



**Bank BPH SA**                      **Report for**  
**Corporate Social Responsibility**                      **2004**

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Bank BPH SA, the third biggest universal bank in Poland, pursuing innovative and dynamic development runs its business in a reliable and responsible way, while making use of the effect of scale. The Bank intends to bring significant contribution to the development, stability and security of the whole banking system, helping Polish economy grow. Driven by the principles of corporate social responsibility, the Bank is sensitive to the needs of all the stakeholders. We operate under the Polish legal regulations, which comply with the European Union directives. We observe Good Banking Practice, Code of Corporate Governance in Public Companies and the Code of HVB/ BA-CA Group. In this way we create the image of a friendly and professional Polish financial institution.

As a subsidiary of a European capital group, Bank BPH views Corporate Governance, and, much broadly, Corporate Social Responsibility as basic corporate culture benchmarks. The supervision wielded by the Management Board under the leadership of the President, who co-ordinates implementation of the rules, ensures socially responsible activities to be high on the Bank's agenda. The employees' involvement in this process guarantees its success.

To crown the Bank's commitment to the idea of good 'corporate citizenship', we became a member of the Foundation for Corporate Social Responsibility, which obliged us during our day-to-day activities to comply with Business Rules based on resolutions of the Round Table from Caux. Both marketing and to the subject matter support from the Foundation will make the Bank more noticeable in its CSR efforts.

## **Our Stakeholders**

We are a public trust company. In the course of our duty we take into account not only financial calculations but also the expectations of our stakeholders: clients, shareholders, employees and the society at large. We will consistently strengthen the Bank's corporate image, lead an open dialogue with our stakeholders, setting in this respect behaviour patterns on the domestic market.

## **Customers**

Dwelling on the principles of corporate social responsibility, we treat our customers as our partners and build permanent and loyal relations with them. We are the 'Bank of individual solutions'. Such solutions require professional approach, innovative offer and appropriate standards for maintaining high quality of service.

In customer relations, it is important to recognize their needs, complex as they might be. In our Bank we do it through our account managers, who are dedicated individually to each of our customers. The managers suggest the best solutions for the customers and are focused on building permanent relations rather than short-term profits. They are supported by training programmes, such as the Sales Academy for account managers and managerial staff, addressed at employees who have direct contacts with customers. The programmes are aimed at building a new corporate culture – the one of development. Sales Academy workshops are closely related to the implementation of the strategy and image-building for the 'Bank of individual solutions'. The programme will bring about standardization of customer services at permanent high level.

The Bank's objectives as presented in the strategy, such as shorter time of customer services while high standard is maintained and faster credit decisions are being realized gradually thanks to innovations, such as e.g. scoring system. To help account managers better understand their customers' needs, the Bank developed sales algorithms and scripts that make it easier to pick a right product fitting the customer's needs. The effects of new solutions were presented during a 'Bank with no queues' campaign that covered some branches.

The Bank is constantly improving the standards of corporate customers service, for instance by introducing BusinessNet, an innovative system of internet banking, issuing deposit certificates, MasterCard Corporate Executive credit card or the Cross Border Clients Group project. The Bank shares in-house macroeconomic forecasts with its customers and invites prominent politicians and business people to seminars and conferences, which are open to a broader audience. These events are aimed at broadening economic knowledge of our potential and existing customers, and increasing the level of satisfaction and loyalty of the latter. The topics of such meetings include 'Economic recovery', 'Crisis in finance', 'Where have the investments gone?', 'Map of assistance programmes - practical aspects of using EU funds', 'Banking services market in face of energy sector consolidation' et cetera.

Bank BPH invites its customers and employees to numerous picnics, competitions, concerts, outdoor tournaments or cruises on the Bank's own yacht. To name just a few of such initiatives: tennis and golf competition entitled 'Picnic with Bank BPH', 'Night Golf Tournament' in Olsztyn, musical concert called 'Walk into the Summer' in the Zamoyski Family Castle, 'Latino Fiesta' event, 'Summer with the Bank' competitions, Kolobrzeg – Bornholm and Gdansk Bay cruises. These events help promote the Bank and provide ample integration opportunities.

