INTRODUCTION

1. Bank operations

Bank Handlowy w Warszawie SA ("Bank"), with the registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa, was founded on the strength of a Notarial Deed of 13 April 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,
- process government borrowings,
- 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 financial statements are compiled for the period from 1 January 2002 to 31 December 2002. Comparable financial data are presented for the period from 1 January 2001 to 31 December. The Bank's financial data for 2001 and 2002 represent the conditions subsequent to 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") into the subsidiary undertaking Citibrokerage SA with the registered office in Warsaw ("Citibrokerage") (see par. 4 and 6).

3. 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 from the function 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 of Shareholders dated 27 June 2002, the following changes in the Supervisory Board took place:

- persons recalled from the Supervisory Board: Krzysztof Grabowski
  Ryszard Wierzba
  Ryszard Pessel
  Heinrich Focke

- persons appointed to the Supervisory Board: Edward Kuczera
  Krzysztof Barcikowski
  Andrzej Gdula
  David J. Smith

4. Internal organisational units of the Bank

The Bank's annual financial statement for 2002 and comparable financial data for 2001 contain the financial data from all of its organisational units through which Bank operations are performed. At 31 December 2002, these included the Head Office in Warsaw, 60 branches around Poland, and 108 other establishments servicing clients in Poland. None of the units 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 crossed out of the Corporate Registry at the National Court Registry on 14 January 2002, by the District Court for Warsaw – Commercial Department XIX of the National Court Registry.

On 1 April 2001, the organisationally separated unit of the Bank operating as COK BH was transferred to the subsidiary undertaking Citibrokerage SA.

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 7 March 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 PLN 1,500, with the combined par value at PLN 55,950,000. The Bank owns all shares. As at 1 April 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 PLN 231,099 thousand. The 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 the Citibrokerage SA undertaking was changed into “Dom Maklerski Banku Handlowego SA” (“Dom 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.

5. Related parties

The Bank is a parent entity and material investor. The list of subsidiary and associated undertakings held by the Bank is presented in the note 10 to the balance sheet. The Bank is in the process of preparation of the consolidated financial statements for 2002, which will be published on 30 May 2003.

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

The annual financial statements of the Bank for 2002 and comparatives for 2001 recognise the situation after the merger that took place on 28 February 2001, pursuant to the Resolution of the Extraordinary General Meeting of Bank Shareholders of 3 November 2000. The purchase was settled under an acquisition method involving the transfer of all CPSA assets onto the Bank in return for the shares that the Bank allocated to CPSA shareholders (see: Additional Notes, par. 35).

7. Going concern

The Bank compiles the financial statements for 2002 under the assumption of the continued operation in the foreseeable future with no circumstances directly indicating any threat to such continued operation.

8. Reclassification of financial data for 2001

Financial data presented in these financial statements were compiled taking into account regulatory changes binding from 1 January 2002 related to grouping of operations and definitions of assets and liabilities. Previously published financial statements for respective reporting periods of 2001 were reclassified in order to provide consistency in grouping and presentation with current reporting period.

Listing and explanation of differences resulting from those reclassifications as well as the results of the changes in asset/liability valuation principles are presented in additional notes (see: Additional Explanatory Notes par 32 and 33).

9. Opinion issued by auditors on the previous period financial statements of the Bank

The Bank’s accounts for 2001 were audited by KPMG Polska Audyt Sp. z o.o. who issued an unqualified opinion.

10. Accounting principles

General information

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

- Regulation 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, with amendments),
- Regulation of the Council of Ministers dated 16 October 2001 concerning specific principles that should be met by issuers of securities (Official Journal of NBP No 139, item 1568, with amendments),
- and the regulations which came into force on 1 January 2002.

On 1 January 2002 the provisions of the Act dated 9 November 2000 on the change in the Accounting Act (Official Journal No 113, item 1189), that apply to financial statements prepared for 2002, came into force. Following the Act and binding from 1 January 2002, the following regulations related to banking activity were issued:

– Regulation of the Ministry of Finance dated 10 December 2001on specific accounting principles for banks (Official Journal No. 149, position 1673),
– Regulation of the Ministry of Finance dated 12 December 2001 on specific principles for recognition, valuation and presentation of financial instruments (Official Journal No. 149, position 1674),
– Regulation of the Ministry of Finance dated 10 December on the principles of creating provisions for the risks related to the operations of banks (Official Journal No. 149, position 1672),

When comparing to the accounting principles applied and described in the annual financial statements for 2001 the financial statements prepared for 2002 recognise in material aspects the regulatory changes introduced from 1 January 2002 by the regulations mentioned above.

Tangible and intangible fixed assets

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

Annual depreciation rates employed by the Bank are as follows:

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 costing less than PLN 3,500 are expensed as they are brought into use.

