

INTRODUCTION

1. Essential information on the activities of the Bank Handlowy w Warszawie SA Group (“Group”)

1.1. Activities of the parent entity Bank Handlowy w Warszawie SA (“Bank”)

Bank Handlowy w Warszawie SA (“Bank”) has its registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded by Notarial Deed of April 13, 1870. The Bank is registered with the District Court for the Capital City of Warsaw, Commercial Department XIX of the National Court Registry (KRS), under registry number 000 000 1538.

According to the Polish Classification of Economic Activity (PKD), the principal business of the Bank is “Other banking activity.” According to the classification adopted by the regulated market (Warsaw Stock Exchange), the business of the Bank is “finance – banks.”

The Bank operates on the basis of applicable regulations and its Articles of Association.

The business of the Bank is the performance of domestic and foreign banking operations and all other activities related to banking operations as permitted by law.

Pursuant to the Bank’s Articles of Association, the Bank performs the following banking operations:

- opening and operating bank accounts in Poland and abroad,
- receiving savings deposits, including term deposits,
- performing cash settlements in all forms accepted in domestic and international banking relations,
- extending loans and cash advances in Poland and abroad,
- conducting operations which involve cheques and bills of exchange,
- receiving long-term monetary deposits.
- extending bank guarantees and endorsements,
- performing FX operations,
- issuing bank securities,
- performing operations commissioned by customers and relating to the issue of securities,
- safekeeping valuables and securities, and providing safe deposit facilities,
- issuing payment cards and performing operations which involve the use thereof,
- purchasing and disposing of debts,
- conducting forward financial transactions,
- performing banking operations commissioned by other banks.

The Bank may also:

- take up or acquire shares and rights attaching to shares in banks, and shares in undertakings providing services to the Bank,
- service government loans,
- provide custody services, including as a custodian bank for pension and investment funds,
- organise and service financial lease projects,
- render factoring services,

- trade in securities on its own account and as an intermediary,
- render brokerage services and operate security deposit accounts through the Bank's own brokerage house,
- render financial consulting and advisory services ,
- undertake commitments relating to the issue of securities,
- take up or acquire shares and rights attaching to shares in non-banking undertakings, or participation units,
- perform the function of a representative bank within the meaning of the Bonds Act,
- buy and sell real property and debt secured by mortgages,
- perform settlements for trading in securities, property rights and derivative financial instruments,
- exchange debt for the debtor's assets on terms agreed with the debtor,
- buy and sell derivative financial instruments on the Bank's own account and as an intermediary,
- render financial services consisting in pension selling activities, within the meaning of the Pension Funds Organisation and Operation Act,
- co-operate with domestic and foreign banks and other institutions, within the business line of the Bank,
- accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
- render insurance agency services.

For the purpose of conducting its business, the Bank has the right to hold and trade in foreign exchange

1.2. Activities of undertakings constituting the Group

Principal segments of activity pursued by the subsidiary undertakings constituting the Group and other subordinated undertakings (joint subsidiaries and associated undertakings):

- banking activity,
- brokerage activity,
- financial, leasing and factoring services,
- investment activity,
- insurance activity,
- industrial production of various final products (for resale only).

2. Period of incorporation of the Bank and undertakings constituting the Group

The Group does not include undertakings with a defined period of incorporation.

3. Financial data presentation periods

The Bank's consolidated financial statements are compiled for the period from 1 January 2002 to 31 December 2002. Comparative financial data are presented for the period from 1 January 2001 to 31 December 2001. Financial data for 2001 and 2002 represent the situation following the Bank's merger in 2001 with Citibank (Poland) SA ("CPSA") and transfer of the Bank's organisational unit V Oddział w Warszawie – Centrum Operacji Kapitałowych ("COK BH") to the subsidiary undertaking Citibrokerage S.A. having its registered office in Warsaw ("Citibrokerage") (see par. 5 and 6).

4. Management Board and Supervisory Board

As of 31 December 2002, the Management Board consisted of the following members:

Cezary Stypułkowski	President
Shirish Apte	Vice-president
Wiesław Kalinowski	Vice-president
Philip Vincent King	Vice-president
Witold Walkowiak	Vice-president

The following changes in the Management Board occurred in 2002:

- on 25 June 2002 Edward Brendan Ward resigned the office of Vice-president.

As of 31 December 2002, the Supervisory Board consisted of the following members:

Stanisław Sołtysiński	President
Jean Paul Votron	Vice-president
Krzysztof Barcikowski	Member
Göran Collert	Member
Andrzej Gdula	Member
Mirosław Gryszka	Member
Allan Hirst	Member
Edward Kuczera	Member
Krzysztof Opawski	Member
David J. Smith	Member
Carlos Urrutia	Member
Edward Walsh	Member

In 2002, following the resolutions of the Ordinary General Meeting held on 27 June 2002, the following changes took place in the Supervisory Board:

- persons dismissed from the Supervisory Board: Krzysztof Grabowski
Ryszard Wierzbza
Ryszard Pessel
Heinrich Focke
- persons appointed to the Supervisory Board: Edward Kuczera
Krzysztof Barcikowski
Andrzej Gdula
David J. Smith

5. Internal organisational units of the Bank and entities constituting the Group

The Bank's consolidated financial statements for 2002 and comparative financial data for 2001 contain the financial data from all organisational units of the Bank and entities constituting the Group through which their operations are performed. Neither the internal organisational units of the Bank nor the entities forming the Group, included in the consolidated accounts, prepare separate financial statements.

In 2001 changes occurred in the make-up of the organisational units through which the Bank performs its operations.

The London Branch of the Bank closed its operations as at 31 December 2001. The Bank's Supervisory Board passed a resolution on the closure of the London Branch on 15 December 2000. The London Branch of the Bank was removed from the Corporate Registry of the National Court Registry on 14 January 2002, by the District Court for the Capital City of Warsaw, National Court Registry, Commercial Department XIX.

On 1 April 2001, the Bank's separate organisational unit operating as COK BH was transferred to the subsidiary undertaking Citibrokerage SA.

