

## ADDITIONAL NOTES TO THE ACCOUNTS

### 1. Large exposures

#### Large exposure limits

The Banking Act of August 29, 1997 (as published in *Dziennik Ustaw* [the Journal of Laws] no. 140/1997, item 939), which took effect on January 1, 1998, specifies large exposure limits for banks. Pursuant to the provisions of Article 71, para. 1, of the Act, as in force on December 31, 2001, the total amount of loans and cash advances extended, bonds and other debt securities acquired, exposures under guarantees, endorsements and letters of credit, and other exposures of the bank to a single party, or to a group of parties related by capital and management and incurring common economic risk, shall not exceed 25% of a bank's capital base. At December 31, 2001, the Bank's capital base for the purpose of determining the large exposure limits laid down in the Banking Act was calculated in accordance with Resolution no. 8/98 of the Commission for Banking Supervision on detailed procedures for determining the capital base of banks belonging to banking groups or of banking groups themselves for the purposes of applying the norms and limits stipulated in the Banking Act, on other items of bank balance sheets to be included in supplementary capital, and the conditions and procedure for such inclusion, and on items of bank balance sheets that are to constitute deductions in calculating a bank's capital base, August 5, 1998 (as published in *Dziennik Urzędowy NBP* [the NBP Official Gazette] no. 19/1998, item 43).

The Bank seeks to limit its large exposures to particular customers. In 2001, the Bank had no exposures in excess of the statutory limit of 25%, nor did it exceed the other exposure limits included in the Banking Act. The figures for December 31, 2001, indicate that the aggregate amount of the Bank's customer exposures in excess of 10% of its capital base stood at 1,349,448 thousand zloty, equivalent to 25.7% of the capital base (at December 31, 2000, the corresponding figure was 1,921,096 thousand zloty, representing 70.3% of the capital base).

#### Sectoral concentrations

To avoid any excessive concentration of credit risk, the Bank monitors its exposure to particular sectors of the economy on an ongoing basis, pinpointing those areas where the Bank's exposure should be increased, and also those sectors where the outlook is unfavourable and its exposure should be reduced. In the case of large corporate customers and financial institutions, the divisions of the Bank responsible for its policy concerning exposures to particular sectors are those of Corporate Banking, Investment Banking and Financial Institutions, while a similar function with respect to small and medium enterprises is exercised by the Commercial Banking Division.

The Bank's policy regarding exposures to large corporate customers and financial institutions active in particular sectors is developed through an identification of target markets. A key component in this identification of markets is an assessment of sectoral risk. To this end, sectoral analyses are carried out by specialists in particular industries. Within the framework of the target markets specified, lending programmes are drawn up with documented requirements for approving the risk involved in specific kinds of business. The higher the sectoral risk, the tighter the criteria for risk approval. The assessment made of the financial condition of a given industry and its development prospects is a major element in the internal rating assigned to a customer.

In terms of small and medium enterprises, the Bank's policy on exposures consists of identifying a target market by deselecting particular industries. This involves eliminating from the target market those industries where the risk of doing business is considered too steep for the standards which the Bank has set itself.

The Bank's policy distinguishes the following criteria as the basis for deselection:

- a) industries excluded in view of their incompatibility with the character of small and medium enterprises;
- b) industries excluded in view of their sensitivity to market factors and earnings volatility;
- c) industries excluded in view of their declining trends in performance.

The target market is then defined as all other industries that have not received an adverse assessment. A selective approach is admissible in relation to specific industries excluded due to sensitivity and volatility factors or to downward performance trends, whereby those customers with the highest internal ratings in those industries are retained.

Given the great diversity of customers representing particular sectors of the economy, the table below presents aggregate figures for the Bank's exposures to the 20 largest industries in its portfolio, as at December 31, 2001.

<i>Industry (section or division by Polish Classification of Economic Activity)</i>	<i>%</i>
Wholesale trade and commission trade, except of motor vehicles and motorcycles	16.6
Financial intermediation, except insurance and pension funding	10.4
Manufacture of food products and beverages	6.6
Construction	5.3
Electricity, gas, steam and hot water supply	4.4
Manufacture of chemicals, chemical products and man-made fibres	4.1
Post and telecommunications	4.0
Manufacture of basic metals	3.3
Manufacture of motor vehicles, trailers and semi-trailers	3.0
Manufacture of machinery and equipment not elsewhere classified	2.6
<i>Ten largest industries</i>	<i>60.3</i>
Other business activities	2.4
Land transport; transport via pipelines	2.2
Sale, maintenance and repair of motor vehicles and motorcycles; retail sale of automotive fuel	2.1
Manufacture of other transport equipment	2.1
Manufacture of rubber and plastic products	1.6
Manufacture of other non-metallic mineral products	1.6
Manufacture of fabricated metal products, except machinery and equipment	1.5
Radio, television and communication equipment and apparatus	1.4
Manufacture of pulp, paper and paper products	1.3
Manufacture of furniture; manufacturing not elsewhere classified	1.2
<i>Twenty largest industries</i>	<i>77.7</i>
Other	22.3
<i>Total</i>	<i>100.0</i>

