INTRODUCTION

The annual accounts of Bank Handlowy w Warszawie SA ("Bank") are compiled in compliance with:

- The Accounting Act of September 29, 1994 (*Dziennik Ustaw* [Journal of Laws] No 121, item 591, as amended).
- Resolution 1/98 of the Commission for Banking Supervision on detailed principles governing bank accounting and presentation of additional information, dated June 3, 1998 (*Dziennik Urzedowy NBP* [Official Journal of NBP] No 14, item 27).
- Ordinance of the Council of Ministers of October 16, 20001, concerning current and periodical information reported by issuers of securities (*Dziennik Urzedowy NBP* No 139, item 1569).
- Ordinance of the Minister of Finance on additional information reported in the accounts and consolidated accounts of bank issuers of securities cleared for public trading or securities entered for public trading clearance, dated November 19, 1999 (*Dziennik Ustaw* No 96, item 1128).

1. Bank operations

Bank Handlowy w Warszawie SA, with the registered office in Warsaw at ul. Chalubinskiego 8, 00-613 Warszawa, was founded on the strength of a Notarial Deed of April 13, 1870. The Bank is registered at the District Court for Warsaw - Commercial Department XIX of the National Court Registry (KRS), entered under the registry number: 000 000 1538.

Under the Polish Classification of Economic Activity (PKD), the principal business of the Bank is "other banking activity." According to the classification followed 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 activity 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 handling bank accounts in Poland and abroad,
- taking saving 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,
- taking 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 purchase shares and rights attaching to shares in banks, and shares in undertakings servicing the Bank,
- service government borrowing,
- 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 act as an agency in securities trading,
- render brokerage services and operate security deposit accounts at the Bank's own brokerage house,
- render financial consulting and advisory services ,
- undertake commitments relating to the issue of securities,
- take up or acquire equity interest and rights attaching to equities in non-banking undertakings, and also participation units,
- perform the function of a representative bank within the meaning of the Bonds Act,
- acquire and dispose of real property and debt secured by mortgages,
- perform settlements for trading in securities, property rights and derivative financial instruments,
- exchange debt for assets belonging to the debtor, on terms agreed on with such a debtor,
- purchase and sell derivative financial instruments at the Bank's own account and act as an agency in trading therein,
- render financial services consisting in acquisition 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 foreign exchange and trade therein.

2. Financial data presentation periods

The Bank's annual accounts are compiled for the period from January 1, 2001 to December 31, 2001. Comparable financial data are presented for the period from January 1, 2000 to December 31, 2000. The Bank's financial data for 2000 represent the conditions preceding the Bank's merger in 2001 with Citibank (Poland) SA ("CPSA") and transfer of the Bank's organisational unit V Oddzial w Warszawie – Centrum Operacji Kapitalowych ("COK BH") into the subsidiary undertaking Citibrokerage SA with the registered office in Warsaw ("Citibrokerage"). In the Cash Flow Statement of the Bank, the impact of non-cash movements related to the Bank's merger with CPSA and COK BH's transfer to Citibrokerage as non-financial consideration for equity is cancelled (see sections 3 & 5).

3. Internal organisational units of the Bank

The Bank's accounts for 2001 and comparable financial data for 2000 contain the financial data from all of its organisational units through which Bank operations are performed. At December 31, 2001, these included the Head Office in Warsaw, 35 branches around Poland, and 146 other establishments servicing clients in Poland.

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 December 31, 2001. A resolution on the closure of the London Branch was passed by the Bank's Supervisory Board on December 15, 2000. The London Branch of the Bank was crossed out of the Corporate Registry at the National Court Registry on January 14, 2002, by the District Court for Warsaw – Commercial Department XIX of the National Court Registry.

On April 1, 2001, the organisationally separated portion of the Bank operating under the name of Bank Handlowy w Warszawie SA V Oddzial w Warszawie – Centrum Operacji Kapitalowych ("COK BH") was transferred to the subsidiary undertaking Citibrokerage SA with the registered office in Warsaw ("Citibrokerage").

