on FX options (PLN 96,950 thousand);
- valuation of transactions in derivatives and index transactions (PLN 6,374 thousand) and premium received on warrants and options (PLN 278 thousand).

16. Special funds and other liabilities

As at 31 December 2002, "Special funds and other liabilities" amounted to PLN 98,957 thousand (PLN 66,829 thousand as at 31 December 2001).

The balance of "Special funds and other liabilities" increased by PLN 32,128 thousand (i.e. by 48.1%) mainly due to an increase in the balance of "creditors" of PLN 42,939 thousand to PLN 87,516 thousand as at 31 December 2002.

17. Accruals, deferred income and suspended income

As at 31 December 2002, "Accruals, deferred income and suspended income" amounted to PLN 222,392 thousand (PLN 749,084 thousand as at 31 December 2001), which represents a decrease of PLN 526,692 thousand (i.e. of 70.3 %).

The decrease in the balance of "Accruals, deferred income and suspended income" was mainly brought about by unrealised foreign exchange differences and discount on purchased receivables due, which amounted to PLN 530,627 thousand as at 31 December 2001 and which were not present in the balance sheet as at the end of 2002.

18. Provisions

As at the balance sheet date, "Provisions" amounted to PLN 918,972 thousand (PLN 784,317 thousand as at 31 December 2001). The balance comprised a deferred tax provision and other provisions. The deferred tax provision as at the balance sheet date amounted to PLN 789,122 thousand (PLN 693,595 thousand as at 31 December 2001).
"Other provisions" as at the end of 2002 amounted to PLN 129,850 thousand (PLN 90,772 thousand as at 31 December 2001). The balance consisted of specific provisions for off-balance-sheet credit risk (PLN 10,850 thousand) and the general banking risk provision of PLN 119,000 thousand.

The change in the balance of provisions in the current year resulted from the increase in the general banking risk provision of PLN 55,155 thousand, together with a decrease in the provision for off-balance-sheet credit risk of PLN 16,027 thousand. The increase in the general banking risk provision was the result of utilising a part of the provision of PLN 63,845 thousand due to the necessity of reclassifying several items from the "normal" category to the "loss" category due to the sudden, considerable deterioration in the financial position of the borrowers, and a provision of PLN 119,000 thousand being set up. The Bank recognises the general banking risk provision in accordance with Art. 130 of the Banking Law.

IV. Discussion of financial statement components

19. Subordinated liabilities

As at 31 December 2002 "Subordinated liabilities" amounted to PLN 1,005,524 thousand, which represents a 100% increase compared with the prior year. The balance comprises two subordinated loans of PLN 925,010 thousand, interest on the loans of PLN 474 thousand and foreign exchange differences arising of PLN 80,040 thousand.

The balance of subordinated liabilities is the result of issuing subordinated debentures of EUR 250,000 thousand during the financial year. The total amount was acquired by Atlas - Vermogensverwaltungs-Gesellschaft MBH, Germany, which is a financial institution 100% owned by Commerzbank AG – the strategic shareholder of BRE Bank SA.

The Bank was granted permission by the Banking Supervision Commission to classify the funds obtained as the Bank's supplementary funds. Therefore, as at 31 December 2002, PLN 754,789 thousand was recorded as part of supplementary funds.

20. Equity

The analysis of changes in equity in 2002 is presented below:

	31.12.2001	Profit appropriation	Opening balance restatement	Other changes	31.12.2002
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	91,882	-	-	-	91,882
Supplementary capital	748,738	-	-	-	748,738
Revaluation reserve	7,969	-	15,146	(26,160)	(3,045)
Other reserves	1,247,915	105,000			1,352,915
Retained earnings / (Accumulated losses)	-		(228,772)		(228,772)
Net profit/(loss)	336,180	(336,180)		(379,221)	(379,221)
Total	**2,432,684**	**(231,180)**	**(213,626)**	**(405,381)**	**1,582,497**

The Bank's equity, calculated in accordance with Resolution No. 6/2001 of the Banking Supervision Commission (KNB), amounted to PLN 1,883,046 thousand as at 31 December 2002 and was higher by PLN 327,755 thousand than the total regulatory requirement, which together with the requirement concerning excess capital exposure risk amounted to PLN 1,555,290 thousand as at the balance sheet date. The capital adequacy ratio of the Bank amounted to 10.01%.

As at 31 December 2002, the Bank exceeded the concentration limits for purchased receivables by PLN 36,803 thousand and the capital concentration threshold by PLN 249,414 thousand.

The capital requirement relating to foreign currency risk as at 31 December 2002 amounted to PLN 34,184 thousand, because the absolute value of the global foreign exchange position exceeded 2% of the Bank's equity. The capital requirement was calculated using the standard approach.

