



BANK GOSPODARSTWA KRAJOWEGO

Bank państwowy założony w 1924 roku



NATIONAL ECONOMY BANK

State owned bank established 1924

ANNUAL REPORT 2002

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LETTER *by the* CHAIRPERSON *of the* SUPERVISORY BOARD, BANK GOSPODARSTWA KRAJOWEGO

Dear Sir or Madam,

On behalf of the Supervisory Board I am honoured to inform you that in 2002 Bank Gospodarstwa Krajowego achieved good results and substantially strengthened its position on the financial market. The assessment of our auditor, PricewaterhouseCoopers, was favourable for the Bank as well as its Clients. BGK's profitability and solvency ratios as well as its return on assets and level of costs were considerably better than average in the banking sector, as proven by rankings that have appeared in the press.

The Supervisory Board has assessed the results of the Bank's activities, undertaken in 2002 with the aim to improve its operations in the future, as highly satisfactory. The acquisition of the organised portion of the banking enterprise Bud-Bank S.A. was finalised, which required heavy involvement on the part of both banks' managers. Thanks to this acquisition, BGK gained nine new branches. Two wholly new branches were also opened, in Piła and Białystok, and preparations were undertaken to launch operational units in Tarnów, Bielsko-Biała and Kalisz. It's a pleasure for me to invite you to visit the many branches of Bank Gospodarstwa Krajowego, whose network is enlarging year after year and will soon extend throughout the country.

In 2002 the Bank continued to improve its organisational structures in order to get prepared for new tasks entrusted to it by the government, including the servicing of foreign liabilities and receivables of the State Treasury, the export support system (DOKE) and the Fixed Interest Housing Loan Subsidy Fund, which launched operations at the beginning of 2003.

On behalf of the Supervisory Board and in my own name I wish to voice the conviction that the Bank's higher-than-expected profits, substantial expansion of its chain of branches, extension of its product range and servicing of successive new funds and target programmes are laying a sound basis for an ongoing increase of BGK's share in the banking services market.

Bank Gospodarstwa Krajowego, as the only state bank in Poland, wishes to be a RELIABLE PARTNER for its Clients, ensuring the safety of the funds entrusted to it and providing modern and efficient service. I hope that this will enable BGK to meet the expectations of its current Clients and contribute to gaining new Clients interested in the Bank's increasingly rich offer of products and services, which in certain respects are unique on the market.



dr Halina Wasilewska-Trenkner
CHAIRPERSON OF THE SUPERVISORY BOARD

LETTER *by the* PRESIDENT of BANK GOSPODARSTWA KRAJOWEGO

Dear Sir or Madam,


In releasing the annual report of Bank Gospodarstwa Krajowego for 2002, I wish to emphasise that it was a successful year for us. Despite difficult external circumstances, we achieved the goals we had set for ourselves – in the area of tasks entrusted to us by the government as well as commercial activities. BGK's chain of branches grew, its offer of products and services was enriched and a state-of-the-art IT system was set up. The Bank has upgraded its capacity to reach Clients and, consequently, has improved its ability to carry out the economic tasks the government entrusts to it.

This is particularly important at a time when BGK, a state bank which has played a historic role in building an independent Poland, faces new challenges. Thanks to the Bank Gospodarstwa Krajowego Act, which took effect

1 June 2003, BGK has acquired broader discretionary authority to manage public funds than it was previously permitted.

This means greater responsibility but also greater opportunity. I believe that we will succeed in taking full advantage of it so that BGK becomes a modern state bank which – in addition to performing the tasks the government assigns it – conducts commercial operations that complement and support its public function. I am convinced that by properly combining these two areas of activity, BGK will gain bright prospects for growth. We are striving to make the best of this opportunity for the good of everyone.

On behalf of the Management Board and staff of Bank Gospodarstwa Krajowego, I wish to assure you that we shall spare no effort in making contacts with BGK a source of satisfaction for all our Clients.



Witold Koziński
PRESIDENT



BANK ACTIVITIES *in* 2002

The macroeconomic situation in the country in 2002 was less favourable than it had been assumed at the time of development of the Bank's financial plan. The GNP growth rate continued to be low, the domestic demand decreased and the financial situation of businesses in many sectors of the economy deteriorated, leading to increased credit risk.

Despite the adverse external conditions, the basic assumptions of the Bank's financial plan were successfully implemented both in the field of the Bank's own business and the operations run under governmental programmes commissioned to it.

The favourable overall assessment of the Bank's performance in 2002 is justified by the implementation of a number of measures of crucial importance for the future position and role of BGK in the banking system, and in particular by the following:

- provision of additional capital. A significant increase in the Bank's Statutory Fund resulted in the strengthening of its development potential and in improvement of capital adequacy and solvency indicators;
- further development of BGK's branch office network throughout the country, aimed at ensuring better access to banking products. Two new branch offices, in Piła and in Białystok, were opened and the operational potential of the existing offices was strengthened by reorganizing them and establishing affiliated offices. In December 2002, nine branch offices taken over from Bud-Bank S.A. were incorporated into BGK's network, allowing the Bank to gain Clients in new regions of the country;
- undertaking new tasks commissioned by the government, including the management of the State's foreign debt and liabilities, the "Jobs for Graduates" programme, the export support system (DOKE programme), the system of preferential loans for physicians and nurses intending to set up private practices. Towards the end of the year, BGK took over the management of the Mortgage Fund from Bud-Bank

S.A.. In addition, two large foreign loans were secured to finance the implementation of the increasingly popular tenement housing projects. Furthermore, measures aimed at expanding the securities and guarantees system for SMEs were implemented and procedures applicable to entrusted funds managed by BGK were improved.

- improvement and significant expansion of the range of commercial products on offer, which attracted new Clients and resulted in an increase of the value of deposits kept in the Bank. Cooperation with territorial governments was significantly expanded by issuing municipal bonds and expanding credit and loan services for municipalities, cities and districts;
- implementation of tasks related to the purchase of the new Integrated Banking Information System which is to be implemented in 2003/2004; one of the tasks was the selection of the supplier of the system;
- improvement of organisation and management systems, as well as internal procedures for planning, analysis and monitoring of the financial situation and major market risks, in compliance with the requirements of the regulators of the banking system;
- implementation of tasks aimed at taking over three branch offices of the National Bank of Poland (in Tarnów, Kalisz and Bielsko-Biała). An agreement on the take-over was signed in December, 2002.

The implementation of the above measures signifies a considerable expansion of BGK's operational network, an increase in the scale and scope of the Bank's activities as well as in its market share, diversification of operations, better preparation for growing competition in the financial sector and better conditions for implementing tasks commissioned by the government.

2002 financial results would have been even better if not for the steady deterioration of the financial standing of businesses, significantly affecting the qualitative structure of the loan portfolio, the decreased income and the level of write-offs for contingency reserves considered to be costs.

The dynamic development of the Bank's operations entailed significant capital expenditure and costs connected mainly with the employment of additional staff, equipment of new work-stands, development of computer infrastructure, legal and auditing services, etc.