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

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

4. Merger of the Bank with Citibank (Poland) SA („CPSA")

The Bank was merged with CPSA on February 28, 2001, pursuant to the Resolution of the Extraordinary General Meeting of Bank Shareholders of November 3, 2000, under the purchase acquisition method involving the transfer of all CPSA assets onto the Bank in return for the shares which the Bank allocated to CPSA shareholders. The merger involved the issue of 37,659,600 series C ordinary bearer shares, each with a par value of 4 zloty. The shares in the new issue were allocated to CPSA shareholders according to the following share swap parity: 1,350 series C Bank shares for one CPSA share. The purchase price of the series C shares allocated to CPSA shareholders was defined on the basis of their fair value amounting to 70 zloty each. The fair value reflects the price that Citibank Overseas Investment Corporation announced in 2000 in two tender offers for the Banks' shares. The excess of the purchase price over the fair value of CPSA net assets is shown in Bank assets as goodwill. As decided by the Management Board, the goodwill will be amortised over 20 years, starting from March 2001, according to the straight-line method. The amortisation charges are counted as other operating expense.

As a result of the merger between the Bank and CPSA, carried out by the purchase acquisition method in compliance with the accounting principles described above, the capital funds and undistributed profits of CPSA were cancelled. The excess of the fair value of shares over their par value was allocated to the Bank's capital surplus, which consequently grew by 2,485,534 thousand zloty (66 zloty times 37,659,600 shares).

The par value of each share (4 zloty each) was allocated to the authorised capital, which as a result grew by 150,638 thousand zloty.

According to CPSA's accounts at February 28, 2001, its net assets amounted to 1,187,265 thousand zloty. The resulting excess of the estimated fair value of shares in the new issue over the acquired undertaking's net assets was allocated to the Bank's assets as goodwill, at 1,448,907 thousand zloty, and shown in the Bank's balance sheet under the item 'intangible fixed assets'.

5. Going concern

The accounts for 2001 are compiled under the assumption of the Bank's continued operation in the foreseeable future with no circumstances directly indicating any threat to such continued operation.

6. Consistency of financial data for 2000

The financial data for 2000 shown in these accounts have not been changed in any way and are consistent with the data disclosed in the previously published accounts for 2000.

7. Auditors report for 2000

The Bank's accounts for 2000 were audited by KPMG Polska Audyt Sp. z o.o. who issued an unqualified opinion.

8. Accounting principles

Tangible and intangible fixed assets

The tangible and intangible fixed assets are presented at their purchase price less accrued depreciation/amortisation. Previously, fixed assets were periodically subjected to value adjustments with the indices published by the President of the Central Statistical Office. The result of fixed assets value adjustment was allocated directly to the Bank's capital funds. Since December 31, 1995, no fixed asset value adjustments have been entered.

Depreciation/amortisation is calculated under the straight-line method, at rates set in the depreciation/amortisation plan approved by the Bank's Management Board and complying with the Corporate Income Tax of February 15, 1992, (consolidated text as in *Dziennik Ustaw* of 1993, No 106, item 482, as amended).

Selected depreciation/amortisation rates applied by the Bank are shown below:

Buildings and structure	1.5 %	-	4.5 %
Transport vehicles	7.0 %	-	20.0 %
Computers		34.0 %	
Other fixed assets	7.0 %	-	28.0 %
Computer software and intellectual property rights		50.0 %	
Other intangible assets	2.5 %	-	20.0 %

The tangible and intangible assets of an initial value between 2,000 zloty and 3,500 zloty are wholly depreciated/amortised on the day they are put into use.

The assets items with an initial unit value no higher than 2,000 zloty are subject to one-off depreciation/amortisation on the day they are put into use.

Foreign exchange

The balance-sheet and off-balance-sheet items denominated in foreign currencies are translated at the average rate of exchange defined for a given currency by the NBP President as at the balance date.

The foreign exchange differences arising from from the revaluation of the FX trading positions carried on the balance sheet are taken to the FX gains/loss item.