In the year from 1 January to 31 December 2002, there were no changes to the Bank's share capital or supplementary capital.

IV. Discussion of financial statement components

20. Equity (cont.)

As at 31 December 2002, the Bank’s share capital amounted to PLN 91,882,000 and consisted of 22,970,500 registered shares and bearer shares with a nominal value of PLN 4 each. All the shares had been paid up in full. There were no preference shares.

As at 31 December 2002, “Other reserves” amounted to PLN 1,352,915 thousand compared with PLN 1,247,915 million as at the end of the prior financial year. This represents an increase in other reserves of PLN 105,000 thousand (i.e. of 8.4%). The increase was due to designating PLN 105,000 thousand out of profit appropriation for 2001 to the “General risk fund” based on Resolution No. 2 of the General Shareholders Meeting of 25 April 2002.

Detailed information concerning individual equity items as at 31 December 2002 is presented in Notes 29 to 35 to the Bank’s financial statements.

Income statement for the year ended 31 December 2002

21. Net interest income

Net interest income in the current financial year amounted to PLN 326,773 thousand (PLN 362,282 thousand in the prior year), which represents a decrease of PLN 35,509 thousand (i.e. of 9.8%) compared with the prior year.

An important factor which affected the Bank’s income and costs was the fact that in 2002 the Monetary Policy Board decreased the basic interest rates eight times by a total of 6.75 p.p.; therefore, the refinancing loan rate declined from 16.5% to 9.75%, the bill-of-exchange rediscounting rate from 14% to 7.5% and the Lombard rate from 15.5% to 8.75%.

In the current year, interest income decreased by 18.6% and interest costs decreased by 20.7%, mainly as a result of reducing the base interest rates.

The interest rate margin (calculated as net interest income divided by interest income) increased from 20% in the prior year to 22.2% in the audited year, due to favourable trends in the fluctuation of interest rates on sources of financing (e.g. loans drawn and deposits received) in respect of changes in the interest rates of interest-bearing assets (e.g. loans extended, deposits placed and purchased debt securities).

IV. Discussion of financial statement components

22. Result on financial operations

The result on financial operations (loss) for the audited year amounted to PLN 100,222 thousand (a loss of PLN 141,525 thousand in the prior year).

The profit on financial operations generated in the audited year mainly relates to an increase in income from financial operations, with the level of the costs of these operations remaining unchanged compared with the prior year. Moreover, the result for the current year was materially affected by the rule introduced by the Decree of the Minister of Finance of 30 September 2002 stating that changes in the fair value of securities classified as available for sale should be reflected in the revaluation reserve. As at 31 December 2002, the balance of the revaluation reserve was PLN (3,045) thousand, including PLN 5,284 thousand relating to the valuation of shares and participation units.

Losses on other financial transactions (mainly transactions in derivatives) amounted to PLN 120,601 thousand in the current year (PLN 121,966 thousand in 2001). Of this amount, PLN 67,650 thousand related to losses on futures transactions designated as economic hedges against interest rate risk in respect of Treasury bonds denominated in foreign currencies.

In the audited year, the Bank did not apply hedge accounting.

23. Foreign exchange result

There was a decrease in "Foreign exchange result" from PLN 461,131 thousand in 2001 to PLN 393,243 thousand in the current year.

In the current year, the Bank slowed down its activities on the FX transaction market, which led to a lower volume of transactions being concluded and resulted in a decrease in off-balance sheet liabilities relating to spot and forward transactions of 25.6%.

The decrease in the foreign exchange result was mainly brought about by a decrease in the realised gain on forward transactions of PLN 128,547 thousand, a decrease in realised gain on the FX margin of PLN 36,748 thousand and a decrease in unrealised gain on revaluation of PLN 34,527 thousand, which was partly offset by an increase in unrealised gain on the FX forward transaction valuation (of PLN 28,326 thousand) and FX options (of PLN 101,818 thousand).

With regard to its income statement components, the Bank did not translate transactions concluded into Polish zlotys making use of the average exchange rate determined for a given currency by the NBP President, being in force as at the transaction date, which was not in accordance with Art. 30, clause 2, of the Accounting Act. All the transactions concluded and shown in the income statement were translated into Polish zlotys making use of the average exchange rate in force as at 31 December 2002. Using a method for translating foreign currency transactions different from the one specified in the Accounting Act may materially affect the presentation of data in the income statement for the audited year. However this has no effect on the total sales and total cost figures nor on the net profit or loss. However, the Bank's Management Board is unable to determine to what degree individual income and cost items may be distorted.