## **CSR RULES IN THE CREDIT PROCESS**

Bank BPH aims at building long-term relationship with customers, benefiting both parties. According to the Good Banking Practice Rules adopted by the Bank and the procedures developed within the HVB Group, Bank BPH provides customers with diligent information on the types and terms of its services, indicating their benefits along with risks and costs associated with them. In order to mitigate risk and also to hedge customers against unsound decisions, all agreements, banking documents and letters addressed to customers are written in the most precise and comprehensible form possible, and account managers are always well prepared. Customer service standards developed in Bank BPH are binding for each and every employee. Thanks to strict observance of these rules it was possible for us to acquire more new customers and to bind them with the Bank in a relatively short period of time, as we succeeded in our sales efforts. The 'four eyes principle' applied in the Bank means that both sales person and credit analyst control a given transaction. Professional analysis of project risk is performed in line with agreed principles of lending activity and due respect to existing legal regulations, e.g. on money laundering and financial terrorism. The Bank does not conclude transactions that compromise any basic ethical values. In particular, the Bank does not finance transactions or engage in activities related to:

- ◆ companies run by people convicted for serious crimes, economic offences or others,
- ◆ enterprises requiring bribing,
- ◆ transactions related to arms manufacturing and trafficking or selling arms to countries with ban on such articles' exports from Germany, Austria or Poland,
- ◆ groups and associations realising radical political or economic objectives or organisations whose operations are declared unconstitutional in Germany, Austria or Poland,
- ◆ projects that do not comply with environmental protection standards developed by the World Bank.

## **COUNTERACTING MONEY LAUNDERING**

Bank BPH representatives take active part in developing the system for counteracting money laundering and terrorism financing in Poland, e.g. through their efforts in the Polish Banks' Association, participation in legislative works or numerous conferences and seminars in Poland and abroad. The Bank is engaged in active training policy in counteracting money laundering and identifying suspect transactions, with the use of e-learning. Thanks to the intranet, all Bank's employees who have direct contract with the customers took part in relevant training.

Professionalism of our staff is reflected in a continuously growing number of suspect transaction notices that Bank BPH sends to the General Inspector for Financial Information (GIIF). The Inspector is planning to use the Bank's notices as training material for Polish banks' representatives, after deleting significant data. In 2004, the Bank provided GIIF with 135 notices on suspect transactions, while 2003 saw just 59 of such notifications.

#### **COMPLIANCE SYSTEM/ INFORMATION SECURITY**

As early as in 2001, the Bank introduced internal regulations on standard procedures for confidential information in the course of private investments of employees in the equities market. In mid-2003 the Bank's Management Board adopted a resolution introducing amended principles of the Compliance System, which covered all Bank's employees. According to the new rules, which are modelled on BA-CA regulations, the employees of the so-called confidentiality zones in the Bank are subject to specific information requirements and restrictive rules of investing in the equities market. These specific regulations apply to over 3,000 people.

#### **THE BANK'S RANKINGS**

Our awards-winning products and service quality are our best promotional tool and also a proof that we understand the needs of our customers. In 2004, Bank BPH received numerous distinctions and awards confirming attractiveness of our products. Among others, we were awarded by a financial monthly *Home & Market* and our house loans came high in *Expander's* ranking. Our credit cards and MasterCard Business came first in *Rzeczpospolita* daily ranking, while our corporate account Harmonium pro-FX and *Sezam* individual accounts gained recognition at the 4<sup>th</sup> Olympic Games in Banking Services. We were named 'Entrepreneurs - friendly Bank' and obtained a number of prestigious titles, such as 'The Portfolio of the Year' granted by the *BusinessWeek* to the best financial institution and 'Gentlemen's Choice' of the *Gentleman* monthly for our Private Banking & Investment programme. The Bank was awarded with the European Medal for *Auto Sezam* at the 7<sup>th</sup> European Medal Awards for non-commercial services, i.e. a nation-wide project promoting European integration among entrepreneurs. This competition, organised by Business Centre Club and supported by the Office of the Committee for European Integration awards products and services that stand up to European standards.

Bank BPH was the only one to receive this prestigious distinction for the ninth consecutive time, this setting records in winning Diamonds. The panel of jury for the 'Polish Business Leader' competition at Grand Summer BCC Gala awarded Diamonds to companies that have improved its market position since winning the Golden Statue of the Polish Business Leader and that are partners for businesses in the European Union.

## Shareholders

Bank BPH is a public company listed in the Warsaw and London Stock Exchanges. Our strategic investor is Bank Austria Creditanstalt, which belongs to HVB Group. Shares in free float exceed 25%. The Bank's shares are part of WIG 20 and account for ca. 8% of the index, and ca. 15% of WIG-Banki (index for banks).