The foreign exchange differences resulting from the revaluation of structural FX positions carried on the balance sheet are not taken to the FX gains/loss item. They are shown in the balance sheet liabilities as a suspended item in ‘Deferred income’.

Counted as structural FX positions are those regarded as long-term items of the balance sheet. They include:

- FX investments in foreign financial and non-financial institutions,
- Non-transferable securities bearing the right to participation in profits, issued by Mitteleuropäische Handelsbank AG.

The remaining FX positions are shown as trading positions.

The exchange rates for major foreign currencies, as used in compiling these accounts, are these:

in zloty terms

		December 31	
		2001	**2000**
1	USD	3.9863	4.1432
1	DEM	1.8007	1.9707
1	GBP	5.7722	6.1903
1	CHF	2.3760	2.5309
100	BEF	8.7306	9.5548
1	FRF	0.5369	0.5876
1	ATS	0.2559	0.2801
1	NLG	1.5982	1.7491
1	EUR	3.5219	3.8544

Outstanding loans and other claims

Outstanding loans and other claims are presented in the balance sheet at nominal value plus due interests less the value of specific provisions against credit risk exposure.

The specific provisions are made according to the rules defined in Resolution 8/1999 of the Commission for Banking Supervision on the principles of provisioning against banking risks, dated 22 December 1999 (*Dziennik Urzedowy NBP* No 26, item 43) – at the full level required. The specific provisions against potential risks are calculated in accordance with the risk-category classification of individual balance sheet and off-balance sheet exposures. The following minimum percentage rates of specific provisions are applied to individual risk categories:

1) Exposures classified satisfactory (only loans and advances extended to private individuals for non-business purposes, excluding housing loans) and special mention	1.5 %
2) Sub-standard exposures	20 %
3) Doubtful exposures	50 %
4) Loss exposures	100 %

The calculations of the required specific provisions against credit risk exposures take into account amounts of security referred to in Resolution 8/1999 of the Commission for Banking Supervision on the principles of provisioning against banking risks, dated 22 December 1999 (*Dziennik Urzedowy NBP* No 26, item 43). In accordance with the resolution, the specific provisions against the exposures referred to in point 1) herein are reduced by the amount equalling 25% of the general risk provision.

Capital investments

Investments in subsidiaries and associated undertaking

Investments in subsidiaries are the capital exposures which give the Bank the right to exercise control in its capacity as the parent company, notably due to the fact of holding 50% of the votes at the General Meeting of Shareholders.

Investments in associates are the capital exposures which authorise the bank to exert considerable influence, notably due to the fact of holding 20-50% votes at the General Meeting of Shareholders.

As financial fixed assets, the investments in subsidiary and associated undertakings are carried in the accounts within the investment portfolio. They are disclosed in the investment portfolio until their disposal, given the fact that most of such investments held for resale stay in the portfolio for more than 6 months from the acquisition date, and also because of insufficient market liquidity preventing their resale.

Investments in subsidiary and associated undertakings are presented in the balance sheet at their purchase price less provisions against permanent diminution in value.

Investments in other undertakings

Investments in undertakings other than subsidiaries and associates and minority holdings in the investment portfolio are carried on the balance sheet at purchase price less provisions against permanent diminution in value.

Investments in undertakings other than subsidiaries and associates classified into the trading account and inventory are carried on the balance sheet at purchase prices, not higher than the net realisable value. Where the purchase price exceeds the net realisable value, the difference is allocated to the expense of financial operations.

Debt securities

Debt securities are classified as trading account if they are purchased for resale in the capital market for the purpose of either liquidity or speculation.

Debt securities are classified as investment portfolio if the Bank’s intention is to hold them to maturity.

Trading-account securities are carried on the balance sheet at their purchase price adjusted for interest accrued, discount accreted or premium amortised, but not higher than the net realisable value. If the purchase price adjusted for accrued interest, discount or settled premium proves higher than the net realisable value, the difference is allocated to the expense of financial operations.

Debt securities in the investment portfolio are carried on the balance sheet at purchase price adjusted for interest accrued, discount accreted or premium amortised, less provisions against permanent diminution in value.