Due to the significant changes in the scope of the Bank's operations in 2002, comparisons of growth and structural indices for 2002 and the preceding year are of limited analytical value. This should be borne in mind when interpreting the figures presented in the report.

SUMMARY *of* FINANCIAL RESULTS

Despite that fact that macroeconomic conditions were worse than expected, the basic targets of the Bank's financial plan for 2002 were successfully achieved with regard to commercial operations as well as to the management of entrusted governmental funds. In 2002, the Bank's financial and economic results were good. With higher-than-planned revenues and a rational costs policy, the Bank's gross profit from all types of operations was 139.5 million PLN and exceeded the 2001 profit by more than 59 million PLN. The Bank's operations on the money and capital market contributed to the high profit on BGK's own operations, which was 41 757 thousand PLN.

The Bank's development potential was significantly strengthened by the increase of its capital, the purchase of nine branch offices of Bud-Bank S.A., the opening of two new branch offices and the commissioning of the management of further governmental programmes. This was reflected in an increase of the balance sheet total by 2 791 million PLN, i.e. by 67.4% in relation to the year 2001, including an increase in the loan portfolio (by 42.3%) and a 2.5-fold increase in the overall value of Clients' deposits.

The Bank closed the balance sheet total in 2002 at 6 933 446 thousand PLN. The main item under the assets was receivables from Clients, which constituted 56.4% of the balance sheet total as compared with 67.1% in the year 2001. The share of debt securities and inter-bank deposits was 39.5%, i.e. 11.6 percentage points less than in 2001. The size of the securities portfolio translated into an increase in revenue from operations on the money market.

Entrusted funds were the main item under the liabilities. As compared with the previous year (2001), the share of own funds in the liabilities more than doubled while the share of funds from the banking sector decreased. In addition, a significant increase in Clients' deposits was recorded.

The following ratios illustrate the financial results of the Bank in 2002:

return on equity (ROE) (net profit/equity capital)	4.0%
return on assets (ROA) (gross profit/average assets level)	2.5%
liquidity ratio 1st level (assets up to one month/ liabilities up to one month)	1.8
gross return index (gross income/gross revenue)	33.1%
solvency ratio (own funds/weighted values of assets and off-balance sheet liabilities)	32.9%
share of non-performing loans in total loans (gross non-performing loans/ total loans)	6.8%

In 2002, the return index, solvency ratio and return on assets were higher than in 2001, and cost indices were lower than in 2001. The Bank's performance indices and ratios were better than the average for the banking sector as a whole.

The BANK'S OWN OPERATIONS

1. LENDING POLICY

Due to the fact that the country's economic situation was worse than anticipated, the Bank's lending policy was more conservative in terms of credit risk assessment. In these circumstances, the demand for loans on the part of economic entities and households decreased. It was difficult for the Bank's offices to attract new, creditworthy

As in previous years, loans for business activity (76.2%) constituted the bulk of the total loans portfolio. The share of loans for individuals increased considerably as a result of taking over the portfolio of Bud-Bank S.A. (23.8% as compared with 4.5% in 2001).

The loans portfolio became more diversified in terms of the sectors and organisations represented in it.

LOAN PORTFOLIO STRUCTURE



borrowers and the solvency situation of many of the old Clients worsened.

In this high risk situation, the Bank was very active in the field of financing measures implemented by territorial governments, both in the form of loans and municipal bonds. The share of loans awarded to territorial governments in the loans portfolio was 14.6%.

In order to implement its lending plan, the Bank also undertook other activities:

- expansion of the range of products to include i.a. mortgage-secured loans (PEWNE MIESZKANIE – SURE APARTMENT) for natural persons;
- participation in consortia organised by banks to finance large investment projects and organisation of one such consortium;
- modification and improvement of procedures for granting loans, assessing the creditworthiness of various groups of borrowers and managing credit risk.

On the other hand, the quality structure of the loans portfolio in 2002 was worse than planned. External factors mentioned above led to an increase in the share of poorly performing loans and affected the value of contingency reserves.

2. MONEY MARKET OPERATIONS

In 2002, revenues from interest on securities and deposits and the value of resources invested in the various financial instruments were determined by the situation on the inter-bank market. The bank implemented its portfolio policy set out in the strategy adopted at the end of 2001, the focus of which was to invest in medium- and long-term fixed-interest bonds.

The discounting of interest rate cuts made by the Monetary Policy Council, and hence the reduction of the

cost of financing securities portfolios with resources obtained on the market, had an impact on trends in the Bank's investments. There was a steady growth of securities portfolios, enhanced by the fact that the value of Clients' deposits attracted by the Bank's operational units exceeded significantly the possibilities of their re-allocation into good loans.

The average value of the securities and inter-bank deposit portfolio was 1 120 790 thousand PLN. The value of funds invested on the money market was more than two times higher than in 2001. The structure of the portfolio of these assets was shaped taking into account the supply and profitability of securities, as well as the liquidity of the various instruments. The greatest amounts were invested in long-term and short-term treasury bonds. Similarly as in previous years, free financial means of entrusted funds managed by the Bank were also invested in available financial instruments. The inter-bank market was carefully analysed; financial resources were used within the limits earmarked, allowing the Bank to pursue a safe deposit policy.

In order to maximise revenue and to broaden the Bank's range of products, procedures for transactions involving derivative instruments were introduced – FRA, forward transactions, swap transactions, foreign exchange rate transactions, etc. These products were offered to the Bank's Clients and used as security.

3. INVESTMENT BANKING

2002 was a year of the Bank's rapid expansion on the municipal bonds market. At the end of 2002, BGK ranked third among banks managing the issuance of municipal bonds, in terms of the number of issuance contracts signed, and it was implementing 22 contracts with a total value of 122 million PLN, including 13 contracts with cities and municipalities, 7 contracts with districts and 2 contracts with voivodships. Having taken part in 32 tenders for the issuance of bonds, the Bank signed 19 contracts for bond programmes totalling 110 million PLN. In 2002, the total indebtedness of municipal bond issuers in connection with bond issues organised by the Bank was 99 800 thousand PLN, i.e. over 10 times more than in 2001.

The deteriorating situation of businesses and difficulties in attracting corporate issuers willing to increase their

indebtedness by issuing debt instruments resulted in the shifting of some of the focus from operations connected with financing businesses to activities connected with issuing territorial government bonds.

In 2002, the total revenue from interest on municipal bonds was 3 091 thousand PLN, and the average profitability of these bonds was 10.1%.

In 2002, the Bank worked on the following subjects:

- sale of stocks of TP S.A. provided by the Treasury as a source of additional capital for the Bank;
- preparations, in cooperation with PKO BP S.A., for the transformation of Bud-Bank S.A. into a mortgage bank;
- sale of other capital assets and reduction of the stock and share portfolio;
- supervision over entities in which the Bank's capital was involved.

In 2002, the total value of other entities' stocks and shares held by the Bank was 52 702 thousand PLN and was 9.5% higher than in 2001.