The COK BH brokerage house, constituting a separate organisational unit of the Bank, was transferred to Citibrokerage in consideration for shares in the increased authorised capital of Citibrokerage, issued under the 7 March 2001 Resolution of the General Meeting of Citibrokerage on the increase in authorised capital by the issue of 37,300 series B registered shares, each with a par value of PLN 1,500 each, with the combined par value of PLN 55,950,000. The Bank is the owner of all shares. As at 1 April 2001, the book value of all the assets of the COK BH brokerage house, constituting non-cash consideration for equity in Citibrokerage, as entered in the Bank's books of account, was PLN 231,099 thousand. The adjusted net assets value of the COK BH brokerage house, constituting the non-cash consideration for equity, as computed at 31 January 2001, and subsequently revised at 1 April 2001, amounted to PLN 55,950,000.

As of the day of transfer of COK BH to Citibrokerage, the existing name of Citibrokerage S.A. was changed to "Dom Maklerski Banku Handlowego SA" ("DM BH"). The accounts of Dom Maklerski Banku Handlowego SA, as at 31 December 2001, will be incorporated into the Bank's consolidated accounts according to the full consolidation method.

6. Merger of the Bank with Citibank (Poland) S.A. („CPSA”)

The consolidated financial statements of the Bank for 2002 and comparatives for 2001 contain financial data after the Bank's merger with CPSA, which took place on 28 February 2001, pursuant to the Resolution of the Extraordinary General Meeting of 3 November 2000. The merger was accounted for using the acquisition method involving the transfer of all CPSA assets to the Bank in return for the shares which the Bank allocated to CPSA shareholders (see: Additional Notes, par. 35).

7. Going concern

The consolidated financial statements for 2002 are compiled under the assumption of continued operations of the Bank and entities constituting the Group in the foreseeable future, with no circumstances directly indicating any threat to such continued operations. Among entities constituting the Group and not treated as durable equity investments, Budowa Centrum Plac Teatralny Sp. z o.o. and PPH Spomasz Sp. z o.o. are under liquidation. Pursuant to resolution of the Management Board, activities were undertaken in order to sell or liquidate the Bank's equity investments in subsidiary entity Polskie Towarzystwo Emerytalne DIAMENT S.A.

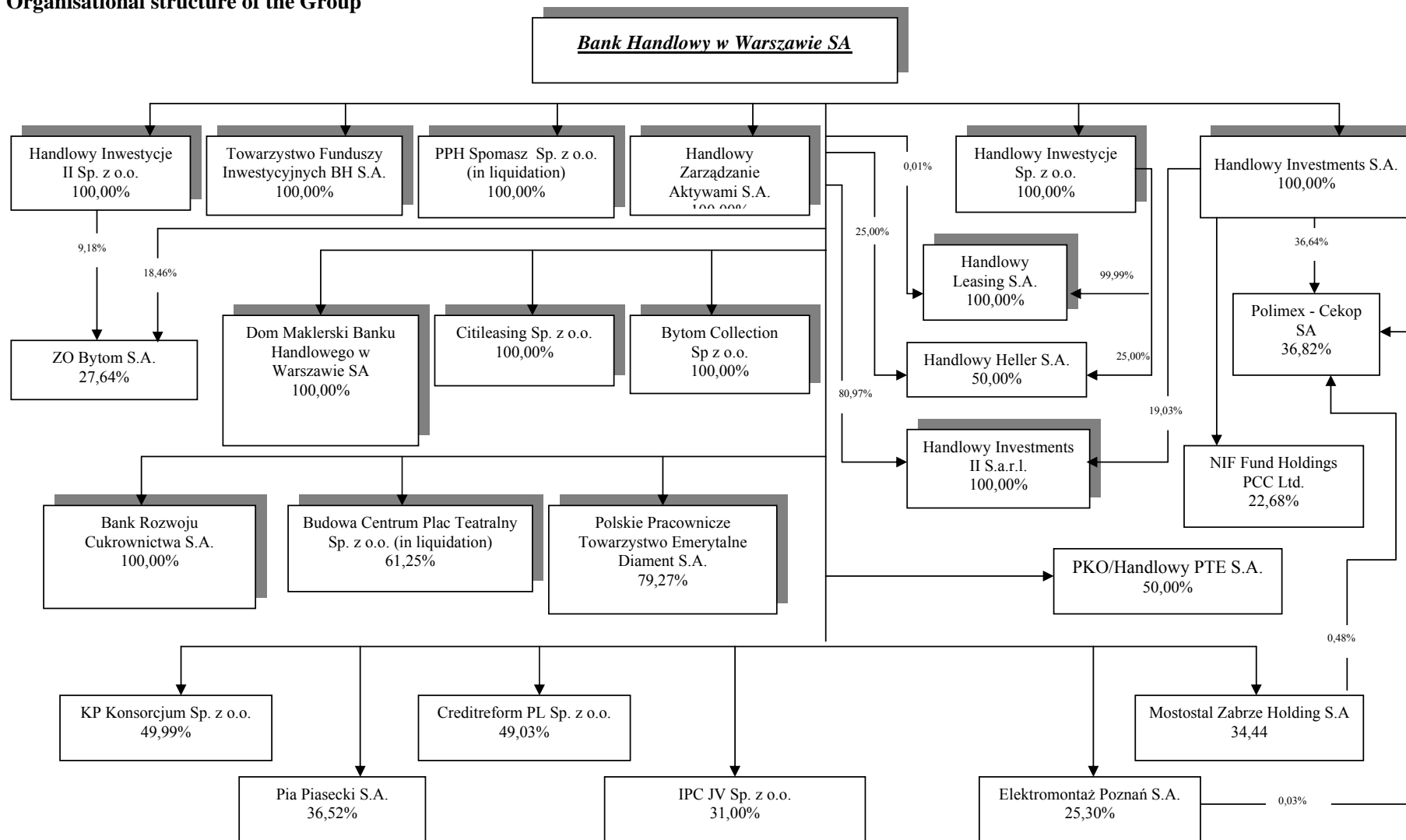
Among other subordinated entities of the Bank there is a threat to continued operation of Pia Piasecki S.A. („Pia Piasecki”) and Mostostal Zabrze Holding S.A. („Mostostal Zabrze”) which are associated undertakings of the Bank.

According to the position of Pia Piasecki auditor presented in its financial statements for the first half of 2002 there is a threat to continued operation of the entity due to its financial performance. In opinion of the company's Management Board the threat to continued operation may result from a potential failure of conciliatory (debt restructuring) procedure.

According to the position of the Management Board of Mostostal Zabrze presented in the company's semi-annual report for 2002 there are factors that may constitute a threat to continued operation of the entity. These doubts may result from the partial failure of the process of financial restructuring.