Assets taken over for debt

Assets taken over for debt are recorded in the books of account at prices equalling the outstanding debt amount for which these assets have been taken over, less specific provisions against the difference between the debt amount and the net realisable value of the assets taken over.

Provisions

Specific provisions and valuation allowances are made in accordance with the principles laid down in the Accounting Act, Resolution 8/1999 of the Commission for Banking Supervision on the principles of provisioning against banking risks, dated 22 December 1999 (*Dziennik Urzedowy NBP* No 26, item 43), and Resolution 1/98 of the Commission for Banking Supervision on detailed principles governing bank accounting and presentation of additional information, dated June 3, 1998 (*Dziennik Urzedowy NBP* No 14, item 27).

Specific provisions are defined upon individual assessment of risks associated with individual assets and off-balance sheet liabilities.

The specific provisions against claims on financial institutions, non-financial customers and government and the provisions against permanent loss in value of securities and other assets have the effect of reducing the value of the corresponding assets items in the balance sheet. The provisions against off-balance sheet liabilities are carried on the balance sheet in the liability item 'Other provisions.'

In compliance with the August 29, 1997 Banking Act (*Dziennik Ustaw* No 140, item 939), the Bank establishes general risk provisions to cover the risks connected with the conduct of banking operations. The general risk provisions are expensed against earnings, and are carried on the balance sheet in the liability item 'Other provisions.'

Also, where a positive interim timing difference emerges with respect to the moment of recognising corporate income as realised or expense as incurred, within the meaning of the Accounting Act and tax regulations, the Bank establishes a provision against such difference. This provision is shown in the balance sheet in the liability item "Deferred income tax provision." A negative interim timing difference is presented in the asset item "Deferred income tax benefit."

Special Participation Convertible Bonds

Special Participation Convertible Bonds are presented at nominal value as part of the Bank's capital funds. The Special Participation Convertible Bonds of Issue I are non-interest bearing; and if not converted into shares they will be redeemed at par value. Each bond authorises its holder to participate in the distribution of profit on an equal footing with the holder of an ordinary share, starting from profit distribution for 1997. Additionally, the holders of Special Participation Convertible Bonds have the right to take up shares in new issues, equivalent to the Bank Shareholders' subscription rights.

Capital

Capital and all capital funds are presented at nominal value.

Prepaid and accrued expenses

In order to allocate the costs to the corresponding reporting periods, the Bank books prepaid and accrued expenses. This holds in particular for the Bank's operating expense.

Off-balance sheet financial instruments

Interest rate instruments

Interest rate instruments are revalued to market value and the results of revaluation are reflected in the profit and loss account at market value. Unrealised gains and losses on the revaluation of these instruments are carried on the balance sheet under the item 'Other assets'/'Other liabilities' at gross value, i.e. without offsetting.

Interest income/expense on interest rate instruments is calculated and presented in the profit and loss account on the accrual bases. Accrued interest owed and owing is carried on the balance sheet under the item 'Other assets'/'Other liabilities' at gross value, i.e. without offsetting.

Term FX transactions

Term FX transactions are revalued and presented in the profit and loss account at market value. Unrealised gains and losses on the revaluation of term FX transactions are carried on the balance sheet under the item 'Other assets'/'Other liabilities' at gross value, i.e. without offsetting.

Options

Term options are valued at market value and the results reflected in the profit and loss account. Unrealised gains and losses on the revaluation of options are carried on the balance sheet under the item 'Other assets'/'Other liabilities' at gross value, i.e. without offsetting.

Premiums received on options written are shown as deferred income under the item 'Other liabilities', while the premiums paid for purchased options are shown as accrued expenses under the item 'Other assets' and entered into the profit and loss account upon finalisation of the transaction.

Calculating the net earnings

The net earnings/(loss) are calculated in compliance with the concept of prudence, the accruals concept and the matching concept. The amount of net earnings reflects all income realised and the relevant expenses set off against the income within a particular reporting period, irrespective of the day on which these are received or paid.