4. DEPOSIT OPERATIONS

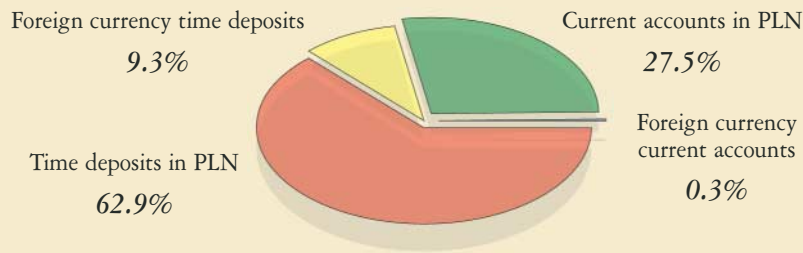
In 2002, the Bank continued to implement the policy of increasing the value of Clients' deposits by offering competitive deposit interest rates, developing the Bank's network and by active promotion.

As a result of these activities, the value of Clients' deposits increased from 571 722 thousand PLN in 2001 to 1 410 561 thousand PLN. It should be noted, however, that in the second half of 2002, the banking sector as a whole experienced a stall with regard to attracting deposits. Despite this undesirable trend, BGK's offices recorded a substantial increase in current as well as time deposits.

The difference between the value of Clients' deposits and the value of loans for business activity increased from 119 591 thousand PLN in 2001 to 420 229 thousand PLN in 2002 and became an important source of financing of a large part of the assets portfolio related to financial and capital markets.

In 2002, the value of Clients' deposits grew by more than 838 839 thousand PLN. In comparison with the previous year, the growth of deposits in PLN, and in particular of time deposits, was much higher, while the foreign currency deposit growth rate was lower.

STRUCTURE OF DEPOSITS



5.

FOREIGN EXCHANGE OPERATIONS

In the foreign exchange dealings BGK offered:

- executing payment orders to and from abroad,
- opening and maintaining current and time deposit accounts for domestic businesses and foreign legal entities,
- settling payments by documentary collection,

- opening and servicing letters of credit,
- granting loans and foreign exchange guarantees,
- co-operation in foreign currency transactions with other domestic and foreign banks.

In addition, in 2002, the Bank, as a member of creditor syndicates, actively participated in the financing of large investment projects. It also operated on the inter-bank currency market, both collecting and opening currency deposits.

The NATIONAL HOUSING FUND

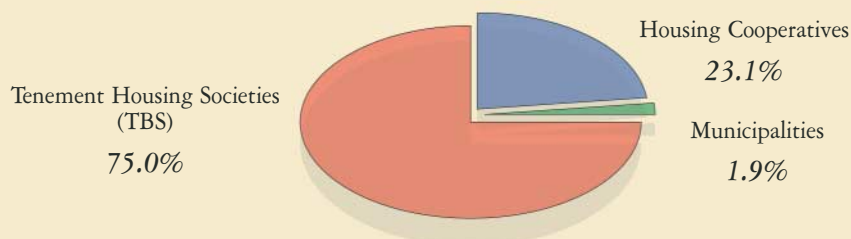
In 2002, which was the seventh year of operation of the National Housing Fund, loans allowing to build 10.5 thousand new flats were granted within the framework of the Tenement Housing Programme. The main aims of the programme are:

- to provide modern flats of decent standard for families which cannot afford to buy their own flats;
- to create conditions for migration from regions of high unemployment to other regions;
- to create opportunities for municipalities to implement their local housing policies.

In the past year, the Bank granted 203 loans under the NHF. The value of these loans totalled 791 072 thousand PLN. At the end of 2002, the overall value of the NHF loan portfolio was 3 014 487 thousand PLN and was 27.7% higher than in December, 2001.

In 2002, selection procedures were carried with respect to applications submitted in 2001. 539 applications, totalling 2 565 584 thousand PLN, were selected. In addition, 381 new applications submitted in 2002 were assessed. The total value requested in these new applications was 2 024 878 thousand PLN and they referred to the construction of 25.5 thousand new flats.

STRUCTURE OF LOANS GRANTED UNDER THE NHF



Tenement Housing Societies (Towarzystwa Budownictwa Społecznego) are the main customer group under the NHF, both in terms of the value of loans granted and the number of flats for which loans are granted. Housing associations were another important partner of the Fund. In 2002, 188 loans for the construction of tenement flats or cooperative flats, totalling 776 325 thousand PLN,

were granted. In addition, 15 loans worth 14 747 PLN were granted to municipalities for the construction of technical infrastructure.

In 2002, external sources of replenishing the NHF were mobilized – the Bank contracted a loan for this purpose from the Council of Europe Development Bank and the European Investment Bank.

The NATIONAL CREDIT GUARANTEE FUND

Under the existing legislation, the aim of the Fund, as the only national-level institution of this type in Poland, is to support the development of enterprises, and in particular of SMEs, by facilitating access to bank loans. In addition to processing current applications for guarantees, the activities of the NCGF in 2002 included the following:

- signing new portfolio agreements with credit banks and new cooperation agreements in connection with the amendment of the Law on securities and guarantees;
- developing the Bank's internal procedures in connection with the amendment of the Law on securities and guarantees;
- work connected with preparing the governmental programme for the development of local funds, known as "Capital for the enterprising";

- cooperation with the Polish Enterprise Development Agency within the framework of an agreement on the development of a system of guarantees for SMEs.

In the beginning of 2002, Bank Gospodarstwa Krajowego cooperated with 45 banks authorized to grant loans guaranteed by the NCGF under the normal or simplified procedure. As some of these banks were insufficiently active, at the end of the year agreements with 10 of them were terminated. On the other hand, new cooperation agreements were signed during the year so that at the end of 2002, BGK cooperated with 38 banks in the area of loans guaranteed by the NCGF. Several banks declared their will to provide credit guarantees under the portfolio procedure. In 2002, 55 business loans and 1 103 student loans were guaranteed under the portfolio procedure. The portfolio procedure ensures that the waiting

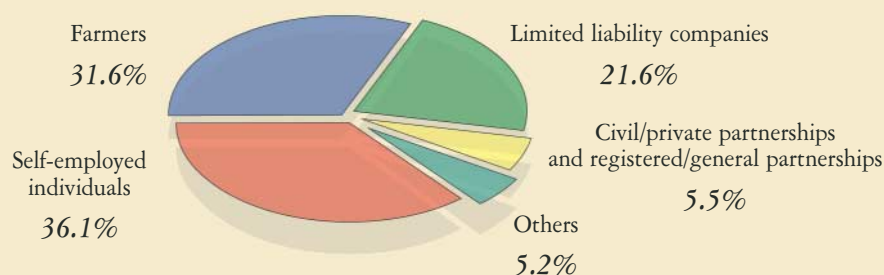
period is short and minimises the number of documents required to manage the guarantee.

In 2002, under the NCGF, 291 guarantees for businesses and 1 103 guarantees for students were provided, totalling 92 315 thousand PLN, including 8 683 thousand PLN for students.

The largest groups of borrowers included self-employed individuals and farmers.

In November, 2002, six local funds were selected in a competition held under the governmental programme for the development of local credit guarantee funds. In 2003, these funds will be strengthened by capital from the NCGF. Thus, a network of local and regional credit guarantee funds is being established around the National Credit Guarantee Fund, managed by BGK.