## 2. Off balance sheet commitments to purchase/sell

The off balance sheet item "Commitments to purchase/sell" includes commitments on the following transactions:

		thousand zloty
	Note	December 31, 2001
FX transactions	2.1	52 844 749
Interest rate transactions	2.1	56 549 906
Securities transactions	2.1	775 369
Deposits to be received		352 000
Placements to be made		714 868
Other (underwriting commitments)	2.2	119 260
<b>Total commitments to purchase/sell</b>		<b>111 356 152</b>

### 2.1 Off balance sheet financial instruments

The banking operations conducted by the Bank include various transactions involving financial instruments. These transactions are concluded for purposes of proprietary trading and for the management of exchange rate and interest rate risk. In addition, the Bank also offers these instruments to its customers.

The Bank placed deposits at other institutions to a total value of 26,589 thousand zloty as collateral against derivatives transactions. The Bank also took collateral of 4,083 thousand zloty against derivatives transactions.

#### FX transactions (including FX swaps)

	December 31, 2001 Thousand zloty Notional value
Spot transactions	2 883 151
Forward transactions	44 668 669
Options purchased	2 486 432
Options written	2 806 497
<b>Total FX transactions</b>	<b>52 844 749</b>

FX transactions represent contracts to buy or sell currency at an agreed exchange rate, either for spot value (whereby settlement is performed two business days from the trade date), or for forward value (whereby settlement is performed more than two business days from the trade date). FX swaps constitute a combination of a spot and a forward, i.e., a specified amount of currency is exchanged at the spot rate for spot value, and at a specified future date that same amount is re-exchanged at the forward rate.

The notional value of an FX transaction represents the amount of currency bought or sold, yet does not reflect the real market or credit risk associated with a given transaction. The Bank controls its market risk by closing out open FX positions and by establishing and monitoring limits on those open positions. The Bank controls its credit risk by trading solely with approved counterparties, under exposure limits set for them. FX transactions are carried out to unwind open intraday FX positions and also for proprietary trading. FX swaps are primarily used to manage the Bank's liquidity and nostro balances.

FX options give the buyer the right, yet not the obligation, to purchase or sell a specified amount of currency at an agreed exchange rate at a future date. The market risk involved stems from movements in the exchange rates for the underlying currencies and is controlled by the Bank through the establishment and monitoring of limits on open positions. The Bank controls its credit risk by trading solely with approved counterparties, under exposure limits set for them. The Bank currently makes use of FX options solely for proprietary trading.

### Interest rate transactions

	December 31, 2001 thousand zloty notional value
<i>Forward rate agreements</i>	
Bought:	11 360 000
Sold:	10 405 000
<i>Interest rate options</i>	
Purchased:	1 019 511
Written:	1 019 511
<i>Interest rate &amp; currency swaps</i>	
<u>Pay/receive-fixed receive/pay-floating</u>	
Interest rate swaps	
(maturing in up to one year)	4 190 720
(maturing in up to two years)	5 027 273
(maturing in up to three years)	2 362 686
(maturing in from three to five years)	15 271 274
(maturing in over five years)	827 174
Cross currency interest rate swaps	
(maturing in up to one year)	1 017 914
(maturing in up to two years)	332 602
(maturing in up to three years)	1 392 460
(maturing in from three to five years)	1 327 034
(maturing in over five years)	205 500
<u>Pay-floating receive-floating</u>	

Cross currency interest rate swaps	
(maturing in up to one year)	308 405
(maturing in up to two years)	120 000
(maturing in up to three years)	88 995
(maturing in from three to five years)	44 645

Pay-fixed receive-fixed

Cross currency interest rate swaps	
(maturing in up to two years)	31 794
(maturing in up to three years)	15 708
(maturing in over five years)	181 700

**Total interest rate transactions** **56 549 906**

Forward rate agreements (FRAs) represent contracts under which the Bank undertakes to pay or receive, at a specified settlement date, the difference between an agreed fixed interest rate and a floating reference rate over a specified future period with respect to an agreed notional amount. The buyer of an FRA undertakes to pay the agreed fixed rate on the given settlement date, while the seller undertakes to pay the floating reference rate. At the settlement date the settlement is made for the difference between the agreed fixed rate and the floating reference rate.