As at the day of preparation of these financial statements, there were no annual financial statements of Pia Piasecki S.A. and Mostostal Zabrze S.A. for the year 2002 available.

8. Organisational structure of the Group



9. The Group (subsidiary undertakings) and other subordinated undertakings

9.1 Subsidiary undertakings constituting the Group

9.1.1 Fully consolidated subsidiary undertakings

Name of company	Location	Principal activity	Registration Body	Book value of shares (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
Dom Maklerski Banku Handlowego SA	Warsaw	Brokerage	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000002963	-	100.00	100.00

Purchase value of shares in the entity amounting to PLN 70.950 thousand is eliminated against shareholders' equity.
In the annual consolidated financial statements of the Bank for 2001 the entity was fully consolidated.

9.1.2 Financial subsidiaries constituting the Group not included in the consolidation, accounted for under the equity method

Name of undertaking	Location	Principal activity	Registration Body	Book value of shares (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
Handlowy Inwestycje Sp. z o.o.*	Warsaw	Investment activity	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000038928	29 381	100.00	100.00
Handlowy Inwestycje II Sp. z o.o.*	Warsaw	Investment activity	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000033180	18 686	100.00	100.00
Handlowy Investments S.A.*	Luxembourg	Investment activity	District Court for Luxembourg, Commercial Register Section: B, No 57746	6 333	100.00	100.00
Handlowy Investments II S.a.r.l.*	Luxembourg	Investment activity	District Court for Luxembourg, Commercial Register Section: B, No 61343	16 730	100.00	100.00
Citleasing Sp. z o.o.**	Warsaw	Leasing	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000057370	141 029	100.00	100.00
Handlowy Leasing S.A.**	Warsaw	Leasing	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000031640	0	100.00	100.00

Bank Handlowy w Warszawie SA			SAB-RS 2002	TRANSLATION		
Handlowy Zarządzanie Aktywami S.A. **	Warszawa	Brokerage	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000034423	4 806	100.00	100.00
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. **	Warszawa	Insurance	District Court for the Capital City of Warsaw - Commercial Department XX of the National Court Registry (KRS) Registry number: KRS 0000081054	709	79.27	79.27
Towarzystwo Funduszy Inwestycyjnych BH S.A. **	Warszawa	Investment activity	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000002717	9 796	100,00	100.00
Bank Rozwoju Cukrownictwa S.A. **	Poznań	Banking	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000007876	36 654	100,00	100.00

* In the annual consolidated financial statements of the Bank for 2001 the entities were accounted for under the equity method.

** In the annual consolidated financial statements of the Bank for 2001 the entities were accounted for at cost adjusted for permanent diminution in value.

9.1.2.1 Justification of exclusion from the consolidation

Entities constituting the Group listed in par. 9.1.2 have been excluded from full consolidation in accordance with Article 58, par.1 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121, item 591, a subsequently amended). Bank Rozwoju Cukrownictwa S.A. listed in the table is intended to be sold or liquidated. The figures for those entities are low compared to the financial data of the Bank as parent entity and immaterial from the point of view of true and fair presentation of the Group's financial performance.

Usunięto: of

Usunięto: of Laws

Usunięto: ed

Financial data for entities excluded from consolidation are presented in the table below:

Name of company	Total assets	Interest income or net income on sale and financial operations	Shareholders' equity, including:						Fixed assets	Average employment in 2002
				Authorised capital	Capital reserve	Other shareholders' equity, including:				
							Unremitted profit for previous years	Net profit		
	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	in FTEs
Citileasing Sp. z o.o.	326 792	39 184	141 029	120 000	9 028	12 001	14 684	(2 683)	257 701	12
Handlowy Leasing S.A.	No data available	No data available	No data available	No data available	No data available	No data available	No data available	No data available	No data available	47
Handlowy Inwestycje Sp. z o.o.	37 213	24 042	29 381	4	35 066	(5 689)	(9 827)	1 169	7 256	-
Handlowy Inwestycje II Sp. z o.o.	18 924	3 569	18 686	4	25 080	(6 398)	(7 789)	1 391	918	-
Handlowy Investments S.A.	173 220	18 380	6 333	37 683	-	(31 350)	(45 518)	13 161	149 853	-
Handlowy Investments II S.a.r.l.	43 548	1 974	16 730	51 990	-	(35 260)	(37 143)	1 883	21 940	-
Handlowy Zarządzanie Aktywami S.A.	5 091	4 477	4 806	5 000	5	(199)	(892)	693	211	11
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A.	1 640	7	894	100	1 668	(874)	-	(874)	1 248	10
Towarzystwo Funduszy Inwestycyjnych BH S.A.	10 724	8 634	9 796	13 000	29 000	(32 204)	(32 879)	675	375	10
Bank Rozwoju Cukrownictwa S.A.	44 559	5 688	36 654	25 064	1 932	9 658	-	5 732	4 745	41

9.1.3 Non-financial subsidiaries constituting the Group excluded from the full consolidation and not accounted for under the equity method

Name of company	Location	Principal activity	Registration Body	Book value of shares (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
Budowa Centrum Plac Teatralny Sp. z o.o. ⁽²⁾	Warsaw	Construction	District Court for the Capital City of Warsaw - Commercial Department XVI Registry number: RHB 42086	15 524	61.25	61.25
PPH Spomasz Sp. z o.o. ⁽²⁾	Warsaw	Production of catering and trading equipment	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 3035	13 502	100.00	100.00
Bytom Collection Sp. z o.o. ⁽²⁾	Radzionków	Clothing industry	District Court for Gliwice, Commercial Department X of the National Court Registry (KRS) Registry number: KRS 0000098066	0	100.00	100.00

In the annual consolidated financial statements of the Bank for 2001 the entities were not accounted for using the equity method. They were carried at cost adjusted for permanent diminution in value. Bytom Collection Sp. z o.o. was purchased in the first half of 2002 (see par. 9.1.4).

9.1.3.1 Justification of exclusion from equity accounting

⁽¹⁾ The above-mentioned non-financial subsidiaries have been excluded from equity accounting in accordance with Article 58, par.1 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121, item 591, as subsequently amended). The entities are intended for sale or liquidation and were accounted for at cost adjusted for permanent diminution in value.