BORROWERS BY BUSINESS / LEGAL STATUS



The THERMO-RENOVATION FUND

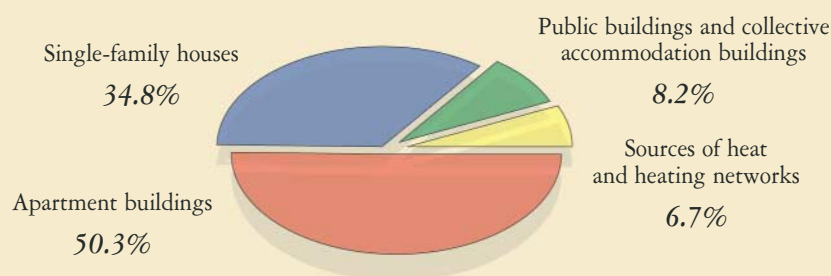
The resources of the Thermo-renovation Fund are used to provide financial assistance to investors implementing heating efficiency improvement (thermo-renovation) measures financed using loans granted by commercial banks. An investor who has implemented such a measure is provided with assistance in the form of a so-called heating efficiency improvement premium, which is used for the repayment of 25% of the loan granted for the thermo-renovation measure. As the manager of the Fund, BGK takes decisions on the award of heating efficiency improvement premiums and, upon completion of the given project, transfers the premium directly to the lending bank as partial repayment of the loan.

Interest in the thermo-renovation programme has grown since the amendment, in the second half of 2001, of the Law on support for thermo-renovation

projects. As preparatory and decision-making processes concerning investments tend to be lengthy in the case of institutional investors, the full impact of the amendment is likely to be delayed so that an increased rate of implementation of thermo-renovation measures and of payment of premiums should be expected in 2003 and in later years.

In the four years of the functioning of the system of assistance to energy-saving measures, 963 applications for heating efficiency improvement premiums were submitted to the Bank. 749 applications were approved and the investors were granted premiums totalling 22.0 million PLN, of which 11.3 million PLN was paid until the end of 2002. The remaining premiums will be paid gradually until 2006, in accordance with project implementation and/or loan repayment schedules.

APPLICATIONS FOR HEATING EFFICIENCY IMPROVEMENT PREMIUMS BY TYPE OF MODERNIZED FACILITY



In 2002, 325 applications for heating efficiency improvement premiums were submitted to the Bank. 272 applications were approved and, in effect, premiums totalling 13.0 million PLN were granted for the implementation of investment projects worth almost 83 million

PLN. In 2002, 245 heating efficiency improvement premiums were paid, totalling 8.2 million PLN. The most numerous were applications concerning heating efficiency improvements in single-family houses, apartment blocks as well as local sources of heat and heating networks.

The STUDENT LOANS *and* CREDITS FUND

The aim of the Fund is to provide financial support to students attending both public and private schools, by means of granting loans with subsidised interest rates. The loans are preferential: interest due for the draw period is financed in full by the Fund and interest due for the repayment period is subsidised.

During the first four years of the programme, about 174 thousand students were granted loans, including 26.5 thousand in the academic year 2001/2002.

In the academic year 2002/2003, 30.7 thousand students submitted their loan applications. With the current income threshold of 1 150 PLN, about 23.1 thousand applicants were granted loans. The income threshold is set every year on the basis of BGK's data on the number of submitted applications and on monthly income per person in families of students applying for loans.

In 2002, some changes favourable to students were made in the loan system. Starting from the academic year 2002/2003, the monthly loan instalment was increased

from 400 to 450 PLN, and the value of the monthly instalment secured by BGK was equalled with the value of the monthly instalment without the Bank's guarantee. In addition, students were given the option to seek and obtain BGK's guarantee for the loan during the period of the loan agreement.

Student loans are granted by nine commercial banks which have signed cooperation agreements with BGK.

In years 1998-2002, the Fund paid over 578 540 thousand PLN in interest rate subsidies, including 151 328 thousand PLN paid in 2002.

The system of preferential student loans provides for the possibility of complete or partial loan redemption on grounds of scholarship, difficult financial situation or death. In 2002, 1 547 students had their loans redeemed, including 1 432 students whose loans were redeemed on grounds of academic achievements. As a result, the amount paid in connection with loan redemption was 3 701 thousand PLN, i.e. over two times more than in previous years.

The MORTGAGE FUND

Under the assignment agreement signed on October 28th, 2002, Bank Gospodarstwa Krajowego took over the Mortgage Fund managed by Bank Rozwoju Budownictwa Mieszkaniowego S.A.

The aim of the Fund is to grant loans to banks participating in the Mortgage Fund Programme for the purpose of refinancing mortgage loans granted in accordance with certain conditions. In 2002, the Fund's operations focused on the following:

- management of the portfolio of refinancing loans granted;
- performance of tasks related to loans granted by the World Bank through USAID, as stipulated by Assistance Agreements signed with the Ministry of Land Management and Housing;
- cooperation with banks participating in the programme.

Five banks participated in the programme and, in total, they granted 419 mortgage loans known as basic loans, i.e. loans granted by banks to final borrowers using the banks' own resources as well as those of the Mortgage Fund. On the day of the take-over, there were 249 refinancing loans granted to banks participating in the programme.

Since 2000, the interest of the participating banks in the refinancing of mortgage loans under the Mortgage Fund has been fading. The Programme's limitations concerning the limits of the floor area of flats and detached houses, the financial contribution of the borrower and the maximum permissible repayment period, as well as the fact that it offers only one double indexation system of repayment of long-term mortgage loans, have made Mortgage Fund loans less attractive than those offered by most universal and mortgage banks.

ENTRUSTED GOVERNMENTAL PROGRAMMES

In 2002, Bank Gospodarstwa Krajowego managed the following entrusted governmental programmes:

PROGRAMME FOR MINING MUNICIPALITIES

Implemented under the Act of 26 November 1998 on the adjustment of the coal mining industry to market economy conditions. In accordance with this Act, the programme was completed on December 31st, 2002.

During the implementation of the programme, the Bank granted 33 preferential loans (interest rate equal to

1/2 of the rediscount rate), totalling over 60 million PLN.

Light industry restructuring programme, providing subsidies to interest on loans for the financing of tasks connected with the restructuring of the light industry, to be continued until the end of 2005. BGK and cooperating banks will grant loans for the purchase of machinery and equipment, modernisation and purchase of production lines, purchase of licences and patents. In 2002, one loan was granted and negotiations concerning several other agreements were launched.

FLOOD RECOVERY LOANS

Preferential loans with subsidised interest rates, granted by BGK and banks which have signed cooperation agreements with BGK. The interest rate on the loans is 2%. The difference between the interest calculated according to the rate set by the banks and interest paid by the borrowers is covered by BGK out of budget resources provided by the Office for Housing and Urban Development (Urząd Mieszkalnictwa i Rozwoju Miast). At the end of 2002, the Bank was managing 3 644 flood recovery loans, the value of the subsidies was 6 750 thousand PLN and the total indebtedness of the borrowers was 85.5 million PLN. In 2002, 989 flood recovery loans were granted.