The FRAs traded by the Bank are standard zloty contracts purchased and sold on the interbank market. The market risk involved stems from movements in interest rates and is controlled by the Bank through closing out open positions and establishing stop loss limits.

Interest rate swaps represent contracts under which the parties commit themselves to the periodic exchange of interest payments at two different rates, both with respect to an agreed notional amount. This notional principal is the basis for calculating the interest streams due on the contract. While the notional principal is used to set the size of the contract, it is rarely physically exchanged between the parties involved.

The market risk involved stems from movements in interest rates and is controlled by the Bank through closing out open positions. The credit risk is controlled by establishing exposure limits for particular counterparties.

**Securities transactions**

	December 31, 2001
	thousand zloty
	notional value
Securities options purchased	21 132
Securities options written	21 131
Securities purchased, to be received	553 189
Securities sold, to be delivered	179 917

**Total securities transactions** **775 369**

## 2.2. Underwriting commitments

Underwriting agreements concluded by the Bank and outstanding at December 31, 2001, are presented in the table below.

Name & registered office of issuer	Type of agreement	Duration of agreement (from – to)	Consideration	Type of security	Negotiability	Original amount of maximum underwriting commitment (thousand zloty)	Underwriting commitment outstanding at December 31, 2001 (thousand zloty)
Carcade Invest S.A. – Warsaw	commitment to take up CP	18.10.1999-18.11.2002	spread or FX gain	commercial paper	secondary market, private placement	37 500	-
Elektrim Kable S.A. – Ożarów Mazowiecki	commitment to take up CP	17.08.2000-17.08.2002	spread or FX gain, plus fee	commercial paper	secondary market, private placement	20 000	14 360
Handlowy – Leasing SA	standby	18.01.2001-18.01.2002	spread or FX gain, plus fee	commercial paper	secondary market, private placement	20 000	20 000
Huta Aluminium „Konin” S.A. – Konin	commitment to take up CP	31.08.2000-31.08.2002	spread or FX gain, plus fee	commercial paper	secondary market, private placement	30 000	16 970
PKN Orlen SA Polish Oil Corporation – Płock	acquisition of bonds	06.07.2001-06.07.2006	spread or FX gain, plus fee	bonds	secondary market, private placement	50 000	39 590
Pia Piasecki S.A. –Kielce	commitment to take up CP	03.01.2001-03.01.2002	spread or FX gain, plus fee	commercial paper	secondary market, private placement	25 000	-
Pol Am Pack S.A. – Brzesko	standby CP facility	28.09.1999-29.03.2002	spread or FX gain, plus fee	commercial paper	secondary market, private placement	30 000	26 690
Techmex S.A. – Bielsko – Biała	acquisition of bonds	29.08.2001-31.07.2002	spread or FX gain	bonds	secondary market, private placement	35 000	-
Węglokoks S.A. – Katowice	agency	23.01.2000-23.01.2002	spread or FX gain	commercial paper	secondary market, private placement	130 000	-
Urtica Finanse S.A. - Wrocław	bond issue	26.10.2001-25.10.2002	Fee	coupon bond	private placement	10 000	1 650
City of Gdansk	agency	31.10.1996-26.06.2003	interest coupon	municipal bonds	secondary market, private placement	33 100	-
Total							119 260

### 3. Off balance sheet contingent liabilities

	thousand zloty
	December 31, 2001
<b>3.1. Contingent commitments extended</b>	<b>9 764 895</b>
<b>of which:</b>	
L/Cs	248 029
Guarantees	2 737 591
Undrawn lines of credit	6 779 275

#### Breakdown of L/Cs

	thousand zloty
	December 31, 2001
<b>L/Cs, of which:</b>	
Import L/Cs issued	184 874
Export L/Cs confirmed	63 155

Guarantees extended by the Bank comprise loan guarantees, other payment guarantees, including advance payment guarantees, performance bonds, bid bonds and bills endorsed.