The Bank's communication with investors and other capital market players is governed by the principles defined in the law on public trading in securities. Before the end of January each year, the Bank announces dates on which it will publish its financial statements (quarterly, mid-year and annual) in a given calendar year. So far the Bank's financial results have been published according to the Polish Accountancy Standards. Quarterly reports include also basic financial data, such as pre-tax and net profits according to the IAS. Starting from 2005, the Bank will present its consolidated financial results fully in IAS. An independent chartered auditor audits the Bank's annual financial statements. Also, the auditor carries out reviews of mid-year financial statements. Currently the Bank's financial statements are audited by KPMG Polska Sp. z o.o.

Bank BPH's policy of communication with investors in 2004 focused on the following objectives:

- higher participation of the Bank in domestic and international investor conferences in order to use particular interest of investors in the Polish capital market after our country's accession to the European Union,
- broader use of the internet in communicating with investors, followed by complete modification of investor relations website, particularly for individual investors. For instance, all information must be available in Polish and English and inquiries must be answered immediately,
- permanent improvements of corporate governance rules, leading to the Bank's accession to Group I of listed companies and winning a prestigious title of a 'Trustworthy company 2004',
- ensuring coherent information policy towards investors in the whole HVB/ BA-CA capital group, reflected in synchronised dates on which quarterly reports are published and organising joint conferences for investors to inform them in advance of forthcoming events in the Bank's communication policy.

The Bank adopted Corporate Governance rules passed by the Warsaw Stock Exchange, treating them as an important element in business operations regulation. 'Best Practices' as proposed by the Warsaw Stock Exchange were enforced with slight modifications accounting

for the Bank’s ownership structure. The Bank’s position on independent experts’ participation in the Supervisory Board developed together with the strategic investor combines interests of the majority shareholder and expectations of the market. No less than 30% of Bank BPH Supervisory Board’s members are independent. There are 3 committees within the Supervisory Board: (1) Human Resources Committee, (2) Credit Committee, (3) Investment Committee, while the fourth one, i.e. Audit Committee is being launched.

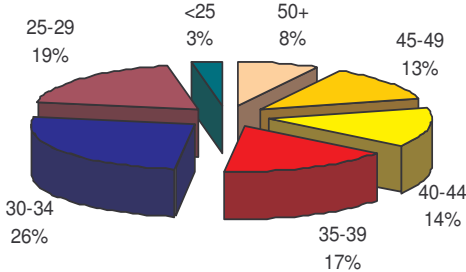
**SHAREHOLDERS’ PARTICIPATION IN PROFIT**

Bank BPH shares its profits with its shareholders, paying out annual dividend since its debut in the Warsaw Stock Exchange in 1995. As declared by the Bank’s Management Board in 2001, dividend constitutes 20-30% of annual net profit, but in 2003 payouts reached 75%. 2004 was a record year for the Bank’s profits and efficiency, and the level of the Bank’s success is best reflected in three quarters ratios. The Bank’s share in BA-CA Group’s assets stood at ca. 9%, but its share in the Group’s net profit accounts for as much as 25%.

**Employees**

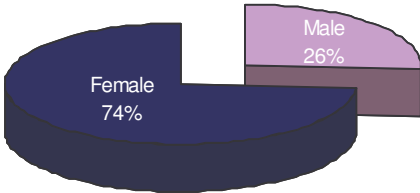
Human resources are decisive for success of any organisation, and human capital management constitutes a major challenge. Thanks to an open dialogue and comprehensive employee support programme, we managed to succeed in a difficult post-integration restructuring process. We now have to face up to another challenge: how to maintain, motivate and develop employees so as to fully realise their potential in a highly competitive environment.

Structure of employees acc. to age



Bank BPH developed a number of professional tools supporting human resources management. Personnel policy is designed in such a way so as to promote willingness to assume responsibility (also social one), improve communication between employees and their supervisors and create appropriate conditions for constructive criticism, influencing development of employees and organisation. It is a major challenge to bring about change in employees’ habits that are often do not converge with modern HR management solutions implemented, e.g. flattening hierarchy, concept of customer manager and the role of a trainer (concept of coaching) rather than the one of a director. This is a key element for the transfer of knowledge, experience and skills and for planning development and improvement of the whole team.