PREFERENTIAL LOANS PROGRAMME FOR PHYSICIANS AND NURSES

Implemented under the amended Act of 24 August, 2001 on subsidies to interest on loans granted to physicians, dentists, nurses and midwives and on the redemption of such loans. On December 10th, 2002, the Ministry of Health and BGK concluded an agreement on the implementation of the system of subsidies and loan redemption. The agreement specified the rules and procedure for the transfer of funds. In 2002, preparatory work was carried out so as to launch the programme at the beginning of 2003. 10 million PLN are earmarked for subsidies to interest on loans in 2003.

EXPORT SUPPORT SYSTEM

The Act on subsidies to interest on fixed-rate export loans (DOKE programme) entered into force at the end of 2001, together with daughter regulations. The Bank participated in the promotion of the DOKE programme. There was very little interest in the programme due to the fact that the value of inter-bank market interest rates, used for calculating the subsidies, was unattractive. Only one loan application was submitted before the end of 2002.

"JOBS FOR GRADUATES" PROGRAMME

Implemented under an agreement between the Ministry of Economy, Labour and Social Policy and BGK. The programme targets graduates who intend to launch their own businesses and employers who wish to create jobs for graduates. The implementation of the programme was entrusted to BGK and to local loan funds, with which the bank signed special agreements. In September 2002, the programme was launched in all branch offices of the Bank; subsequently, eight local loan funds began the implementation of the programme. In 2002, graduates and entrepreneurs submitted 316 loan applications for a total of 15 484 thousand PLN. Out of this number, 190 applications were submitted by unemployed graduates. The average value of a loan requested by entrepreneurs for creating one job was about 37 thousand PLN. 64% of the applications were considered eligible for detailed assessment. 24% of the applications led to the signing of loan agreements.

RURAL AREAS ACTIVATION PROGRAMME

Financed out of a loan granted to the Government of the Republic of Poland by the World Bank. Under an agreement signed with the Ministry of Economy, Labour and Social Policy, BGK acts as the body implementing Component A of the programme, i.e. "Microloans for small businesses in rural areas". The Bank signed appropriate agreements with the Boards of Voivodships covered by the programme (Podkarpackie, Kujawsko-Pomorskie, Zachodnio-Pomorskie, Warmińsko-Mazurskie, Małopolskie Voivodships). That total value of grants for businesses employing up to five persons is expected to be 13 million PLN, and the expected total value of loans is 53 million PLN. At the end of December 2002, the Bank transferred the first instalment of an advance for loan capital to the Loan Providers. The value of the advance was 1 089 thousand PLN. In 2003, the first loans were granted out of these funds.

The BANK'S INTERNAL STRUCTURE

1. THE BANK'S AUTHORITIES, STRUCTURE AND ORGANISATION

The management structure of the Bank and changes to it are presented in an Appendix to this Report.

In 2002, the Bank's organisation and management continued to evolve, as required by the growing scope of the Bank's operations.

The organisational structure of the Bank's head office was improved. New organisational units were established, including the Housing Fund Department, National Credit Guarantee Fund Department and Human Resources and Salaries Unit. In addition, the Agency Services Department was established in connection with taking over the management of foreign debt and liabilities of the State Treasury from Bank Handlowy in Warsaw. Posts of Bank directors were liquidated.

The Management Board continued the implementation of projects of priority importance for the Bank's development, launched in previous years. The purchase of the organised part of the banking company Bud-Bank S.A. was finalised. As a result, the network of BGK's organisational units was expanded to include nine additional branch offices in Toruń, Poznań, Katowice, Rzeszów, Sopot, Gdańsk, Gdańsk-Nowy Port, Gdynia and Warsaw.

At the same time, BGK worked with PKO BP S.A. on the establishment of a mortgage bank on the basis of a license previously held by Bud-Bank S.A.

In addition, the Bank continued to work on the implementation of the plan to refurbish a number of offices of the National Bank of Poland which were to be taken over. A pilot BGK Branch Office was opened in Piła in place of a branch office of the NBP and an information office of the NHF. However, studies done by the Bank have shown that it would not be able to meet the expectations of the NBP concerning the taking over of 23 branch offices due to high costs. In 2002, following negotiations, BGK signed an

agreement with the NBP to take over three offices in Bielsko-Biała, Tarnów and Kalisz as of 1 February 2003.

In addition to the above, the Bank worked on establishing other new branch offices. In addition to the Branch Office in Piła, a new Branch Office in Białystok began operating in 2002.

In 2002, the level of employment at the Bank was 24.0% higher than in 2001. This was connected with the establishment of new organisational units (Branch Offices in Piła and Białystok), the purchase of the organised part of the banking company Bud-Bank S.A. and with the establishment of a new department in connection with the taking over of the management of the State's foreign debt and liabilities from Bank Handlowy w Warszawie S.A.

At the end of 2002, the level of employment, expressed as full time jobs, was 873.3. An average monthly salary, calculated on the basis of the staff salaries fund, was 5 403.1 PLN. In 2002, the average salary was nominally 5.6% higher than in 2001. As of December 31st, 2002, the average monthly salary of Management Board Members was 13 137.50 PLN.

In order to improve staff qualifications, the Bank increased its expenditures on training as compared with the year 2001. The main emphasis was placed on internal training due to its higher effectiveness and lower costs and the fact that the Bank has its own conference rooms with professional audio-visual equipment.

In 2002, the Bank's staff participated in 116 training courses. In addition, 42 persons were awarded grants for the co-financing of their university education.

2. INFORMATION TECHNOLOGY

In 2002, the Bank worked intensively on the selection of the supplier of the Integrated Computer Banking System in connection with the implementation of the Information Technology Development Programme for 2001-2005, approved by the BGK Supervisory Board.

COMP Rzeszów S.A. was awarded the contract as a result of a tender procedure.

Among the most important activities in the field of IT in 2002 was the adjustment of the functioning of the Bank's IT system to changing conditions related to, *inter alia*, takeovers and establishment of new organisational units.

Measures implemented by the Bank in the field of IT resulted in greater systems functionality and adjustment of the systems to new requirements and included the installation of new versions of BANKIER, RGS and WEBIS software so as to take account of new accounting and reporting requirements.

3. THE PREMISES

In 2002, the Bank gained additional office space due to the opening of Branch Offices in Piła and Białystok and to the purchase of the organised part of the banking company Bud-Bank S.A. In line with the recommendations of the Management Board to reduce capital investment and repair costs, only works essential for the proper functioning of the Bank were carried out.

Capital costs borne in connection with the opening of the Branch Office in Piła in the former premises of an NBP Branch Office, and with the opening of new branch office in Białystok, have contributed to the improvement of the quality of customer services and allowed to attract numerous new clients.

4. SPONSORING

As in previous years, the Bank participated in mutual support activities whereby the Bank supported cultural, scientific and socio-economic projects. In 2002, the Bank participated, *inter alia*, in projects implemented by the Foundation for Culture (Fundacja Kultury), aimed at the promotion of Polish culture. The bank funded prizes for initiators of valuable social, educational and cultural projects.