In 2002 the Bank recognised in its balance sheet rights of perpetual usufruct of land received for free in previous years following applicable regulations being in power at that time. These rights of perpetual usufruct of land are recognised as „land" in fixed assets and as deferred income in liabilities.

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 on the revaluation of balance sheet foreign currency positions are recognised in the profit and loss account as foreign exchange gains/losses.

Exchange rates for the major foreign currencies 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 entities, understood as dependent, co-dependent and associated entities are classified as financial assets available for sale.

Fixed and - material interests in subordinated entities are accounted for under the equity method. Changes in their value as of revaluation date are recognised in the profit and loss account as a participation in net profits (losses) of subordinated entities accounted for under the equity method. The result of revaluation of subordinated entities as of 31 December 2001 was recognised in 2002 as an adjustment of opening balance in retained earnings.

Revaluation of subordinated entities as of 31 December 2002 was made based on their financial statements available at the date of preparation of the Bank's financial statements.

Interests in subordinated entities available for sale and other financial assets – immaterial interests in subordinated 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 loans based on effective interest rate net of established specific provisions. In 2002 the Bank implemented the procedure in the information system utilised by the Retail Banking Sector. The system is utilised for recording consumer loans and loans related to credit cards.

Outstanding loans and receivables other than those in the trading portfolio are recognised at cost adjusted for accrued interest net of established specific provisions.

The Bank makes specific provisions, prescribed by the regulation of the Ministry of Finance dated 10 December 2001 on the principles of creating provisions for the risks related to the operations of banks (Official Journal No. 149, position 1672 as later amended). The provision for possible credit losses has been calculated through the classification of credit facilities extended to customers. After categorisation, the following minimum provision percentages have been applied:

Normal (only consumer loans excluding housing loans) and watch loans	1.5 %
Substandard loans	20 %
Doubtful loans	50 %
Loss loans	100 %

Certain collateral, specified in regulation of the Ministry of Finance dated 10 December on the principles of creating provisions for the risks related to the operations of banks (Official Journal No. 149, position 1672) is taken into account in the calculation of provisions. In accordance with the regulation noted above, provisions against normal loans are covered by an allocation of up to 25% of the balance of the general provision held by the Bank.

Impaired loans considered impossible of collection are written-off against the specific provisions.

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. Changes in the fair value of debt securities available for sale are recognised in revaluation reserve. They are recognised in the profit and loss account only when realised.

Debt securities held until maturity include particularly NBP bonds decreasing 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 linearly accrued/amortised to profit and loss account. Adjustments to fair value or for permanent diminution in value are made in relation to the value of the securities as described above.

Repossessed assets in lieu of bad debts

Assets repossessed in lieu of bad debts are recognised in the balance sheet at amounts equal to the value of outstanding debt net of any specific provisions established for the difference between the outstanding debt and the asset's fair value.

Provisions

The Bank establishes specific provisions and other provisions in accordance with the requirements of the regulation of the Ministry of Finance dated 10 December on the principles of 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 held against 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 items are disclosed in the position “Other provisions” in liabilities.

In compliance with the Banking Act dated 29 August 1997 (Official Journal No. 140, position 939), the Bank establishes a general risk provision to cover potential risk inherent in banking activity. The general risk provision is created by a charge against earnings and carried on the balance sheet as “Other provisions” in liabilities.

Prepayments and accruals

Income and expense are recognised and accounted for on an accrual basis. In particular, this includes interest received and paid and general expenses of the Bank.

Special Participating Convertible Bonds

Special Participating Convertible Bonds are recognised at their nominal value as a part of the Bank’s equity. Special Participating Convertible 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 Participating Convertible Bond gives its holder a right to participate in profit distributions on the same basis as ordinary shares commencing 1997. Furthermore, holders of Special Participating Convertible Bonds have the right to acquire newly issued shares on the same basis as shareholders of the Bank.

Equity reserves

Equity reserves are stated at nominal value.

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 marked to market the instruments and differences were included in the profit and loss account as income or expense from financial operations.

So far the Bank have never implemented hedge accounting.

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.

Interest income and expense

Interest income includes received or accrued interest on interbank placement, loans and securities. Interest income and discount accrual on receivable classified as normal is recognised in 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.

Fee and commission income and expense

Fees and commissions are mainly comprised of fees for maintenance of current accounts, banking operations and servicing credit cards and other amounts other than interest income on loans, guarantees, L/Cs.

Fees and commissions exceeding PLN 40 thousand and not related to one-off closed deals are amortised on a straight-line basis to the profit and loss account over the life of the underlying deal. Fees and commissions not exceeding PLN 40 thousand are recognised in the profit and loss account at the time of their receipt.