Structure of employees acc. to sex



Women account for 41% of management

The need for flexible actions, also in training, stems from employees' sentiment analyses and regular assessment. The Bank's internal communication dwells on different channels, such as internet, *Impuls* newsletter, internal electronic communication system. They serve the objectives related to business operations, but they also play an important role in developing employees' varied interests (course on photography in *Impuls* newsletter, Cultural Club in the intranet), holding competitions (e.g. 'Holidays in a snapshot', 'My Mum/ My Dad works in Bank BPH', 'Best Salesman Competition') or acquiring employees for joint noble initiatives related to health and fitness. In 2004, Bank employees' sentiments were analysed again with the 'Barometer' tool, forming part of a multi-year programme started by the HVB Group.

**EMPLOYEE ASSESSMENT**

Starting from 2003, Bank BPH has performed competence-based annual Regular Employee Assessment, which plays a vital role in our HR policy. Its objective is to ensure appropriate personnel selection and development. Assessment results are used to improve efficiency of employee-supervisor feedback, build individual development paths, successful employee motivation and making decisions on promotions and qualification upgrade.

**TRAINING SYSTEM**

The Bank's training activity supports its overall strategy by making sure that the level of human resources development is fit to deliver on the Bank's business objectives. The Bank invests in its employees' knowledge and skills, which form a tangible value for the organisation and the source of our competitive advantage. Modern training methods are used, such as e-learning, which enables broader group of employees to increase their qualifications.

2004 and 2005 saw implementations of pilot projects Management Prestige and Management Development Standard. Both these programmes are addressed to people with high management potential. The first one covers employees working at specialist positions (MD0), lower rank managers (MD1) and top managerial staff (MD2). The latter is organised in co-operation with BA-CA and HVB. Management Development Standard is designed for the employees who came very close to fulfilling participation conditions for Prestige, and can bridge the gap after relevant training. In

Programme	Participants
MD0	60
MD1	25
MD2	6
praktykant	238
absolwent	21
doradca	65
e-learning	1260

consequence, promotion criteria for talented employees who fulfil specific conditions (including high Regular Employee Assessment) are made clearer and each employee is potentially eligible for a higher position. Training policy is completed with Expert

Development programmes (for managers, experts and key employees), covering development cycle for individual carrier paths.

**NEW PERSONNEL ACQUISITION**

One of the objectives of Bank BPH human resources policy is to acquire young and gifted university graduates in close co-operation with academic circles. We are present at university job fairs or carrier days, offering programmes to students and higher school graduates, under which they can gain first professional experiences and learn from the specialists. The programmes entitled *praktykant@sukces* and *absolwent@sukces* were created to serve this purpose.

The first one has been going on for three years now. During summer break, students work in various areas of the Bank under our staff’s supervision. The second programme has been organised for 11 years and is addressed to students who took their summer apprenticeships with us. The Bank then offers one-year training to the best of them. HVB Group trainees meet at the annual Trainee Day organised by the Talent centre in Munich. Apart from these initiatives, the Bank runs a *doradca@sukces* programme for future account managers employed in the Bank’s branches.

**HEALTH PROTECTION AND WORK SAFETY**

Bank BPH cares for the safety and health of its employees, as it ensures appropriate working conditions and private health care services, runs obligatory work safety and hygiene training programmes and performs other activities in accordance with the Labour Code. In 2004, no serious accidents at work were recorded. However, exposure to stress, in particular related to the fear of losing one’s job during restructuring or mobbing that has recently gained particular attention in the market may constitute a threat. The Bank tries to counteract negative phenomena by running an internal job market (including group subsidiaries), financing training programmes, professional psychological assistance and social benefits for redundant employees.

Safety and health training		
Year	Participants	Hours
2002	14	420
2003	4938	93 822
2004	2521	47 899

All professional groups included

The average frequency of accidents at work in Bank BPH between the years 2002-2004 stood at 4.40 for 1,000 employees, as compared with the country average of 8.24 in 2003 according to the Polish Labour Inspection.

Analysis of accidents at work in Bank BPH				
Year	Numer of accidents	incl. mortal	Days of sickness	Frequency of accidents for 1,000 employees
2002	43	1	1279	3.79
2003	40	0	1011	3.81
2004	58	0	1343	5.68

## **Bank For The Community**

Bank BPH does not limit its activity to bank's core operations, i.e. provision of banking services. It reacts to the needs of the society and tries to support projects of social importance, both at the international or nation-wide levels and on the local scale.