For a number of years, the Bank has been providing financial support to social and economic initiatives, in particular in the fields of housing development, SMEs, regional development and energy efficiency improvement. The Bank also sponsors important books, mainly on economics, finance and health care.

BALANCE SHEET *of* BGK

AS OF 31.12.2002

	<i>in thousand PLN</i>		
ASSETS	<i>31.12.2001</i>	<i>31.12.2002</i>	<i>Change in %</i>
Cash and balances with the Central Bank	43 707	84 061	92.33
Debt securities eligible for rediscounting in the Central Bank	0	0	
Dues from the financial sector	445 288	822 410	84.69
Dues from the non-financial sector	2 524 993	3 594 404	42.35
Dues from the public sector	173 389	245 763	41.74
Assets related to the purchase of securities for which declarations of purchase by third parties have been made		13 551	
Debt securities	794 630	2 000 007	151.69
Shares or stocks in subsidiaries	39 439	35 848	-9.11
Shares or stocks in affiliated units	0	0	
Shares or stocks in associated units	0	0	
Shares or stocks in other units	2 598	6 807	162.01
Other securities and financial assets			
Intangible assets	2 370	2 575	8.65
Tangible fixed assets	79 802	92 765	16.24
Other assets	31 817	26 639	-16.27
Prepaid expenses and accrued income	4 254	8 616	102.54
TOTAL ASSETS	4 142 287	6 933 446	67.38

LIABILITIES	31.12.2001	31.12.2002	<i>Change in %</i>
Dues to the Central Bank	0	0	
Dues to the financial sector	696 059	924 220	32.78
including: deposits in banks	466 366	584 957	25.43
Dues to the non-financial sector	411 581	1 187 050	188.41
Dues to the public sector	562 024	1 081 978	92.51
Liabilities related to the purchase of securities for which declarations of purchase by third parties have been made	0	0	
Dues in connection with the issuance of debt securities	0	0	
Other liabilities related to financial instruments		0	
Special funds and other liabilities	10 957	27 839	154.08
Accruals and deferred income	29 262	73 135	149.93
Provisions	31 487	59 099	87.69
Subordinate liabilities	0	0	
Basic capital	178 901	648 644	262.57
Due payments for the basic capital (negative value)	0	0	
Own stocks (negative value)	0	0	
Reserve capital	42 563	49 762	16.91
Capital from the revaluation of fixed assets	16 924	37 651	124.47
Other reserve funds	1 899 444	2 530 537	33.23
Profit/loss from previous years	187 118	194 433	3.91
Net profit (loss)	75 967	119 098	56.78
TOTAL LIABILITIES	4 142 287	6 933 446	67.38

OFF-BALANCE SHEET ITEMS

	31.12.2001	31.12.2002	Change in %
TOTAL COMMITMENTS GIVEN	1 328 139	1 764 189	32.83
1. Commitments given to the financial sector	166 029	224 322	35.11
a) financing commitments	28 677	21 868	-23.74
b) guarantee commitments	137 352	202 454	47.40
2. Commitments given to non-banks	313 507	415 734	32.61
a) financing commitments	312 362	407 849	30.57
b) guarantee commitments	1 145	7 885	588.65
3. Commitments given to the budget	848 603	1 124 133	32.47
TOTAL COMMITMENTS RECEIVED	1 251 892	2 562 011	104.65
1. Commitments received from credit institutions	59 383	79 867	34.49
a) financing commitments	0	0	
b) guarantee commitments	59 383	79 867	34.49
2. Commitments received from non-banks	796 813	1 732 933	117.48
a) financing commitments	0	1	
b) guarantee commitments	796 813	1 732 932	117.48
3. Commitments received from the budget	395 696	749 211	89.34
Foreign exchange operations	0	453 823	
Securities operations	6 842	224 923	3 187.39
Commitments received on securities	0	339 118	
Other liabilities	2	12	500.00

PROFIT *and* LOSS ACCOUNT

	31.12.2001	31.12.2002	<i>Change in %</i>
Income on interest	256 745	323 063	25.83
Interest expenses	124 637	135 291	8.55
NET INCOME ON INTEREST	132 108	187 772	42.14
Income on commission	12 982	17 428	34.25
Commission expenses	3 869	2 806	-27.47
NET INCOME ON COMMISSION	9 113	14 622	60.45
Income from shares or stocks, other securities and other financial instruments with variable income rates	0	0	
Net income on financial operations	-1 207	53 764	
Net income on foreign exchange	1 804	3 081	70.79
NET BANKING INCOME	141 818	259 239	82.80
Other operating income	10 624	12 708	19.62
Other operating expenses	1 307	3 976	204.21
Administrative expenses	50 020	65 459	30.87
Deprecation of fixed assets and intangibles	5 033	10 393	106.50
Allocations for provisions and revaluation write-offs	22 357	63 701	184.93
Release of provisions and revaluation write-offs	6 603	11 124	68.47
Net provisions and revaluation	15 754	52 577	233.74
OPERATING INCOME	80 328	139 542	73.72
Net income on extraordinary gains / loses	0	0	
PROFIT/LOSS BEFORE TAX	80 328	139 542	73.72
Income tax	4 361	20 444	368.79
Other obligatory profit reductions/loss increases	0	0	
NET PROFIT/LOSS	75 967	119 098	56.78

REGISTERED AUDITOR'S OPINION

REGISTERED AUDITOR'S OPINION ON THE ABBREVIATED FINANCIAL REPORT TO THE SUPERVISORY BOARD OF BANK GOSPODARSTWA KRAJOWEGO

The attached abbreviated financial report of Bank Gospodarstwa Krajowego, Warsaw, 7 Jerozolimskie Avenue (hereafter referred as "the Bank") was prepared by the Management Board of the Bank based on the audited annual financial statements of the Bank for the year ended 31 December 2002 ("the financial statement").

We have audited the annual financial statements of the Bank from which the abbreviated financial report was derived. On 11 April 2003 we issued an unqualified audit opinion on these financial statements.

In our opinion, the accompanying abbreviated financial report is consistent, in all material respects, with the Bank's annual financial statements from which it was derived.

For a better understanding of the Bank's financial position and the results of its operation for the year ended 31 December 2002, the abbreviated financial report should be read in conjunction with the financial statements from which it was derived and our opinion and audit report thereon.