Usunięto: of

Usunięto: of Laws

Usunięto: ed

Financial data for the entities are presented in the table below:

Name of undertaking	Total assets	Interest income or net income on sale and financial operations	Shareholders' equity, including:						Fixed assets	Average employment in 2002
				Authorised capital	Capital reserve	Other shareholders' equity, including:				
							Unremitted profit for previous years	Net profit		
	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	in FTEs
Budowa Centrum Plac Teatralny Sp. z o.o.	In liquidation									
PPH Spomasz Sp. z o.o.	In liquidation									
Bytom Collection Sp. z o.o.	7 091	11 209	1 122	3 004	11	(1 893)	(1 279)	(614)	5 576	368

9.1.4 Changes in the structure of the Group

In 2002 the structure of the Group changed due to the following events:

- acquisition of additional shares in Bank Rozwoju Cukrownictwa S.A. As a result of the transaction the Bank now holds 100.00% of shares and voting rights in the company. The acquisition of shares of the entity is related purely to its resale or liquidation,
- acquisition of shares in Bytom Collection Sp. z o.o. based in Radzionków by way of restructuring of its debt. As a result of the transaction the Bank owns 100.00% of shares and voting rights in the company. The acquisition of shares in the company is related purely to its resale or liquidation,
- sale of all shares in Cuprum Bank S.A., which represented 55.26 % of its equity and 50.20 % of the voting rights in the company,
- sale of all shares in Tower Service Sp. z o.o., which represented 50.30 % of its equity and the same share in the voting rights in the company,
- sale of all shares in Bank Handlowy International S.A. based in Luxembourg, which represented 73.12 % of its equity and the same share in the voting rights in the company.

9.2 Other subordinated undertakings (joint subsidiaries and associated undertakings)**9.2.1 Joint subsidiaries and associated undertakings accounted for under the equity method**

Name of company	Location	Principal activity	Registration Body	Book value of investment (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
PKO/Handlowy PTE S.A.*	Warsaw	Insurance	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000045235	15 130	50.00	50.00
Handlowy Heller S.A.**	Warsaw	Factoring	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000005577	9 884	50.00	50.00
KP Konsorcjum Sp. z o.o.**	Warsaw	Investment fund management	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000044147	4 883	49.99	49.99
Polimex - Cekop S.A. **	Warsaw	Foreign trade enterprise	District Court for the Capital City of Warsaw - Commercial Department XX of the National Court Registry (KRS) Registry number: KRS 0000046844	32 799	36.64	36.64

* In the annual consolidated financial statements of the Bank for 2001 the entity was not accounted for under the equity method

** In the annual consolidated financial statements of the Bank for 2001 the entities were not accounted for under the equity method. The entities were accounted at cost net of provision for permanent diminution in value.

9.2.2. Associated undertakings excluded from equity method accounting

Name of undertaking	Location	Principal activity	Registration Body	Book value of investment (PLN' 000)	Holding of share capital (%)	Voting power at the General Meeting (%)
Elektromontaż Poznań S.A.	Poznań	Construction and power supply services	District Court for Poznan, Commercial Department XXI of the National Court Registry (KRS) Registry number: KRS 0000060700	6 000	25.30	25.30
Mostostal Zabrze Holding S.A.	Zabrze	Construction	District Court for Katowice Registry number: KRS 0000049844	8 610	34.44	34.44
NIF Fund Holdings PCC Ltd.	Guernsey	Investment activity	no data available	25 926	22.68	22.68
Pia Piasecki S.A.	Kielce	Construction	District Court for Kielce, Commercial Department X of the National Court Registry (KRS) Registry number: KRS 0000007779	-	36.52	36.52
Creditreform PL. Sp. z o.o.	Warsaw	Business intelligence agency	District Court for the Capital City of Warsaw, Commercial Department XVI Registry number: RHB 33125	328	49.03	49.03
IPC JV Sp. z o.o.	Warsaw	Construction and administration of a building	District Court for the Capital City of Warsaw, Commercial Department XVI Registry number: RHB 24144	-	31.00	31.00
Zakłady Odzieżowe Bytom S.A.	Bytom	Clothing industry	District Court for Katowice, National Court Register, Commercial Department Registry number: KRS 0000049296	121	18.46	18.46

In the consolidated financial statements of the Bank for 2001 and in the semi-annual financial statements of the Bank for 2001 the entities were not accounted for under the equity method. The entities were accounted at cost net of provision for permanent diminution in value.

9.2.2.1 Justification of exclusion from equity method accounting

The non-financial associated undertakings mentioned above were excluded from equity method accounting pursuant to Article 57, par. 1 of the Accounting Act of 29 September 1994 (Journal of Laws 121, item 591, as subsequently amended). The entities are intended for sale. The entities were accounted for at cost net of provision for permanent diminution in value.

Financial data for the entities are presented in the table below:

Name of company	Total assets	Interest income from banking activity or net income from sale of goods and materials and financial operations	Shareholders' equity, including:						Fixed assets	Average employment 2002
				Authorised capital	Capital reserve	Other reserves, including				
						Unremitted profit from prior years	Net profit			
	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	PLN '000s	in FTEs
Elektromontaż Poznań S.A.	82 203	62 784	57 160	54 082	6 324	(3 246)	-	(3 246)	38 161	429
Mostostal Zabrze Holding S.A.	253 800	286 115	65 891	20 327	114 343	(68 779)	(2 088)	(72 969)	152 022	530
NIF Fund Holdings PCC Ltd.	No data available									
Pia Piasecki S.A.	28 938	94 911	(212 178)	21 907	78 195	(312 280)	-	(307 846)	13 327	106
Creditreform PL. Sp. z o.o.	588	4 470	128	670	17	(559)	(604)	51	224	40
IPC JV Sp. z o.o.	66 657	11 442	6 221	13 500	445	(7 724)	(25 239)	(2 351)	59 309	14
Zakłady Odzieżowe Bytom S.A.	18 332	30 243	(10 018)	7 500	2 730	(20 248)	(21 974)	(4 297)	8 970	397

9.2.3. Changes in the structure of other subordinated undertakings (joint subsidiaries and associated undertakings)

In 2002, the following changes in the structure of joint subsidiaries and associated undertakings took place:

- sale of all shares held in Obsługa Funduszy Inwestycyjnych Sp. z o.o., which represented a 50.00 % of its equity and the same share in the voting rights in the company,
- sale of all shares held in Polska Giełda Finansowa S.A, which represented 22.90 % of its equity and of its equity and the same share in the voting rights in the company,
- sale of all shares held in the associated undertaking Hortex Holding S.A. based in Płońsk, which represented 31.09 % of its equity and of its equity and the same share in the voting rights in the company.