IV. Discussion of financial statement components

24. Other operating income

In 2002, other operating income was lower by PLN 128,496 thousand (i.e. by 80.1%) than other operating income generated in 2001. The difference was mainly due to higher than average income earned in 2001, resulting from the sale and lease back of 5 buildings (proceeds of PLN 72,110 thousand) and compensation obtained from the State Treasury due to a court decision regarding a dispute concerning real estate (including statutory interest of PLN 40,971 thousand).

25. Other operating expenses

Other operating expenses increased from 45,879 thousand as at 31 December 2001 to PLN 53,697 thousand as at 31 December 2002. The change was brought about by the lower costs of selling or scrapping fixed assets (of PLN 17,955 thousand), accompanied by higher write-downs in respect of future liabilities (PLN 21,135 thousand). A decrease in costs relating to the sale or liquidation of fixed assets was mainly due to booking in 2001 transaction costs in respect of the sale and lease back of 5 buildings (a cost of PLN 22,187 thousand). The increase of write-downs in respect of future liabilities was mainly brought about by recording a provision for a prepayment for the purchase of shares in Optimus S.A. (of PLN 22,891 thousand).

26. Overhead costs of the Bank

Overhead costs of the Bank in 2002 amounted to PLN 470,607 thousand compared with PLN 433,015 thousand in the prior year, which represents an increase of PLN 37,592 thousand (i.e. of 8.7%). The increase in the overhead costs of the Bank in the current financial year resulted mainly from an increase in running costs of PLN 40,067 thousand, together with a decrease in salaries of PLN 8,828 thousand.

	12 months ended 31.12.2002	12 months ended 31.12.2001	Change	Change %
Average number of employees (in persons)	2,846	2,613	233	8.9
Bank's overheads per employee (in PLN'000)	165.4	165.7	(0.3)	(0.0)
Bank's overheads to total revenues	19.2%	14.3%		(4.9) pp
Net profit/(loss) per employee (in PLN'000)	(133.2)	128.7	(261.9)	(203.5)

The largest components of the Bank's overheads in the current year included running costs totalling PLN 250,481 thousand, which accounted for 53.2% of the balance, as well as salaries of PLN 160,822 thousand, representing 34.2% of the balance.

IV. Discussion of financial statement components

26. Overhead costs of the Bank (cont.)

Running costs comprised the following items:

	12 months ended 31.12.2002 PLN'000	Structure (%)	12 months ended 31.12.2001 PLN'000	Structure (%)
Rent and use of premises	57,220	22.8	42,986	20.4
IT and telecommunications costs	51,097	20.4	37,410	17.8
Other administrative expenses	39,117	15.6	34,339	16.3
Advertising, promotion and information	37,516	15.0	36,750	17.5
External services	29,977	12.0	22,877	10.9
Training, business trips and employee-related expenses	3,103	1.2	3,125	1.5
Security	15,738	6.3	16,885	8.0
Other	16,713	6.7	16,041	7.6
Total running costs	**250,481**	**100**	**210,414**	**100**

The largest increase compared with the prior year was in respect of "Rent and use of premises" (an increase of PLN 14,234 thousand) and "IT and telecommunications costs" (an increase of PLN 13,687 thousand).

27. Net provisions and write-downs

The Bank's balance of net provisions and write-downs amounted to PLN 494,920 thousand in the current financial year, compared with PLN 57,383 thousand in the prior year. This was associated with the gross value of the portfolio of loans to the non-financial sector classified as non-performing increasing by PLN 1,027,831 thousand and increasing the degree to which the non-performing portfolio is covered by specific provisions (from 20.7% to 28.1%).

The higher level of write-downs recorded in the second half of 2002 was mainly due to adopting a more stringent interpretation of the regulations concerning selected exposures.

In addition, the Bank recorded provisions related to the impairment of financial assets totalling PLN 82,862 thousand, while the balance of provisions released was only PLN 19,903 thousand. The provisions recorded mainly related to the impairment of shares of the following companies: Szeptel S.A., Pozmeat S.A., Optimus S.A. and BRE Fundusz Kapitałowy Sp. z o.o.

The net charge to the general risk provision (i.e. the difference between the provision recorded and released) was PLN 55,155 thousand in the current financial year.

IV. Discussion of financial statement components

28. Corporate income tax

	12 months ended 31.12.2002 PLN'000	12 months ended 31.12.2001 PLN'000	Change PLN'000
Corporate income tax due	534	74,360	(73,826)
Deferred income tax	(99,502)	1,180	(100,682)
- including: loss carryforwards	(59,324)	-	
Total	**(98,968)**	**75,540**	**(174,508)**

During the current year, corporate income tax due was calculated using the rate of 28% of the profit before tax calculated on the basis of accounting regulations, adjusted for exempt income and non-deductible cost. As at 31 December 2002, the Bank's receivable in respect of overpaid income tax amounted to PLN 62,515 thousand. The Bank recovered the amount receivable in respect of overpaid income tax of PLN 140,507 thousand as at 31 December 2001 during 2002.