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

Adam Celiński
Member of the Management Board
Registered auditor
No. 90033/7039

PricewaterhouseCoopers Sp. z o.o.
Registered Audit Company No. 144

Warsaw, 11 April 2003

TRANSLATION ONLY

BGK AUTHORITIES

BGK SUPERVISORY BOARD

CHAIRPERSON

Halina Wasilewska-Trenkner

DEPUTY CHAIRPERSON

Marek Ungier

SECRETARY

Grażyna Grzyb

MEMBERS

Marek Bryx

Ryszard Matkowski

Marek Mazur

Jerzy Nowakowski

Piotr Sawicki

Andrzej Zdebski

BGK MANAGEMENT BOARD



PRESIDENT
Witold Koziński



VICE-PRESIDENT
AND FIRST DEPUTY PRESIDENT
Danuta Chmielewska



VICE-PRESIDENT
Jerzy Świątecki



VICE-PRESIDENT
Antoni Sala



VICE-PRESIDENT
Piotr Dziewulski

USEFUL CONTACTS

BANK'S HEAD OFFICE

Al. Jerozolimskie 7, 00-955 Warszawa
www.bgk.com.pl, e-mail: bgk@bgk.com.pl
Infoline: 0-801 66 76 55

HEAD OFFICE DEPARTMENTS

PRESIDENT'S OFFICE

tel. (0-22) 522 91 22, fax (0-22) 627 06 31
Director **Olgiere Szlarczyński**

PRODUCTS AND NETWORK MANAGEMENT DEPARTMENT

tel. (0-22) 332 90 15, fax (0-22) 828 38 82
Director **Dariusz Porowski**

NATIONAL HOUSING FUND DEPARTMENT

tel. (0-22) 522 92 41, fax (0-22) 627 04 82
Director **Elżbieta Kudowska-Bulwarska**

NATIONAL CREDIT GUARANTEE FUND DEPARTMENT

tel. (0-22) 522 96 30, fax (0-22) 627 06 39
Director **Tomasz Sypuła**

ENTRUSTED GOVERNMENTAL PROGRAMMES DEPARTMENT

tel. (0-22) 522 91 91, fax (0-22) 522 91 94
Director **Wojciech Rzepka**

HOUSING FUNDS DEPARTMENT

tel. (0-22) 522 92 43, fax (0-22) 627 09 03
Director **Jolanta Bondarczuk**

CREDIT DEPARTMENT

tel. (0-22) 522 91 71, fax (0-22) 627 03 77
Director **Jacek Dowgiałło**

TREASURY DEPARTMENT

tel. (0-22) 522 92 11, fax (0-22) 522 92 16
Director **Mariusz Grab**

CAPITAL MARKETS DEPARTMENT

tel. (0-22) 522 92 75, fax (0-22) 627 09 00
Director **Andrzej Wróblewski**

AGENCY SERVICES DEPARTMENT

tel. (0-22) 522 96 01, fax (0-22) 627 06 38
Director **Włodzimierz Kasprzak**

DIFFICULT LOANS DEPARTMENT

tel. (0-22) 332 90 29, fax (0-22) 827 41 99
Director **Andrzej Jakubiec**

FOREIGN DEPARTMENT

tel. (0-22) 522 92 31, fax (0-22) 522 91 28
Director **Marianna Rudolf**

PLANNING AND ANALYSIS DEPARTMENT

tel. (0-22) 522 92 08, fax (0-22) 627 06 32
Director **Arkadiusz Janus**

TELECOMMUNICATIONS AND INFORMATION TECHNOLOGIES DEPARTMENT

tel. (0-22) 522 91 64, fax (0-22) 627 03 79
Director **Włodzimierz Matras**

FINANCE AND ACCOUNTING DEPARTMENT

tel. (0-22) 522 92 21, fax (0-22) 522 95 57

Director Barbara Zgódka

AUDIT DEPARTMENT

tel. (0-22) 522 91 51, fax (0-22) 627 03 88

Director Włodzimierz Barburski

LEGAL DEPARTMENT

tel. (0-22) 522 91 31, fax (0-22) 627 04 75

Director Lidia Ciechomska-Florek

LOGISTICS AND ADMINISTRATION DEPARTMENT

tel. (0-22) 522 91 41, fax (0-22) 627 03 78

Director Elżbieta Lorenc

HUMAN RESOURCES AND SALARIES UNIT

tel. (0-22) 522 91 11, fax (0-22) 627 09 04

Director Waldemar Gieryszewski

CORPORATE SECURITY

tel. (0-22) 522 91 24, fax (0-22) 627 04 78

Director Bronisław Hynowski

BGK BRANCHES AND OFFICES**1ST BRANCH IN WARSAW**

Al. Jerozolimskie 7, 00-955 Warszawa

tel. (0-22) 522 96 51, fax (0-22) 627 06 33

Director Henryk Zgorzelski

AFFILIATED OFFICE

OF THE 1ST BRANCH IN WARSAW

ul. Łucka 7/9, 00-958 Warszawa

tel. (0-22) 658 68 91, fax (0-22) 620 07 30

Manager Andrzej Piekarski

CUSTOMER SERVICE OFFICE FOR THE CLIENTS

OF THE 1ST BRANCH IN WARSAW

ul. Świętokrzyska 12, 00-916 Warszawa

tel. (0-22) 694 34 15

2ND BRANCH IN WARSAW

ul. Poezji 19, 04-994 Warszawa

tel. (0-22) 612 66 47, fax (0-22) 872 00 82

Director Danuta Brodzka

AFFILIATED OFFICE

OF THE 2ND BRANCH IN WARSAW

ul. Targowa 22, 03-731 Warszawa

tel. (0-22) 619 22 43, fax (0-22) 618 44 77

Manager Jolanta Gembarzewska

3RD BRANCH IN WARSAW

ul. Senatorska 29/31, 00-099 Warszawa

tel. (0-22) 332 90 70, fax (0-22) 826 03 28

Director Wojciech Bratkowski

3RD BRANCH IN WARSAW

– AFFILIATED OFFICE IN ZĄBKI

ul. Radzymińska 326, 05-091 Ząbki

tel. (0-22) 771 78 73, fax. (0-22) 771 79 29

BIAŁYSTOK BRANCH

ul. Legionowa 28, 15-281 Białystok

tel. (0-85) 748 52 52, fax (0-85) 748 52 51

Director Tomasz Pasiuk

GDAŃSK BRANCH

ul. Szeroka 119/120, 80-835 Gdańsk
tel. (0-58) 301 37 02, fax (0-58) 301 83 16
Director Mirosław Wicki

GDYNIA BRANCH

ul. 10 Lutego 33, 81-364 Gdynia
tel. (0-58) 621 90 21, fax (0-58) 661 79 77
Director Marzena Więcek

KATOWICE BRANCH

ul. Zawiszy Czarnego 8, 40-872 Katowice
tel. (0-32) 254 10 41, fax (0-32) 254 02 64
Director Artur Brodziński

CRACOW BRANCH

ul. Batorego 14, 31-135 Kraków
tel. (0-12) 631 95 60, tel/fax (0-12) 631 99 50
Director Katarzyna Rożyńska

CRACOW BRANCH

– AFFILIATED OFFICE IN BIELSKO-BIAŁA
ul. Sixta 19, 43-300 Bielsko-Biała
tel. (0-33) 813 81 38, fax (0-33) 813 81 39
Manager Zbigniew Włodarski

CRACOW BRANCH

– AFFILIATED OFFICE IN TARNÓW
ul. Mickiewicza 2, 33-100 Tarnów
tel. (0-14) 631 33 31, fax (0-14) 631 33 00
Manager Stanisław Wolnik

PIŁA BRANCH

ul. dr F. Witaszka 2a, 64-920 Piła
tel. (0-67) 210 74 00, tel./fax (0-67) 210 74 01
Director Piotr Lasecki