10. Reclassification of financial data for 2001

Financial data presented in the financial statements for 2001 were compiled taking into account regulatory changes effective from 1 January 2002, related to the grouping of operations and definitions of assets and liabilities. Previously published financial data for 2001, as shown in the statements, were reclassified in order to provide consistency in grouping and presentation against the current reporting period.

A summary and explanation of differences arising from the reclassification as well as the consequences of changes in the principles of valuation of assets and liabilities adopted in the consolidated financial statements for 2002 are presented in the additional explanatory notes (see: Additional Explanatory Notes, par. 32 and 33)

11. Auditor's opinion on the consolidated financial statements for the previous year

The consolidated financial statements of the Bank for 2001 were audited by KPMG Polska Audyt Sp. z o.o. who issued an unqualified opinion.

12. Accounting principles

General information

The consolidated financial statements of the Bank for 2002 were prepared in accordance with:

- Ordinance of the Council of Ministers dated 16 October 2001 concerning current and periodical information reported by issuers of securities (Official Journal of NBP No 139, item 1569, as subsequently amended),
- Ordinance of the Council of Ministers dated 16 October 2001 concerning specific principles which should be met by the prospectus and abridged prospectus (Official Journal of NBP No 139, item 1568, as subsequently amended),
- and the regulations which came into force on 1 January 2002.

On 1 January 2002 the provisions of the Act of 9 November 2000 amending the Accounting Act (Journal of Laws No 113, item 1189) came into force, applicable in full for the first time to the financial statements prepared for 2002. Pursuant to the Act and effective from 1 January 2002, the following executive regulations related to banking activity were issued:

- Ordinance of the Minister of Finance dated 10 December 2001 on specific accounting principles for banks (Journal of Laws No. 149, item 1673, as subsequently amended),
- Ordinance of the Council of Ministers dated 12 December 2001 concerning preparation of consolidated financial statements of banks and consolidated financial statements of financial holdings (Journal of Laws No. 152, item 1728),
- Ordinance of the Minister of Finance dated 12 December 2001 on specific principles for recognition, valuation method, disclosure and presentation of financial instruments (Journal of Laws No. 149, item 1674),
- Ordinance of the Minister of Finance dated 10 December on the rules for creating provisions for the risks related to the operations of banks (Journal of Laws No. 149, item 1672, as subsequently amended).

12.1 Accounting principles of the Group

Compared with the accounting principles applied and described in the consolidated annual financial statements for 2001, the consolidated financial statements prepared for 2002 allow for the changes introduced from 1 January 2002 by the regulations mentioned above.

The accounting principles applied by the consolidated entity (full consolidation) and by domestic entities accounted for under the equity method agree in all material respects with the principles applied by the Bank.

The accounting principles applied by the consolidated foreign entities are in accordance with laws of the country in which the entity concerned is headquartered. Differences resulting from the application of different accounting principles by those entities have no significant effect on the Bank's consolidated financial statements.

12.1.1. Consolidation principles

Entities included in the consolidation

Under the Accounting Act and the Ordinance of the Minister of Finance dated 12 December 2001, the Bank is required to consolidate subsidiary undertakings which are banks or financial institutions, with a option to make exclusions from consolidation in accordance with Article 57 par. 1 and Article 58 of the Act.

In the previous periods and as at 31 December 2002, the full consolidation method was applied to the subsidiary undertaking Dom Maklerski Banku Handlowego w Warszawie S.A. The financial statements of Dom Maklerski Banku Handlowego w Warszawie S.A. ("DM BH") was fully consolidated for the first time in semi-annual consolidated financial statements for 2001. Consolidation of balance sheets, profit and loss statements and cash flow statements was made by summing up appropriate items of balance sheets, profit and loss statements and cash flow statements of the Bank and DM BH, including adjustments and consolidation eliminations. The balance sheet and profit and loss account of DM BH were appropriately modified and adapted to the grouping and presentation standards applied in the Bank's balance sheet and profit and loss account.

Financial data of other financial subsidiary undertakings are included in the consolidated financial statements under the equity method (see par. 9).

Presentation of other subordinated undertakings

Shares in other subordinated undertakings (excluded from consolidation) constituting material durable assets of the Bank are accounted for in the consolidated financial statements under the equity method, except entities intended for sale. Shares in these entities are carried in the balance sheet at cost less any provision for permanent diminution in value. The list of subordinated undertakings other than financial subsidiary undertakings with their valuation method is presented in par. 9.

Financial statements of subordinated undertakings are consolidated on an equity basis by recognition of the Bank's share in the results of those entities. Value of shares in entities consolidated on an equity basis is calculated and recognized in consolidated balance sheet proportionally to the percentage share of the parent entity in shareholders' equity of the entity as of balance sheet date, including consolidation adjustments.

At balance sheet date, any changes in value of subordinated undertakings accounted for under the equity method are recognized in the consolidated profit and loss account as "Share in net profits (losses) of subordinated undertakings accounted for under the equity method". The result of revaluation of subordinated undertakings, which were not accounted for under the equity method in the consolidated financial statements as of 31 December 2001, was recognized as an adjustment to the opening balance of the consolidated result brought forward.

Changes in consolidation principles

Compared with the consolidated financial statements for 2001, in 2002 the range of entities accounted for under the equity method was extended by including the financial subsidiary undertakings Handlowy Leasing S.A., Citileasing Sp. z o.o., Handlowy Zarzadzanie Aktywami S.A., Polskie Pracownicze Towarzystwo Emerytalne "DIAMENT" S.A., Towarzystwo Funduszy Inwestycyjnych BH S.A., Bank Rozwoju Cukrownictwa S.A., the financial joint subsidiary Handlowy Heller S.A. and associated undertaking KP Konsorcjum Sp. z o.o. (see par. 9).

In 2001, the Bank sold stakes in Mitteleuropäische Handelsbank AG and Centro Internationale Handelsbank AG and continued liquidation of Bank Handlowy International S.A. Until their sale or liquidation, the value of shares in these entities was calculated and shown in the consolidated balance sheet in proportion to percentage share in the shareholders' equity of the entity concerned as of the date of the last financial statements prior to the Management Board decision to sell the stakes (30 June 2000).