The Bank establishes provisions against contingent liabilities in accordance with Resolution no. 8/1999 of the Commission for Banking Supervision on procedures for provisioning against the risk of banking operations, December 22, 1999 (as published in *Dziennik Urzędowy NBP* no. 26/99, item 43). At December 31, 2001, the balance of provisions established against contingent liabilities amounted to 125,913 thousand zloty.

### 3.2 Contingent commitments extended by the Bank to subsidiary and associated undertakings, outstanding at December 31, 2001

	thousand zloty		
	Subsidiaries	Associates	Total
Contingent commitments extended			
L/Cs	5 985	412	6 397
Guarantees	6 623	83 520	90 143
Undrawn lines of credit	118 656	35 652	154 308
Underwriting commitments	20 000	-	20 000

At December 31, 2001, the balance of provisions established against contingent liabilities undertaken with respect to subsidiary and associated undertakings amounted to 11,864 thousand zloty.

### 3.3 Contingent commitments received

At December 31, 2001, the contingent commitments received by the Bank amounted to 1,120,926 thousand zloty, representing guarantee commitments. At December 31, 2001, the Bank did not have any contingent commitments received from subsidiary and associated undertakings.

#### **4. Commitments to central or local government**

At December 31, 2001, the Bank had no commitments to central or local government arising on any title obtained to buildings or structures.

#### **5. Termination of business segment**

In 2001, the Bank made a legal separation of its brokerage business. On April 1, 2001, the brokerage business of COK BH, an organisationally separate establishment of the Bank, was transferred as a non-cash consideration, for shares in Dom Maklerski Banku Handlowego SA, a wholly-owned subsidiary of the Bank. The accounts of the latter undertaking at December 31, 2001, will be incorporated in the Bank's consolidated accounts at December 31, 2001, by the full consolidation method (see Introduction, section 3). The Bank does not envisage the termination of any business segment in 2002.

#### **6. Assets in course of construction, building of premises and equipment, and internal development**

In 2001, the Bank incurred additional expense of 4,352 thousand zloty for the purchase of the Flexcube software employed at the Bank, an item included in intangible assets. This expense included salaries, social insurance and other benefits for Bank staff employed in implementing the Flexcube IT system.

#### **7. Capital expenditure and purchases**

At December 31, 2001, expenditure on assets in course of construction amounted to 21,304 thousand zloty. Projected capital expenditure in 2002 amounts to 22,911 thousand zloty. Both expenditure on assets in course of construction and planned capital expenditure are primarily related to the modernisation and furnishing of buildings.

#### **8. Significant transactions with connected parties**

**8.1** The Bank did not carry out any significant transactions involving the transfer of rights and obligations, with:

- members of management and the Supervisory Board,
- the spouses, siblings, ascendants or descendants of members of management and the Supervisory Board,
- other persons closely connected to members of management and the Supervisory Board.

**8.2** Significant transactions with shareholders entitled to exercise at least 10% of votes at a General Meeting

The sole shareholder in the Bank entitled to exercise at least 10% of votes at a General Meeting is Citibank Overseas Investment Corporation, New Castle, USA ("COIC"), a subsidiary of Citibank N.A., which at December 31, 2001, was entitled to 91.39% of votes at a General Meeting of the Bank's shareholders. COIC and other undertakings belonging to Citigroup Inc. undertake various business transactions with the Bank.



At December 31, 2001, the sums carried on the balance sheet due to and from the undertakings of Citigroup Inc. (excluding interest), and the off balance sheet commitments extended to or received from those undertakings, were as follows:

	thousand zloty
	December 31, 2001
Claims	3 546 350
of which:	
Placements	3 172 928
Liabilities	748 993
of which:	
Deposits	1 782
Borrowings	219 795
Off balance sheet guarantee commitments extended	55 396
Off balance sheet guarantee commitments received	61 622
Financial derivatives transactions	48 502 518

In the fourth quarter of 2001, the Bank sold its loan to OAO Gazprom, amounting to US\$ 33,800,000, to a connected undertaking, namely, OOO Commercial Bank "Citibank T/O", Moscow. This loan represented a sub-participation in a syndicated loan arranged by Dresdner Bank. The Bank received from Citibank T/O 100% of the value of the loan at the transaction date.