	12 months ended 31.12.2002 PLN'000	12 months ended 31.12.2001 PLN'000
Profit/(Loss) before tax	**(299,045)**	**411,720**
Increase in positive timing differences (future increase in tax base increasing deferred tax)	(379,527)	(1,564,392)
Increase in negative timing differences (future decrease in tax base decreasing deferred tax)	812,647	1,548,388
Other changes to tax base provided for in tax regulations (positive or negative amount)	(353,792)	(130,147)
Tax base	**(219,717)**	**265,569**
Deferred tax relating to tax loss (27%) / Corporate income tax due	**(59,324)**	**74,359**

The increase in changes in positive timing differences of PLN 379,527 thousand was mainly due to the increase in unrealised net gains on the valuation of derivatives which accounted for 74.8% of the increase in the said item.

The increase in changes in negative timing differences of PLN 812,647 thousand was mainly due to the decrease in the value of securities and recording tax loss carryforwards of 40.3% and 27.0% respectively and the increase in the said item.

IV. Discussion of financial statement components

28. Corporate income tax (cont.)

A detailed analysis of deferred income tax reflected in the financial result for 2002:

As at the end of the period:	PLN'000
Deferred tax on negative timing differences	(904,236)
Deferred tax on positive timing differences	789,122
Deferred tax on total net timing differences (a)	(115,114)
Deferred tax as at 31 December 2001	(12,564)
Opening balance adjustment	(1,732)
Deferred tax as at 1 January 2002 (b)	(14,296)
Deferred tax difference (a-b)	(100,818)
Deferred tax reflected in revaluation reserve	1,316
Deferred tax reflected in the result for 2002	**(99,502)**

The balance of deferred income tax in respect of negative timing differences comprised mainly decreases relating to unrealised result on the valuation of derivatives (63.9% of the balance), a decrease in the value of securities (10.2% of the balance), a provision for "loss" loans not previously treated as tax deductible costs (6.8% of the balance) and tax loss carryforwards (6.6% of the balance).

The balance of deferred income tax in respect of positive timing differences comprised mainly increases due to unrealised gain on the valuation of transactions in derivatives (80.1% of the balance) and the investment relief (9.6% of the balance).

As a result of the Act on changes to the corporation income tax act (Dz.U.02.200.1684) passed on 30 November 2002, the Bank stopped including in its calculation of deferred tax the effect of reducing the tax rates in the years in which income will have been earned or cost realised in the future for tax purposes. All the negative and positive timing differences are recognised using the tax rate binding in 2003 which amounts to 27%. The calculation of all the positive and negative timing differences using the 27% tax rate resulted in an increase in the net loss of PLN 22,679 thousand.

In the current financial year, the Bank began recording provisions for loans and guarantees classified as sub-standard under deferred tax. Including the sub-standard category resulted in an increase in negative timing differences of PLN 54,518 thousand and thus, an increase in the deferred tax included in the income statement of PLN 14,720 thousand.

IV. Discussion of financial statement components

28. Corporate income tax (cont.)

In the current and previous year, the structure of the effective tax rate was as follows:

	12 months ended 31.12.2002	12 months ended 31.12.2001
Effective corporate income tax rate (CIT)	(0.18)%	18.06%
Effective deferred income tax rate	33.28%	0.29%
- including: loss carryforwards	19.83%	
Total	**33.10%**	**18.35%**

29. Share in the net results of subordinated entities recorded using the equity method

In accordance with the requirements of the New Accounting Act, in 2002 the Bank for the first time recorded subordinated entities using the equity method. The share in net results of subordinated entities recorded using the equity method amounted to PLN (179,144) thousand.

Apart from the Bank's share in the profits/losses of subordinated entities, this item comprises amortisation of goodwill and recognition of negative goodwill, as well as elimination of unrealised gains/losses on transactions between the Bank and the said entities.

The result for 2002 includes the Bank's share in the net results of subordinated entities. The total share in the net losses of subordinated entities recorded using the equity methods was mainly affected by the following:

	12 months ended 31.12.2002 PLN'000
BRE Fundusz Kapitałowy Sp. z o.o.	(45,774)
Skarbiec Asset Management Holding S.A.	(44,048)
PTE Skarbiec Emerytura S.A.	(38,107)
Szeptel S.A.	(33,368)
Bank Częstochowa S.A.	(13,701)
Other	(4,146)
Total	**(179,144)**

30. Assets put up as collateral

As at 31 December 2002, Treasury bills of PLN 45,675 thousand (with a nominal value of PLN 47,000 thousand) were deposited in a separate account with the NBP as collateral for liabilities to the Guaranteed Deposit Protection Fund as required by the Bank Guarantee Fund. The Bank's ability to make use of the said assets is not restricted.