Partial sale of the stake in Mitteleuropäische Handelsbank AG, previously consolidated on an equity basis took place on 27 June 2001. The transaction was made with NORD/LB Nordeutsche Landesbank Girozentrale, based in Hannover and paid in cash. The holding sold represents a 22.8% share in the company's capital and voting rights. As a result of the sale, the Bank's stake in the entity decreased to 19.99% of its share capital. In the consolidated balance sheet as of 31 December 2001, the stake in Mitteleuropäische Handelsbank AG is carried at cost in the investment portfolio as minority interest. The result on partial sale of shares in the entity was calculated as a difference between the proceeds of sale and the value of the net assets of the entity attributable to parent entity as of 30 June 2000 (including FX differences in structural positions) less the cost of remaining minority interest. The book value of sold shares amounted to PLN 29,735 thousand and the result on sale amounted to PLN 12,039 thousand and was carried in the consolidated profit and loss statement as of 31 December 2001 as gain on shares in associated undertakings.

The sale of the stake in the associated undertaking Centro Internationale Handelsbank AG, previously consolidated on an equity basis took place on 18 September 2001. The stake was sold to Raiffeisen Zentralbank Oesterreich AG (RZB – Austria) for cash. The shares sold represented a 44.09% stake in the company's capital and voting rights. The result on the sale of the shares was calculated as a difference between the proceeds of sale and the value of the net assets of the entity attributable to the parent entity as of 30 June 2000 (including FX differences in structural positions, un-amortized equity reserve from consolidation and previously created provisions). The book value of the sold shares was estimated in way at PLN 81,063 thousand and the result on sale amounted to PLN 2,187 thousand, and it was shown in the consolidated profit and loss statement as of 31 December 2001 as gain on shares in associated undertakings.

As of 31 December 2001 Bank Handlowy International S.A. was not consolidated due to advanced liquidation process and the resulting cancellation of equity stake in the entity.

Calculating the shareholders' equity

Shareholders' equity is carried at nominal value. Shareholders' equity is adjusted for the parent entity's share in the change in the equity of consolidated entities or entities accounted for under the equity method during the period under consolidation or equity method accounting, and for any dividends received from the consolidated undertakings.

Calculating the net result

The net result is calculated in compliance with the concept of prudence, accrual accounting and the matching concept. The amount of net result reflects all income and relevant expenses set off against the income within a particular reporting period, irrespective of the day on which these are received or paid. The consolidated profit and loss account includes the adjusted result of the parent entity and share in the profit of consolidated entities or entities accounted for under the equity method, attributable to the parent entity. The consolidation adjustments of the result of the parent entity relate to elimination of dividends and interest received from

consolidated entities or entities accounted for under the equity method.

Negative goodwill of subordinated undertakings

Negative goodwill of subordinated undertakings recognised in the consolidated balance sheet as of 30 June 2001 represents a surplus of the value of net assets attributable to the parent entity over the purchase price of additional shares in Centro Internationale Handelsbank AG, which were acquired in 1998. The equity reserve was amortized against the consolidated profit and loss account in equal instalments over the period of 5 years starting in July 1998. As a result of the sale of shares in the entity on 18 September 2001, the unamortized part of the equity reserve from consolidation decreased the cost of sale of the shares.

Corporate income tax

The presentation of corporate income tax includes the current tax liability of the Bank and DM BH (fully consolidated) arising from the income earned as well as deferred tax. (see par. 12.2.).

12.2. Accounting principles of the parent entity

Tangible and intangible fixed assets

The tangible and intangible fixed assets are recognised in accordance with their changed definition and carried at cost less accumulated depreciation. Depreciation is charged on the basis of equal annual instalments at the rates defined in the approved depreciation schedule for 2002.

Example annual depreciation rates employed by the Bank:

Buildings and structures	1.5 %	-	4.5 %
Motor vehicles	14.0 %	-	20.0 %
Computers		34.0 %	
Office equipment		20.0 %	
Other tangible fixed assets	7.0 %	-	20.0 %
Computer software and licences (except main operating system which is depreciated at the rate of 20%)		34.0 %	
Other intangible fixed assets		20.0%	

Assets with an initial unit value of less than PLN 3,500 are expensed as they are brought into use.

In 2002, the Bank introduced the rights of perpetual usufruct over land, which it was given free-of-charge in previous years, under laws then in force. The rights of perpetual usufruct over land are entered in the balance sheet as fixed assets under the heading "real estate" and in the Liabilities as accruals and deferred income.

Previously, fixed assets were periodically subjected to value adjustments with the indices published by the President of the Central Statistical Office. The results of revaluation are reflected in the revaluation reserve in the Bank's equity. No revaluation based on the indices published by the President of the Central Statistical Office has taken place since 31 December 1995.

Foreign currencies

Balance sheet and off-balance sheet items denominated in foreign currencies are translated at the average exchange rate at the balance sheet date as published by the National Bank of Poland.

Foreign exchange differences arising from the revaluation of balance-sheet foreign exchange positions are applied in the profit and loss account to the net result on foreign exchange.

The exchange rates applied to the financial statement are as follows:

in PLN

	31 December 2002	31 December 2001
1 USD	3.8388	3.9863
1 GBP	6.1802	5.7722
1 EUR	4.0202	3.5219

Equity investments -interests in subordinated undertakings

Investments in subordinated undertakings defined as subsidiaries, joint subsidiaries and associated undertakings are classified as financial assets available for sale.

Fixed assets - material interests in subordinated undertakings are accounted for under the equity method, except for the subsidiary undertaking Dom Maklerski Banku Handlowego w Warszawie SA, which was consolidated (using the full consolidation method). Changes in their value as of revaluation date are recognised in the profit and loss account as participation in net profits (losses) of subordinated undertakings accounted for under the equity method.

Interests in subordinated undertakings available for sale and other fixed assets – immaterial interests in these undertakings – are recognised in the balance sheet at cost net of provisions against any permanent diminution in value.

Equity investments- interests in other entities

Interests in entities other than subordinated undertakings are classified as financial assets available for sale. They are recognised in the balance sheet at cost net of provisions against any permanent diminution in value.

Outstanding loans and other receivables

The Bank is in the process of implementation of the new valuation principles for outstanding loans based on effective interest rate net of specific provisions established.