**CUSTOMER SERVICE OFFICE
IN THE TAX OFFICE IN PIŁA**

ul. Kossaka 106, 64-920 Piła
tel. (0-67) 215 81 00

POZNAŃ BRANCH

ul. Św. Marcin 58/64, 61-807 Poznań
tel. (0-61) 852 30 01, 852 31 12, fax (0-61) 852 82 20
Director Andrzej Biedrowski

RZESZÓW BRANCH

ul. Rejtana 31C, 35-326 Rzeszów
tel. (0-17) 852 21 33, fax (0-17) 852 20 63
Director Marek Zieliński

SOPOT BRANCH

al. Niepodległości 764, 81-868 Sopot
tel. (0-58) 551 12 41, fax (0-58) 550 36 28
Director Maciej Kurant

TORUŃ BRANCH

ul. Chełmińska 28, 87-100 Toruń
tel. (0-56) 621 05 55, 621 05 69, fax (0-56) 621 05 57
Director Barbara Królikowska-Ziemkiewicz

TORUŃ BRANCH

– AFFILIATED OFFICE IN BYDGOSZCZ
ul. Pomorska 7a, 85-046 Bydgoszcz
tel. (0-52) 321 32 23, fax (0-52) 321 32 20

WROCLAW BRANCH

ul. Malarska 26, 50-111 Wrocław
tel. (0-71) 374 80 00, fax (0-71) 374 80 12
Director Mariusz Szczypka

WROCLAW BRANCH

– AFFILIATED OFFICE IN KALISZ
pl. Bogusławskiego 2, 62-800 Kalisz
tel. (0-62) 765 71 18, fax (0-62) 764 34 07
Manager Ewa Woźniak

WROCLAW BRANCH

– AFFILIATED OFFICE IN LEGNICA
ul. Szkolna 9, 59-220 Legnica
tel. (0-76) 852 31 63, fax (0-76) 852 31 63
Manager Beata Wiśnios

CASH DESK IN THE TAX OFFICE IN LEGNICA

ul. Najświętszej Marii Panny 3, 59-220 Legnica
tel. (0-76) 851 14 91

NHF INFORMATION OFFICE IN SZCZECIN

ul. Pocztowa 26, 70-361 Szczecin
tel. (0-91) 485 04 32, fax (0-91) 485 04 31

LIST *of the* CORRESPONDENT BANKS *of* BGK

Raiffeisen Zentralbank Osterreich AG

Vienna

Banque Bruxelles Lambert SA

Brussels

Danske Bank A/S

Copenhagen

BNP Paribas SA

Paris

Deutsche Bank AG

Frankfurt

MHB Mitteleuropäische Handelsbank AG

Frankfurt

Bank Polska Kasa Opieki SA

Warsaw

JP Morgan Chase Bank

New York

Citibank NA

New York

Skandinaviska Enskilda Banken

Stockholm

Union Bank of Switzerland AG

Zurich

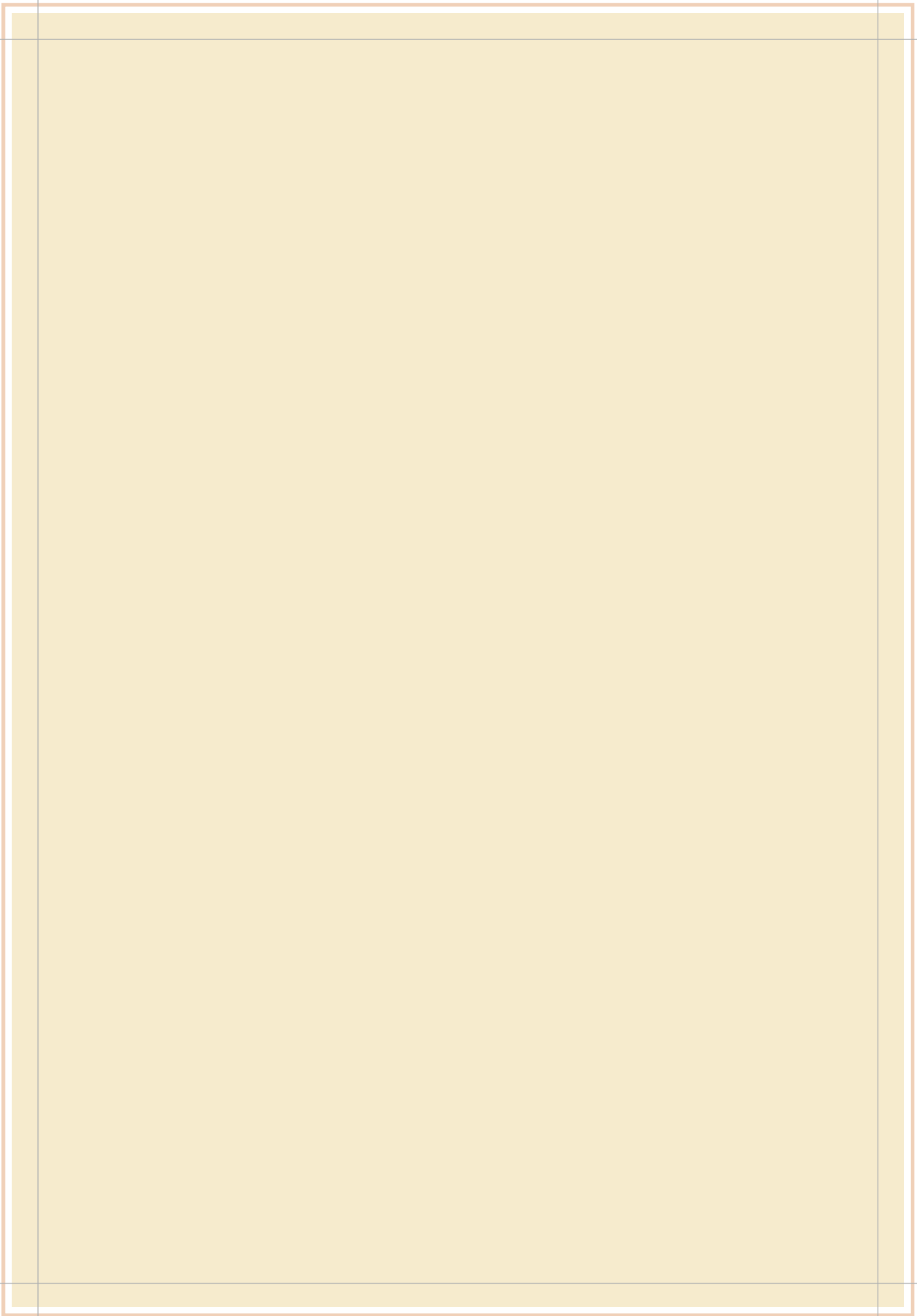
Barclays Bank Plc.

London

Intesa, BCI SpA

Milan





BANK GOSPODARSTWA KRAJOWEGO

AL. JEROZOLIMSKIE 7, 00-955 WARSZAWA

WWW.BGK.COM.PL, E-MAIL: BGK@BGK.COM.PL

INFOLINE: 0-801 66 76 55