IV. Discussion of financial statement components

31. Off-balance-sheet items

As at the balance sheet date, "Off-balance-sheet items" amounted to PLN 153,150,315 thousand (PLN 149,804,761 thousand as at 31 December 2001 and PLN 148,672,037 thousand as at 1 January 2002).

As at 31 December 2002 and 31 December 2001, the principal component of "Off-balance-sheet items" were "Commitments arising from purchase/sale transactions" of PLN 145,902,647 thousand and PLN 142,863,566 thousand respectively relating to derivatives instruments.

The increase in "Commitments arising from purchase/sale transactions" resulted mainly from an increase in the nominal value of open positions in respect of concluded IRS and FRA transactions (of PLN 19,323,343 thousand and PLN 2,445,970 thousand respectively), together with a decrease in the nominal value of the open positions relating to FX Forward and FX Spot transactions (a decrease of PLN 13,095,014 thousand) and FX and interest rate options (a decrease of PLN 3,870,393 thousand).

For the purpose of this disclosure, the Bank adopted an approach used for reporting to the NBP and presented the balance of open swap contracts and spot & forward currency contracts in the so-called "analytical format" (i.e. showing the "pay" and "receive" elements). This resulted in "overstating" the amount of concluded contracts by approx. PLN 47.8 billion as at 31 December 2002 (by PLN 41.5 billion as at 31 December 2001). Having taken this into account, the balance of "Commitments arising from purchase/sale transactions" as at 31 December 2002 would have amounted to PLN 99.6 billion and PLN 101.4 billion as at the end of 2001. However, it should be pointed out that the said amounts did not reflect the Bank's actual risk associated with these transactions as they only represented the nominal value of the contracts concluded. Such risk (as at the balance sheet date) is reflected in the fair valuation of the said contracts.

Effective as of 1 January 2000, the Bank began including in its balance sheet and income statement the fair value of open derivatives as at the balance sheet date.

32. Contingent liabilities

a) As discussed in item (9) of the additional explanatory notes to the Bank's financial statements, on 23 May 2001 "Art-B Export-Import w likwidacji" filed a suit with the Regional Court in Warsaw, which was hearing the case, in which it calculated the losses incurred as a result of transferring USD 43.4m to Israel at the request of Art-B Export-Import. The loss calculations amounted to PLN 20,262 thousand in total and represented just over 1/10 of the amount specified in the claim. A proxy of "Art-B Export-Import w likwidacji" confirmed these calculations during a hearing on 22 August 2001, which means that if a decision is issued which is unfavourable to the Bank, the court will not adjudge an amount higher that the one calculated by "Art-B Export-Import w likwidacji" as being the total amount. At the request of the LEUMI LE ISRAEL bank, BRE Bank SA was served a third-party notice to participate in the proceedings taking place in Jerusalem, instituted by "Art-B Export-Import w likwidacji". The reason for the Israeli bank's request was that BRE Bank SA participated in the transfer of the amount being claimed. Based on the opinion of its legal advisors, the Bank's Management Board has reasons to believe that the official receiver's claims are groundless.

IV. Discussion of financial statement components

32. Contingent liabilities (cont.)

b) On 22 October 1999, DeTe Mobil Deutsche Telecom MobilNet GmbH ("DeTe Mobil") filed a suit with the International Arbitration Court in Vienna against BRE Bank SA, its subsidiary – Drugi Polski Fundusz Rozwoju-BRE Sp. z o.o. ("Fundusz BRE") and other entities (hereinafter collectively referred to as "the Defendants"), in which it demanded the following: (i) the sale of shares in Polska Telefonia Cyfrowa Sp. z o.o. ("PTC") made by the Defendants on 26 August 1999 being recognised as ineffective in full or, alternatively, in the part in which DeTe Mobil had pre-emptive rights to the said shares in PTC and for a decision to be issued to put the Defendants under an obligation to transfer the shares in question on to DeTe Mobil in the part in which DeTe Mobil accepted the Defendants' offer to sell these shares as part of exercising its pre-emptive rights; (ii) putting the Defendants under the obligation to pay compensation for the damage; and (iii) recognising that some of the Defendants (other than BRE Bank SA and Fundusz BRE) were in gross violation of PTC's Memorandum of Association. As far as BRE is concerned the issue in question is the ineffectiveness of the transfer of 3,179 shares with a contractual value of USD 29,022,717.37.