Social responsibility of Bank BPH is primarily visible in sponsoring activity in areas such as culture, education, sports and promotion of healthy lifestyle.

In grants, the Bank gives priority to social assistance and charity as well as health care. More and more often sponsoring activities are related to business. Constantly searching new means of co-operation with cultural and scientific centres and foundations, the Bank issued a series of affinity cards. The point of an affinity card is that part of the commission charged on it is used by the Bank to support a given institution. Thus affinity cardholder may help this institution without generating additional costs neither for himself/ herself nor for the payment point. The Bank's partners include the Jagiellonian University, the Academy of Economics, the Academy of Mining and Metallurgy and the Academy of Agriculture in Cracow, the Royal Castle in Warsaw, National Old Theatre in Cracow, the Academy of Economics in Poznan, Piotrkowska Street Foundation, Save the Children Foundation and Tatra Emergency Unit.

### **BUSINESS TO BUSINESS**

The Bank takes active part in lobbying and opinion-building exercises for the banking environment and for the Polish business at large. As we participate in the works of numerous organisations, such as the Polish Banks' Association, Payment System Council, Polish Confederation of Private Employers, we have the opportunity to voice our views on sensitive issues in Polish business. In this way we want to influence Polish economy and contribute to its continuous and dynamic development. Poland's accession to the European Union accelerated this process. Cohesion and assistance funds, much higher than in previous years, have stirred large interest among entrepreneurs and local authorities, as they serve as opportunity to improve competitiveness and acquire capital investments. In order to meet these expectations, the Bank launched a European Funds Office which provides on-going professional advice to Bank's customers and account managers. We also sponsor national and local conferences, symposia and fairs pertaining to European issues.

Bank BPH has been providing considerable support to Polish business. We promote enterprise, engage in education of entrepreneurs and contribute to building transparent and business-friendly regulations. We were the official partner of the Economic Forum in Krynica. We participated in the First Spanish-Polish Enterprise Forum, which aimed at building contacts with Spanish businesses. We also sponsored 31<sup>st</sup> World Small Business Congress, which served as a forum for the exchange of experiences in developing better conditions for

small and medium-sized enterprises. These initiatives show how important it is for us to support business, especially small and medium-sized enterprises that are the very engine for the development of Polish economy and the society at large.

## **CULTURE**

Support for culture is one of priorities of Bank BPH's activities outside of the business area. As the only financial sector representative, the Bank was awarded for its merits with the title of the 'Sponsor of Culture 2003' by the Minister of Culture. This prestigious title obliges us to engage in even bigger efforts so that the whole society can benefit from Polish and foreign cultural heritage and pass it on to the next generations.

In this context, the Bank granted financial support to numerous institutions and co-organised a series of events. We financially aid artistic activity of eleven philharmonics all over the country. The result of this cooperation was a CD album entitled 'Philharmonics with the Bank' with recordings performed by the above institutions. Moreover, in recognition of the Bank's commitment, we were awarded the title of 'Patron of the National Philharmonic in Warsaw'. Under the Foundation of National Creation Centre, we support Polish writers, painters and musicians. Our funds contributed to publications promoting Polish culture treasures (e.g. 'Wawel. Cathedral and Castle', 'World heritage. Poland on UNESCO list', 'Poland in Europe yesterday and today') and were used to purchase precious objects for the museums. However our most prominent activity is sponsoring fairs and famous artists' concerts and festivals.

In this context the Bank never forgets its customers and employees. Sponsoring packages include free admission for the Bank's customers and discounted tickets for its employees. Our employees take active part in our efforts aimed at promoting culture and arts, for instance through a 'Europe in art' project organised within the HVB Group. The employees selected 100 works of art from Group banks' collections. These works of art are then exhibited in the countries where the Group is present, confirming its commitment to integration of diverse cultures and support for building own collections.

## **SCIENCE AND EDUCATION**

Bank BPH appreciates the role of education and science in the development of Poland, therefore it tries to provide them with active support, e.g. by granting financial assistance to a number of Polish universities and research institutes, sponsoring academic stipends and organising various concerts, conferences and seminars. Providing equal opportunities and creating conscious society, science and education are the main pillars of social life and a priority for socially responsible business.