Bonuses, retirement and Jubilee Awards

Performance bonuses for management are accrued in the year on which performance is measured. Further bonuses in the form of notional stock options and shares are awarded to some members of the management. These notional stock options and shares may be exercised after 12 or 36 months respectively after their grant date and are marked-to-market at that time. An accrual is made, where applicable, over the three-year period from the date the option is granted to the date when the option may be exercised. The accrual for bonuses and stock options is disclosed in Accruals and Deferred Income.

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 entities from Citigroup directly prior to eligibility date. In case of employees hired in the Bank prior to 1 March 2001 the retirement and jubilee payments are calculated based on numbers of years of employment defined according to the provisions of the Company's Labour Contract that was in force from 1 January 1997. The accrual for future payments is made and is disclosed in Accruals and Deferred Income.

Other operating income/expenses

Other operating income/expenses are comprised of income and expenses that 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 the previous years, in accordance with the adopted accounting principles, 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 still either established a deferred tax provision or recognised a deferred tax asset. As of 31 December 2002 the deferred tax was calculated under balance sheet method, based on all respective items of assets and liabilities constituting the basis for calculation of the deferred tax provision or asset and disclosed in:

– prior year profit (loss) – portion related to a change in revaluation of shares and investments recognised at 1 January 2002 under the equity method,
– revaluation reserve - portion related to revaluation made in 2002 related to securities available for sale,
– profit and loss account - remaining part, including the difference in the level of deferred tax provision and asset 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 (Official Journal No. 18, position 62 with subsequent amendments) and in compliance with article 18a of the Corporate Income Tax Act (Official Journal from 1993 No. 106 position 482 with amendments) the Bank in the period 1994-1999 deducted from taxable income total expenditures amounting to PLN 187,102 thousand.

Additionally, Citibank (Poland) SA, over 1994-1997, reduced the taxable income 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 plan, 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, is included as a timing difference in the deferred tax calculation.

11. EURO/Zloty rates

The following rates of exchange of PLN against EUR, as set by the NBP, obtained in periods covered by the accounts and the comparable 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

12. Major items of the balance sheet, profit and loss statement and cash flow statement converted into EUR terms

The major items of the balance sheet and the cash flow statement concerning these financial statements and 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 period.

The major items of the profit and loss statement and the diluted profit per 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 EUR thousand

BALANCE SHEET	**31 December 2002**	**31 December 2001**
Cash and due from Central Bank	243 597	659 429
Due from financial sector	1 369 986	2 023 532
Due from non-financial sector	3 366 834	4 022 960
Due from budget sector	1 268	8 968
Debt securities	1 083 576	699 196
Equity investments and other financial assets	1 234 328	1 159 075
Tangible and intangible fixed assets	545 777	672 521
Other assets	159 610	166 977
Total assets	**8 004 977**	**9 412 658**

in EUR thousand

BALANCE SHEET	31 December 2002	31 December 2001
Due to Central Bank	30 332	60 333
Due to financial sector	857 717	1 392 842
Due to non-financial sector	3 995 562	4 681 331
Due to budget sector	158 274	250 699
Securities issued	-	-
Liabilities arising on financial instruments	1 040 391	914 709
Other liabilities	327 132	314 963
Provisions	110 789	120 933
Equity	1 484 779	1 676 848
Total liabilities	**8 004 977**	**9 412 658**

EUR thousand

INCOME STATEMENT	12 months ended 31 December	
	2002	**2001**
Net interest income	177 215	202 589
Net fee and commission income	130 193	132 747
Net income from equity investments	2 050	13 815
Net gains on financial operations	100 498	4 471
FX gains	132 564	214 596
Profit on banking activity	542 520	568 218
Operating profit	93 283	95 269
Profit before taxation	93 283	95 272
Net profit	**62 715**	**44 821**

EUR thousand

CASH FLOW STATEMENT	12 months ended 31 December	
	2002	**2001**
Net cash flow from operating activities – indirect method	(274 084)	970 166
Net cash flow from investing activities	130 320	(14 904)
Net cash flow from financing activities	(283 512)	(410 247)
Net cash flow, total	(427 276)	545 015
Change in net cash and cash equivalents	**(427 276)**	**545 015**
Cash and cash equivalents at beginning of period	678 150	229 083
Cash and cash equivalents at end of period	250 874	774 099

13. Main differences between Polish and International Accounting Standards

The Bank prepares financial statements in accordance with Polish Accounting Standards (PAS). There are some differences in accounting principles adopted for preparation of the financial statements and International Accounting Standards (IAS). The principal differences can be presented as follows:

– in the financial statements prepared according to PAS, a general risk provision was created for the first time in 1998 based on 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 shareholding in a special purpose investment subsidiary undertakings not intended for sale are recognised on an equity method. In the financial statements prepared according to IAS, these shareholdings in subsidiary undertakings 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,

Reconciliation of the main items of the financial statements prepared according to PAS to the financial statements prepared according to IAS will be presented in the introduction to the consolidated financial statements of the Bank.