   Recognising the nullity of the transfer of the shares to Elektrim would on the one hand involve the necessity of returning the amount in question to Elektrim, and on the other hand, the obligation of the said amount to be paid by DeTe Mobil on account of purchasing the shares. The court proceedings have practically been completed. The parties are awaiting the decision of the Arbitration Court. In accordance with the information provided by the law firm conducting the case, the substance of the decision cannot be predicted with a high level of probability. In the event of losing the case, the financial result for the Bank would be neutral. However, the Court may decide that compensation should be paid to DeTe Mobil in an amount which it is difficult to estimate. The Management Board of BRE Bank SA, on the basis of legal opinions obtained, is of the opinion that the chances of DeTe Mobil claims being recognised by the arbitration court are minimal. The Arbitration Court did not make any decision during the technical hearing which took place from 17 to 21 February 2003.

c) In accordance with the agreement to sell shares in "cable.com" S.A., the Bank has an option to re-purchase the shares in "cable.com" from 4 entities which originally bought the shares from the Bank. At the same time, these entities have an option to re-sell the shares to the Bank.

IV. Discussion of financial statement components

33. Post balance sheet events

a) On 22 January 2003 BRE Bank S.A. obtained information that the District Court in Kraków had, on 10 January, registered the increase in share capital of Billbird S.A. with its registered office in Kraków (which is a subsidiary of BRE Bank S.A.) The share capital of Billbird S.A. was increased by PLN 637,027 to PLN 4,490,368 by issuing 637,027 shares of PLN 1 par value each. The capital increase was taken up by BRE – Fundusz Kapitałowy Sp. z o.o. on the date of registration, i.e. on 10 January 2003. BRE Bank S.A. currently hold shares constituting 43.76% of the share capital of Billbird S.A. with 43.76% of the total number of votes at the General Meeting of Shareholders of Billbird S.A. Before the registration of the capital increase, BRE Bank S.A. held 51% of Billbird S.A.'s share capital and 51% of the total number of votes at the General Meeting of Shareholders of Billbird S.A. The operations of Billbird S.A. consist of servicing the payment of bills (e.g. for energy, telecommunications services and other) via a network of agents.

b) On 24 January 2003, based on a contract concluded on 24 December 2002 with BRE – Fundusz Kapitałowy Sp. z o.o., the ownership title to 637,027 shares in Billbird S.A. with a nominal value of PLN 1 each, constituting 14.19% of Billbird S.A.'s share capital and 14.19% of the total number of votes at the General Meeting of Shareholders of Billbird S.A., was transferred from BRE – Fundusz Kapitałowy Sp. z o.o. to BRE Bank S.A. On 23 January 2003, BRE Bank S.A. sold to Internet Investment Fund S.A. 312,143 shares of Billbird S.A., constituting 6.95% of the share capital of Billbird S.A., giving 6.95% votes at the General Meeting of Shareholders of Billbird S.A. On completion of the transaction, BRE Bank S.A. holds 2,290,088 shares in Billbird S.A., constituting 51% of the share capital of Billbird S.A., giving 51% votes at the General Meeting of Shareholders of Billbird S.A.

c) On 29 January 2003, BRE Bank S.A. purchased from Kereskedelmi es Hitelbank Rt. 200 ordinary registered shares with a nominal value of HUF 1,000,000 each of Magyar Factor Rt. with its registered office in Budapest, entered in the business register in Budapest with the number 01-10-04-3934, for HUF 550,000,000. The purchased shares constitute 50% of the share capital of Magyar Factor Rt., giving 200 votes at the General Meeting of Shareholders, which constitutes 50% of the total number of votes at the General Meeting of Shareholders of Magyar Factor Rt.

d) On 29 January 2003, the 12th Extraordinary General Meeting of Shareholders of BRE Bank S.A. passed Resolution No. 1 in respect of the business combination to take place between BRE Bank SA and Bank Częstochowa S.A., according to which the business combination with Bank Częstochowa S.A. will be effected by transferring all the assets of Bank Częstochowa SA to BRE Bank SA in return for shares which BRE Bank SA will award do the shareholders of Bank Częstochowa SA.

e) On 6 February 2003, BRE Bank SA signed two contracts: with TCF Sp. z o.o. and with Polsat Media S.A., relating to the sale of shares in Elektrim SA. The transactions resulting from the above-mentioned agreements shall be realised in two tranches: in June and September 2003. After their realisation, BRE Bank SA will not hold any shares in Elektrim SA. The selling price will amount to ca. PLN 7.50 per share. BRE Bank SA has also concluded a contract with Polsat Media S.A. concerning the restructuring of one of the loans drawn in BRE Bank by an individual, and secured with the shares of Elektrim SA.