In 2002, the Bank implemented the procedure in one of the information systems used by the Consumer Banking Sector. The system is used for recording consumer loans and advances against credit cards.

Loans and receivables other than those in the trading portfolio are recognised at cost, using the straight-line interest accrual method, net of any specific provisions established.

The Bank makes specific provisions, as prescribed by the Ordinance of the Minister of Finance dated 10 December on the rules for creating provisions for the risks related to the operations of banks (Journal of Laws No. 149, item 1672), in the full amount required by law. The credit risk provisions have been calculated according to the classification of balance sheet and off-balance sheet exposures based on the risk category. The following minimum provision percentages have been applied to the different risk categories:

Normal (only consumer loans and advances) and watch exposures	1.5 %
Substandard exposures	20 %

Doubtful exposures	50 %
Loss exposures	100 %

Certain collateral, specified in Ordinance of the Minister of Finance dated 10 December on the rules for creating provisions for the risks related to the operations of banks (Journal of Laws No. 149, item 1672) is taken into account in the calculation of provisions. In accordance with that Ordinance, provisions for normal exposure in respect of consumer loans and advances and watch exposures noted above are covered by an allocation of up to 25% of the balance of the general provision held by the Bank.

Debt securities

Debt securities are classified in the trading portfolio, available for sale or held until maturity.

Debt securities classified in the trading portfolio or available for sale are recorded in the balance sheet at their fair value. Changes in the fair value of debt securities held in the trading portfolio are recognised as income or expense on financial operations, as appropriate. Changes in the fair value of debt securities available for sale are recognised in the revaluation reserve. They are recognised in the profit and loss account only when realised.

Debt securities held until maturity include particularly NBP bonds decreasing the obligatory reserve. Debt securities held until maturity are recorded at cost net of provisions against any permanent diminution in value.

Interest, discount and premium on all types of debt securities are accounted for in the profit and loss account using the straight-line method. Adjustments for fair value or for permanent diminution in value are made in relation to the value of the securities determined in the way described above.

Repossessions

Assets repossessed for debt are carried at fair value. A specific provision is established for the difference between the outstanding debt and the lower value fair value of repossessed assets or a value adjustment is made for such assets.

Provisions

The Bank establishes specific provisions and other provisions in accordance with the requirements of the Ordinance of the Minister of Finance dated 10 December 2001 on the rules for creating provisions for the risks related to the operations of banks.

Specific provisions are made based on the assessed risk arising on any particular asset or off-balance sheet commitment.

Specific provisions for amounts due from the financial sector, non-financial sector and the State Budget sector, and specific provisions against any permanent diminution in the value of securities and other assets are deducted from the carrying value of the related assets in the balance sheet. Provisions held against off-balance sheet items are disclosed in the position "Other provisions" in Liabilities.

According to the Banking Act of 29 August 1997 (Journal of Laws No. 140, item 939), the Bank creates a general risk provision to cover potential risk inherent in banking activity. This general risk provision was charged to costs. The provision is shown under "Other provisions" in Liabilities.

Prepayments and accruals

In order to assign costs to the relevant reporting periods, income and expense are recognised and accounted for on an accrual basis. In particular, this includes general expenses of the Bank.

Special Bonds

Special Bonds are recognised at their nominal value as part of the Bank's equity. Special Bonds of the first issue do not bear interest, and if not converted into shares they will be redeemed at their nominal value. Each Special Bond gives its holder the right to participate in profit distributions on the same basis as ordinary shares commencing 1997. Furthermore, holders of Special Bonds have the right to acquire newly issued shares on a par with share options available to shareholders of the Bank.

Derivative instruments

In previous years and as of 31 December 2002 the Bank recognised all derivative instruments as financial assets and liabilities held for trading purposes. The Bank also marked derivatives to market both in the previous periods and as at 31 December 2002. The effects of changes in market value are allocated to financial income or costs, as appropriate.

So far, the Bank has never implemented hedge accounting.

Interest income and expense

Interest income includes interest received or accrued on interbank placements, loans and securities. Interest income and discount accrual on receivables, classified as normal, is recognised in the profit and loss account on an accrual basis. Any prepayments are recognised in the profit and loss account in the respective reporting period. Interest expense is recognised in the profit and loss account on an accrual basis.

Commission and fee income and expense

Bank commissions and fees are mainly comprised of amounts other than interest income on loans, guarantees, L/Cs and fees for the maintenance of bank accounts, banking operations, and the servicing of payment cards.

Bank commissions and fees which are not related to one-off closed transactions are amortised on a straight-line basis against the profit and loss account over the life of the underlying transaction.

Bonuses, retirement and Jubilee Awards

Performance bonuses for management are granted after the end of the year, for which performance is measured. Further bonuses in the form of synthetic options or notional stock options are awarded to some members of the management. Synthetic options or notional stock options can be exercised 12 or 36 months from the date the option is granted, and are then marked to market. A provision is established for future payments, which is shown under "Accruals and deferred income" in Liabilities.

Within its salary scheme, the Bank guarantees its employees who were hired under the provisions set in the Company's Labour Contract retirement and jubilee payments that are based on the number of years in employment with the Bank and with Citigroup entities directly prior to eligibility date. In case of employees hired by the Bank prior to 1 March 2001, the retirement and jubilee payments are calculated based on the number of years of employment defined according to the provisions of the Company's Labour Contract in force from 1 January 1997. A provision is made for future payments, shown under "Accruals and deferred income" in Liabilities.

Other operating income/expenses

Other operating income/expenses are comprised of income and expenses that are not directly related to banking activity. These include income and expenses due to sale or liquidation of fixed assets and repossessed assets, compensation, penalties and fines.

Corporate income tax

The presentation of corporate income tax includes the Bank's current tax liability arising from the income earned and deferred tax.

In accordance with the adopted accounting principles, until 31 December 2001, the Bank either established a deferred tax provision or recognised a deferred tax asset by assessing the timing differences between the recognition of income and expense for accounting and tax purposes.

In 2002, the Bank maintained the provision and calculated assets in respect of deferred tax. As at 31 December 2002, deferred tax was assessed using the balance-sheet method, taking into account for CIT purposes both assets and liabilities providing a basis for calculation of the provision and assets in respect of deferred income tax, and it was applied to:

- profit (loss) brought forward – the part attributable to changes in the value of shares as at 1 January 2002 under the equity method,
- revaluation reserve – the part attributable to the valuation in 2002 of securities available for sale,
- to the profit and loss accounts – the remaining part, being the difference between the balance of provisions and assets in respect of deferred income tax as at the end of 2002 and the previous year.