The Bank's activity in this context is also addressed at children and teenagers, e.g. with campaigns such as 'Whole Poland reads to children', sponsoring concerts and competitions where young artists can present their talents (such as 'Music in Sandomierz' festival that Bank BPH has been sponsoring for 8 years now, the First National Competition of Iwona Borowiecka's Operetta and Musical, children's song festival entitled 'Win Success'). Local Bank BPH branches organise meetings for primary and secondary school students to inform them about the way financial market operates. The Bank's Brokerage Office participated in the first edition of the 'Stock Market School' course, an educational initiative of the Warsaw Stock Exchange by granting financial assistance and delivering lectures. Also, the Bank donates money to charity performances viewed by school students, such as Stanislaw Moniuszko's opera 'Halka' staged by the Polish Brotherhood of Gutenberg Knights. However, the event supported by the Bank that is most popular among the teenagers is the Theatre Festival, created solely by pupils. Secondary school groups performing at the Festival present their acting skills and original adaptations.

Bank BPH co-funds grants that the *Polityka* Weekly Foundation awards to young scientists under the competition entitled 'Stay with us'. For the fourth time already 23 most creative and active scientists obtained grants for their achievements. The Bank also sponsors the Foundation for the Promotion and Accreditation of Economics by granting stipends to the winners of the Olympic Games in Economics and to the most gifted graduates of the Academy of Fine Arts in Warsaw. Stipends are yet another form in which the Bank sponsors education and culture.

## **HEALTH AND SOCIAL CARE**

In 2004 Bank BPH offered its financial support to about 100 charities, hospitals and orphanages. Among them there are e.g. Polish Humanitarian Action, Polish Red Cross, TVN Foundation 'You are not alone' but also the smaller ones, like 'Great Heart' Association and 'SOS Social Assistance' Foundation. The Bank took active part in other initiatives, sponsoring charity concerts and performances, e.g. 'Autumn Fairs of Humour' whose proceeds will go to the national programme 'Non-invasive child-friendly surgery'. It is worth mentioning that the Bank attaches a lot of importance to helping children, granting direct support to orphanages, like the ones in Krasne, Bytom and Otwock and three family children's homes in Wroclaw and acting through foundations, e.g. Children's Friends Association or 'Heart for Children' Association. Our last year Christmas cards are decorated with a picture designed by a child from children's home, selected from 70 various works at the competition entitled 'My dream Christmas'.

A very important element of the Bank's charity activities is health protection. Therefore, Bank BPH supports numerous hospitals, foundations and associations, including Child Health Centre, Cardiac Surgery Development Foundation of Prof. Religa in Zabrze, University Hospital in Cracow and the Association for People with Autism. Local health centres, such as hospitals in Olkusz, Nowe Miasto and Sucha Beskidzka also received Bank's assistance. Bank BPH takes part in many initiatives promoting health and fitness and also encourages its employees to support them. These efforts bring about added value, i.e. closer integration of employees and building social awareness, which form part of the Bank's organisational culture. In 2004, the Bank continued its many-year co-operation with 'Health Promotion' Foundation during a 12<sup>th</sup> edition of a national campaign 'Give up smoking with us'. In recognition of its commitment to propagating healthy lifestyle among its employees, the Bank was awarded with the 'White Raven' prize. Our employees donated their voluntary contributions to an action 'Gift of heart' that runs through the whole year. The money collected was then used to purchase medical equipment for the treatment of cancer and neurological disorders. The Bank's employees are particularly active in donating blood. There is an Honorary Blood Donation Club of the Polish Red Cross in the Bank, whose members organized numerous events within the framework of the 'Drop of Blood' campaign, which also featured medical emergency unit shows and free medical consultations.

Bank BPH has amateur basketball, tennis and sailing teams, playing in business league and sailing competitions (2<sup>nd</sup> Sailing Cup of the Polish Banks' Association). Also, in its efforts to promote sport among the Bank's employees and customers, we organised a golf tournament and Bank BPH Tennis Cup. As we sponsor sport tournaments all around Poland (i.e. 3<sup>rd</sup> Cracovia Marathon), also people who are not related to our Bank can benefit from our sporting edge.

With all the above-mentioned initiatives, Bank BPH SA influences Polish economy, supports culture, education, health care and many other projects, building, together with its employees, social image of an institution with human touch that is sensitive to the needs of the Polish society. The Bank's socially responsible activities, starting from the year 2006, will be included in the audited report of the HVB Group (so-called Sustainability Report). The cooperation with our strategic investor also in this respect ensures sharing knowledge and encourages searching for innovative solutions.