Interest income and expenses

Interest income is presented inclusive of interest on loans classified as satisfactory and special mention, accrued and outstanding unpaid, where delay in payment on the accounts reporting day stays within 30 days. Outstanding interest unpaid for more than 30 days and accrued interest on loans classified as irregular are recorded as interest in suspense in the liability item 'Accrued expenses and deferred income.' Such interest is allocated to income on a cash basis. Interest expense is calculated and presented on an accruals basis.

Bonuses, retirement pay and seniority pay

Performance-related bonuses for management are calculated for the year in which the performance is assessed. Management is also entitled to a bonus in the form of 'equivalent incentive shares'. The equivalent incentive shares are recorded at market value at the balance date and they accrue for three years from the day of allocation, whereupon they can be realised. Provisions for bonuses and equivalent incentive shares are shown in the liability item 'Accrued expense and deferred income & income in suspense'.

Under the Bank's remuneration system, the staff members employed within the framework of the Collective Bargaining Accord have the right to retirement pay and seniority bonus in proportion to the number of years in employment at the Bank or all years in employment (for those taking up employment prior to 1997). In previous years, these retirement payments and bonuses were counted towards expense upon disbursement, without any provisioning for future disbursements. In 2001 the Management Board of the Bank has established provisions for future disbursements, changing the policy not to provide in prior years.

Other operational income and expenses

Other operational income and expense are those not directly related to banking operations. In particular, these are the income and expense arising from the disposal or liquidation of fixed assets, assets held for resale, and expenses arising from damages, penalties and fines.

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, the Bank either establishes a deferred tax provision or recognises a deferred tax asset by assessing the timing differences between the recognition of income and expense for accounting and tax purposes.

At December 31, 2001, the Bank reports a negative interim timing difference with respect to deferred income tax of 271,927 thousand zloty.

Towards the end of 2001, the Bank changed the method of assessing deferred tax asset.

Previously, deferred tax had been calculated at the rate in force for the period following the given balance date. At December 31, 2001, the Bank analysed individual items of timing differences, focussing on the expected time of their realisation (i.e. the year in which the tax liability arises) and chance for the deduction of negative difference. Such an analysis is complex due to wide differences between accounting and uncertainty as to the time horizon for the realisation of timing differences.

In the course of this, the Bank found that the largest sensitivities occur in establishing the timing of the charge to specific provisions for income tax purposes.As a result, and in accordance with the requirement of prudence, the Bank found it most appropriate that the tax rate applied to this item of interim timing differences should be the last and lowest tax rate coming into force on January 2004, which is already enacted - and not the rate in force next year - as most of the specific provisions are likely to be realised for income tax purposes in later reporting periods. The rate change from the present 28% to 22% in 2004 and later years, arising from the provisions of the Act on Corporate Income Tax, additionally reduced the net earnings by 60,312 thousand zloty.

Capital allowance

In 1994-1999, pursuant to the Ordinance of the Council of Ministers on setting off investment expenses against income and on income tax reduction, dated January 25, 1994 (*Dziennik Ustaw* No 18, item 62, as amended) and Art.18 of the Corporate Income Tax Act of February 15, 1992, (*Dziennik Ustaw* of 1993 No 106, item 482 as amended), the Bank took advantage of the capital allowances by charging a total of 187,102 thousand zloty of capital expenditures against taxable income.

Additionally, in 1995-2000, the Bank charged a further 93,551 thousand zloty, which accounted for up to 50% of investment spending charged against income in previous financial years (the so-called investment premium). Additionally, Citibank (Poland) SA, over 1994-1997, reduced the taxable income by 91,401 thousand zloty in capital allowances and by 21,599 thousand zloty in investment premium .

The depreciation charges fixed assets subject to capital allowance, calculated at rates provided for in the depreciation plan, cannot be charged against taxable income. As at December 31, 2001, the balance of allowance taken in advance amounts to 156,114 thousand zloty in non-depreciated portion of capital allowance-covered fixed assets. This amount is taken into account in deferred income tax calculations. The investment premium, regarded as permanent difference, is not taken into account in deferred tax calculations.