Accelerated capital allowances

Based on the Ordinance of the Council of Ministers dated 25 January 1994 (Journal of Laws No. 18, item 62, as subsequently amended) and in compliance with Article 18a of the Corporate Income Tax Act (Journal of Laws of 1993, No. 106, item 482, as subsequently amended), the Bank took advantage of capital allowances and deducted from taxable income total capital expenditures amounting to PLN 187,102 thousand.

Additionally, Citibank (Poland) S.A. reduced its taxable income over the period 1994-1997 by PLN 91,401 thousand in capital allowances and by PLN 21,599 thousand in investment premium.

The depreciation of fixed assets subject to capital allowances and made using the depreciation rates defined in the depreciation schedule, is treated as a non-deductible expense for tax purposes. As at 31 December 2002, a balance of PLN 138,785 thousand, representing the non-amortised value of fixed assets subject to capital allowances, was outstanding. The amount is allowed for in assessing deferred income tax.

13. EURO/Zloty rates

The following average rates of exchange of PLN against EUR, as set by the NBP, applied in periods covered by the consolidated accounts and the comparative financial data:

	2002	2001
Exchange rate in force at 31 December	4.0202	3.5219
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month in the reporting period	3.8697	3.6509
The highest rate for the last day in the month in the period	4.0810	3.8843
The lowest rate for the last day in the month in the period	3.5910	3.3783

14. Major items of the consolidated balance sheet, consolidated profit and loss statement and consolidated cash flow statement in EURO terms

The major items of the consolidated balance sheet and the consolidated cash flow statement concerning these financial statements and consolidated comparatives are converted into the EUR at average rates of exchange announced by the National Bank of Poland, in force on the last day of the respective period.

The major items of the consolidated profit and loss statement and diluted profit per ordinary share are converted into the EUR at rates being the arithmetical averages of the average zloty/euro rates of exchange announced by the National Bank of Poland, in force on the last day of each month of the respective period.

in thousand EUR

BALANCE SHEET	31 December 2002	30 December 2001
Cash and due from Central Bank	243 597	659 429
Due from financial institutions	1 138 244	1 993 953
Due from customers	3 368 984	4 033 162
Due from budget	1 338	9 015
Debt securities	1 083 594	699 196
Due from subordinated entities accounted for under the equity method	243 083	50 046
Equity investments in subordinated entities accounted for under the equity method	71 906	21 725
Equity investments in other entities	17 282	120 956
Other securities and other financial assets	1 126 175	965 599
Tangible and intangible fixed assets	545 966	672 910
Other assets	159 868	166 985
Total assets	8 000 039	9 392 975

BALANCE SHEET	31 December 2002	30 December 2001
Due to Central Bank	30 332	60 333
Due to financial institutions	774 565	1 376 815
Due to customers	4 003 890	4 672 290
Due to budget	158 361	250 779
Securities issued	-	-
Liabilities arising on financial instruments	1 040 391	914 709
Due to subordinated entities accounted for under the equity method	69 652	22 508
Other liabilities	327 319	315 399
Negative goodwill of subordinated entities	-	-
Provisions	112 545	122 937
Equity	1 482 985	1 654 868
FX differences arising on translation of subordinated entities	-	-
Total liabilities	8 000 039	9 392 975

in thousand EUR

Major items of consolidated profit and loss account	12 months ended 31 December	
	2002	2001
Net interest income	177 593	199 386
Net fee and commission income	134 187	136 583
Result on equity investments	2 050	6 959
Result on financial operations	100 774	4 740
FX result	132 564	214 596
Result on banking activity	547 168	562 263
Result on operational activity	92 806	105 848
Gross profit/(loss)	92 807	105 851
Share in net profits (losses) of subordinated entities accounted for under the equity method	2 134	(9 729)
Net profit/(loss)	61 876	44 725

in thousand EUR

Major items of consolidated cash flow statement	12 months ended 31 December	
	2002	2001
Net cash flow from operating activities – indirect method	(274 280)	966 065
Net cash flow from investing activities	130 511	(18 974)
Net cash flow from financing activities	(283 512)	(409 857)
Net cash flow, total	(427 281)	537 234
Change in net cash and cash equivalents	(427 281)	537 234
Cash and cash equivalents at beginning of period	678 182	236 901
Cash and cash equivalents at end of period	250 900	774 135

15. Main differences between Polish and International Accounting Standards

15.1. The Bank prepares consolidated financial statements in accordance with the Polish Accounting Standards (PAS). There are some differences in accounting principles adopted for these financial statements and those arising from the International Accounting Standards (IAS). The principal differences are as follows:

- in the financial statements prepared according to PAS, a general risk provision was created for the first time in 1998 under the Banking Law (simultaneously the risk fund constituting a part of equity under the previous Banking Law was dissolved). In the financial statements prepared according to IAS, a general risk provision was established in previous years as a result, temporary timing differences in the level and charges to the general risk provision arise,
- according to PAS, material holdings in subsidiary undertakings not intended for sale are recognised using the equity method. In the financial statements prepared according to IAS, material holdings in subsidiary undertakings not intended for sale are fully consolidated,
- according to PAS, the annual charge to the Employees' Social Fund is made in the form of a profit distribution. In the financial statements prepared according to IAS, such charges to the fund are presented as an additional general expense in the following year.

15.2. The essential figures of the Bank's consolidated financial statements prepared according to the Polish accounting principles can be reconciled to the unaudited financial statements prepared according to the International Accounting Standards as follows:

- Reconciliation of net assets as of 31 December 2002:

in thousand PLN

Net assets under consolidated PAS	5 961 896
Consolidation and equisitation of investments	7 213
Difference in level of deferred tax assets /provision due to different accounting policies applied	(1 948)
Net assets under IAS	5 967 161

- Reconciliation of net profit for the period from 1 January 2002 to 31 December 2002:

in thousand PLN

Profit after taxation under consolidated PAS	239 443
Marking trading instruments to market value	(26 970)
Difference from consolidation and valuation of equity investments	(21 826)
Recognition of capitalised interest	(19 599)
Timing differences in deferred tax charges/releases due to different accounting policies applied	19 223
Profit after taxation under IAS	190 270