IV. Discussion of financial statement components

33. Post balance sheet events (cont.)

f) In the stock exchange announcement of 25 February 2003, the Bank's Management Board presented information concerning repayment of loans secured with Elektrim S.A. shares by individuals. As a result, the provisions for this exposure will be released in the first quarter of 2003 (See also: "The auditor's statement").

V. The auditor's statement

(a) The Bank's Board provided all the information, explanations and representations required by us in the course of our audit and provided us with a letter of representation confirming the completeness of the information included in the accounting records and the disclosure of all the contingent liabilities and post balance sheet events which occurred up to the date of the letter of representation being signed.

(b) The scope of the audit was not limited in any way.

(c) The Bank has up-to-date documentation of its accounting policies, approved by the Management Board. The Bank's accounting policies were tailored to its needs and ensured the specification of all the events material to assess its financial position and results, taking into consideration the prudence principle. Changes in accounting policies were correctly disclosed in the notes to the financial statements.

(d) The closing balances as at the end of the prior year were correctly brought forward as the opening balances of the current financial year in all material respects, taking into account the changes resulting from introducing the New Accounting Act.

(e) We have verified the operation of the accounting system and related internal control system. Our assessment covered in particular:

- the accuracy of the documentation relating to business transactions;
- the fairness, accuracy and verifiability of the books of account, including computerized books of account;
- the methods used for controlling access to data and computerized data processing systems;
- the safeguarding of accounting documentation, books of accounts and the financial statements;
- the accuracy of the functioning of internal controls.

Based on the above assessment, together with our verification of individual items of the financial statements, we noted that the accounting system and related internal control system are a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said systems.

(f) The notes to the financial statements, which include the introduction and additional notes and explanations, present all the significant information specified in the Decree of the Council of Ministers of 16 October 2001 on current and periodic information to be submitted by issuers of securities (Dz.U. No. 139 item 1569).

(g) The Directors' Report includes all the information required by the Accounting Act. The financial information presented therein is consistent with that presented in the financial statements.

(h) Counts of assets and liabilities were carried out and reconciled in accordance with the Accounting Act, and the results were included in the books of account for the audited year.

V. The auditor's statement (cont.)

(i) With regard to its income statement components, the Bank did not translate transactions concluded in foreign currencies into Polish zlotys making use of the mid-exchange rate determined for a given currency by the NBP President, being in force as at the transaction date, which is a violation of Art. 30, clause 2, of the Accounting Act. All the transactions concluded by BRE Bank SA were translated into Polish zlotys and included in the income statement for the audited year at the mid-exchange rate as at 31 December 2002. Use a method for translating foreign currency transactions other than the one specified in the Accounting Act may materially affect the presentation of data in the income statement for the audited year. However this has no effect on the total sales and total cost figures nor on the net profit or loss. However, the Bank's Management Board is unable to determine to what degree individual income and cost items may be affected.

(j) The figures for the financial year from 1 January do 31 December 2001, except for their presentation, have been prepared based on accounting policies that are different from those binding from 1 January 2002, as a result of introducing the New Accounting Act. The Bank made appropriate presentation adjustments of comparative figures in the financial statements – but the Bank did not apply the new valuation methods to these figures. The effect of introducing the new valuation principles for individual items of assets and liabilities have been disclosed in the financial statements of the Bank as at 1 January 2002 in correspondence with "Retained earnings/(Accumulated losses)" and in the case of assets available for sale – in correspondence with "Revaluation reserve". A detailed analysis of these adjustments is presented in the "Introduction to the financial report".

(k) Due to the fact that the loans drawn by individuals secured with the shares of Elektrim S.A. were repaid before the date of signing the financial statements of the Bank (see Note 33 "Post balance sheet events"), the release of the provisions against this exposure should be offset against the financial result for the year 2002. Since the amount of the potential adjustment would be immaterial, it has not been recorded in the financial result of the Bank for the year 2002.

(l) The level of materiality ratios has been set at the planning stage. The materiality levels establish the limits up to which irregularities revealed may, without damaging the quality of the financial statements and the truth of the underlying accounting books, remain unadjusted – as failure to introduce these adjustments will not result in the readers of the financial statements being misled. Materiality expresses both the quantity and quality features of the audited items, and therefore, it is different for various balance sheet and income statement items. Due to the complexity and the quantity of the materiality ratios adopted for audit purposes, they have been included in the audit documentation.