9. Zloty-to euro rates

The following rates of exchange of the zloty against the euro, as set by the NBP, obtained in periods covered by the accounts and the comparable financial data.

	2001	**2000**
Exchange rate in force at December 31	3.5219	3.8544
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month in a year	3.6509	4.0046
The highest rate for the last month of the year in the period	3.8843	4.2075
The lowest rate for the last month of the year in the period	3.3783	3.8544

10. Major items of the balance sheet, profit and loss account and cash flow statement converted into euro terms

The major items of the balance sheet and the cash flow statement concerning these accounts with comparable financial data are converted into the euro at average rates of exchange announced by the National Bank of Poland, in force on the last day of period.

The major items of the profit and loss account are converted into the euro at rates equalling 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, respectively, 2000 and 2001.

thousand euros

BALANCE SHEET	**31 December**	
	2001	**2000**
Cash and due from Central Bank	659 429	181 433
Due from financial institutions	1 983 797	1 479 803
Due from non-financial customers &government	4 031 928	2 608 479
Debt securities	699 196	377 317
Capital investments	182 394	165 898
Tangible and intangible fixed assets	677 366	189 712
Other assets	1 178 548	446 323
Total assets	**9 412 658**	**5 448 966**
Due to Central Bank	60 333	81 850
Due to financial institutions	1 389 938	1 389 617
Due to non-financial customers & government	4 886 619	2 637 575
Securities issued and outstanding	-	1
Other liabilities	1 277 987	428 009
Provisions	120 933	71 433
Capital funds	1 676 848	840 481
Total liabilities and capital	**9 412 658**	**5 448 966**

thousand euros

Major items of the profit & loss account	**12 months ended December 31**	
	2001	**2000**
Net interest income	202 588	181 108
Net fee income	132 747	82 822
Net gains on financial operations	18 287	3 917
Net FX gains	214 596	120 526
Net income from banking activity	568 218	388 373
Net operating income	95 269	71 280
Pre-tax earnings	95 272	71 284
Net earnings	**44 821**	**51 119**

thousand euros

Major items of the cash flow statement		
	2001	**2000**
Net cash flow from operating activities – indirect	946 742	159 167
Net cash flow from investing activities	9 798	178 899
Net cash flow from financing activities	(411 525)	(311 981)
Net cash flow, total	545 015	26 086
Change in net cash and cash equivalents	**545 015**	**26 086**
Cash and cash equivalents at beginning of period	229 083	183 236
Cash and cash equivalents at end of period	774 099	209 322

11. Major differences between Polish and International Accountancy Standards (IAS)

The Bank presents its accounts in compliance with the Polish accounting regulations. There are differences between Polish accounting standards applied in the preparation of these accounts and International Accounting Standards. The most important of these differences are as follows:

- In the accounts compiled in accordance with the Polish accounting principles, the general risk provisions were established for the first time in 1998, under the Banking Act then in force (while at the same time the risk fund, then constituting part of the capital funds, was released). In the accounts compiled in accordance with IAS, the general risk provisions were established in previous years – and as a result, interim timing differences emerge between both types of accounts with respect of charges to general risk provisions as presented in the profit and loss account,
- Under the Polish accounting standards, the general principle governing the valuation of debt securities and stock exchange-listed shares is that these are valued at lower of cost or market. Under the IAS, the acquisition value at balance date is taken as the basis for such valuation.
- Investments in associated undertaking are shown in individual accounts compiled in Poland at acquisition price less the valuation allowance, whereas under IAS such considerable investments which are not held for resale are valued according to the property rights method, inclusive of valuation allowance.
- Investments in subsidiary undertakings are shown in individual accounts compiled in Poland at acquisition price less valuation allowance, whereas under the IAS such considerable investments not held for resale are subject to consolidation.
- Under the Polish regulations, an appropriation to the Company Social Benefit Fund is made from net earnings. Under the IAS, such appropriations are charged to the following year's general expenses.

The reconciliation of major items of the Bank's accounts compiled in accordance with the Polish accounting standards to IAS will be presented in the introduction to the Bank's consolidated accounts.