(m) The total regulatory requirement, together with the requirement concerning the risk of excessive capital exposure as at the balance sheet date amounted to PLN 1,555,291 thousand. The capital adequacy ratio as at 31 December 2002 was 10.01%. As at the balance sheet date, the Bank applied the binding prudence standards in all material respects.

(n) The financial statements for the prior financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

(o) The financial statements of the Bank as at and for the year ended 31 December 2001 were approved by Resolution No. 1 passed by the General Shareholders' Meeting on 25 April 2002, filed with the National Court Register in Warsaw on 13 May 2002 and published in *Monitor Polski B* No. 134 on 27 July 2002.

BRE Bank SA

Independent Registered Auditor’s Opinion
on the audit of the financial statements
as at and for the year ended 31 December 2002

TRANSLATORS’ EXPLANATORY NOTE

The following document is a free translation of the registered auditor’s opinion of the above-mentioned Polish company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated opinion has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Independent Registered Auditor's Opinion
to the Shareholders and the Supervisory Board of BRE Bank SA

We have audited the accompanying financial statements of BRE Bank SA (hereinafter called *the Bank*), Warsaw, ul. Senatorska 18, which comprise:

(a) the introduction;

(b) the balance sheet as at 31 December 2002, showing total assets and total equity and liabilities of PLN 24,849,566 thousand;

(c) the statement of off-balance sheet items as at 31 December 2002, showing a total of PLN 153,150,315 thousand;

(d) the income statement for the year ended 31 December 2002, showing a net loss of PLN 379,221 thousand;

(e) the statement of changes in equity for the year ended 31 December 2002, showing a decrease in equity of PLN 850,187 thousand;

(f) the cash flow statement for the year ended 31 December 2002, showing a decrease in cash and cash equivalents of PLN 351,776 thousand;

(g) additional notes and explanations.

The Bank's Management Board is responsible for preparing financial statements which comply with the applicable regulations. Our responsibility was to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with the following regulations applicable in the Republic of Poland:

(a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2002, No. 76, item 694, hereinafter called *the Act*);

(b) the auditing standards issued by the National Board of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting policies used by the Bank and significant estimates made when preparing the financial statements as well as evaluating the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

Independent Registered Auditor's Opinion
to the Shareholders and the Supervisory Board of BRE Bank SA (cont.)

The information in the Directors' Report for the year ended 31 December 2002 takes account of the provisions of the Decree of the Council of Ministers of 16 October 2001 on current and periodic reporting to be submitted by issuers of securities (Dz.U. of 2001 No. 139, item. 1569) and is consistent with the information presented in the audited financial statements.

In our opinion, and in all material respects, the accompanying financial statements:

(a) have been prepared on the basis of properly maintained accounting records and in accordance with the accounting policies applicable in the Republic of Poland, specified in the above-mentioned Act, the provisions of the Decree of the Minister of Finance of 10 December 2001 on special accounting policies to be applied by banks (Dz.U. of 2001 No. 149, item 1673), the provisions of the Decree of the Minister of Finance of 10 December 2001 on the principles for recording provisions against risk related to banking activities (Dz.U. of 2001 No. 149, item 1672), the provisions of the Decree of the Council of Ministers of 16 October 2001 on current and periodic reporting to be submitted by issuers of securities (Dz.U. of 2001 No. 139, item. 1569), and the provisions of the Decree of the Council of Ministers of 16 October 2001 on special conditions to be met by a prospectus and a mini prospectus (Dz.U. of 2001 No. 139, item 1568);

(b) comply in form and contents with the relevant laws and the Bank's Memorandum of Association;

(c) give a fair and clear view of the Bank's financial position as at 31 December 2002 and of the results of its operations for the year then ended.

Without qualifying our opinion on the financial statements of the Bank, we draw your attention to the fact that the comparative figures for the year ended 31 December 2001, except for the presentation, have been prepared on the basis of accounting policies other than those binding as from 1 January 2002 due to the New Accounting Act coming into force. The Bank also made appropriate presentation adjustments of the comparative figures in the financial statements, but the Bank has not applied the new valuation principles to these figures. The effect of implementing the new valuation principles for individual items of assets and liabilities was reflected in the Bank's financial statements as at 1 January 2002 in correspondence with "Retained earnings"/("Accumulated losses") and in the case of assets available for sale – in correspondence with "Revaluation reserve". A detailed description of these adjustments in presented in the "Introduction to the financial report".

On behalf of PricewaterhouseCoopers Sp. z o.o.:

Antoni F. Reczek
Chairman of the Management Board
Registered Auditor
No. 90011/503

Registered Audit Company
No. 144

Warsaw, 27 February 2003

TRANSLATION ONLY