### 8.3 Transactions with subsidiary and associated undertakings

**Loans to subsidiary and associated undertakings, at carrying value (excluding interest), and interest and fee income received from such undertakings, as at and for the year ended December 31, 2001 are as follows:**

	thousand zloty		
	Subsidiaries	Associates	Total
Loans, less provisions:			
<i>due from financial institutions on</i>			
-current accounts	18 341	5	18 346
-loans extended	702 915	-	702 915
<i>due from other undertakings on</i>			
-loans extended	-	101 672	101 672
-subordinated loans	123 478	-	123 478
-additional payments to the capital of private limited companies	57 614	1 535	59 149
-convertible bonds	52 384	-	52 384
<b>Total claims</b>	<b>954 732</b>	<b>103 212</b>	<b>1 057 944</b>
<b>Interest and fee income</b>	<b>73 076</b>	<b>33 156</b>	<b>106 232</b>

At December 31, 2001, the balance of provisions established against loans to subsidiary and associated undertakings amounted to 64,073 thousand zloty.

**Liabilities to subsidiary and associated undertakings (excluding interest), and interest and fee expense due to such undertakings, as at and for the year ended December 31, 2001**

	thousand zloty		
	Subsidiaries	Associates	Total
Liabilities:			
<i>due to financial institutions on</i>			
-current accounts	105 723	372	106 095
-deposits	91 152	579	91 731
<i>due to other undertakings on</i>			
-current accounts	22 287	6 252	28 539
-deposits	63 489	59 299	122 788
<b>Total liabilities</b>	<b>282 651</b>	<b>66 502</b>	<b>349 153</b>
<b>Interest and fee expense incurred</b>	<b>26 523</b>	<b>6 958</b>	<b>33 481</b>

On February 13, 2001, the Bank acquired from the National Bank of Poland (NBP) 34,549 shares, each with a par value of LUF 10,000, in Bank Handlowy International S.A., Luxembourg ("BHI"), representing an interest of 28.79% in the authorised capital of BHI and conferring the right to the same percentage of votes at a General Meeting of the latter bank's shareholders. Prior to this transaction, the Bank had held an interest of 44.33% in this company's authorised capital and the same proportion of voting rights at a general meeting. This transaction increased the Bank's holding in the share capital of BHI to 73.12%. The process of winding up this undertaking is currently in progress.

On March 14, 2001, a Preliminary Act of Sale was signed concerning shares in Cuprum Bank S.A., Lubin. This preliminary agreement involves the Bank's entire shareholding in the latter bank, representing an interest of 55.2% in its authorised capital and carrying 50.2% of voting rights at a general meeting of that bank's shareholders. Cuprum Bank S.A. is at present a subsidiary undertaking of the Bank. The Preliminary Act of Sale is a conditional agreement, containing covenants that defer performance of the transaction. The final act of sale is subject to fulfilment of the relevant covenants.

On April 1, 2001, the brokerage business of COK BH, an organisationally separate establishment of the Bank, was transferred to Dom Maklerski Banku Handlowego SA, which is a wholly-owned subsidiary of the Bank (see Introduction, section 4).

On May 18, 2001, the Bank carried out the exchange of 400 convertible bonds which it held, each with a par value of 100,000 zloty, for shares in the company of Pia Piasecki S.A. As result of this operation, the Bank acquired 4,000,000 shares in the company at a price of 10 zloty each, which constitutes an interest of 36.52% in that company's authorised capital and confers the same percentage of votes at a General Meeting of Shareholders. Prior to converting these bonds, the Bank did not hold any shares in that company.

On June 27, 2001, the Bank subscribed in full to a share issue of 6,000 thousand zloty that increased the authorised capital of a subsidiary undertaking, Towarzystwo Funduszy Inwestycyjnych BH S.A. The proportion of equity held by the Bank remained unchanged, at 100% of the authorised capital.

On June 27, 2001, in performance of an agreement concluded on December 21, 2000, the Bank sold part of the shares it held in a subsidiary undertaking, Mitteleuropäische Handelsbank AG, to NORD/LB Norddeutsche Landesbank Girozentrale, Hannover, with the shares concerned representing an interest of 22.80% in the authorised capital of the former company. As a result of this transaction, the Bank now holds 19.99% of the company's capital, and has reclassified this as a minority holding.

On September 18, 2001, the Bank sold its entire shareholding in an associated undertaking, Centro Internationale Handelsbank AG (Centrobank) to Raiffeisen Zentralbank Oesterreich AG (RZB, Austria), with this holding constituting 45.09% of the authorised capital of Centrobank and conferring the right to the same percentage of votes at a General Meeting of Shareholders.

On October 31, 2001, the Bank acquired shares in Hortex Holding S.A. equivalent to 14.73% of that company's authorised capital. As a result of this transaction, the Bank now holds an interest of 31.09% in the capital of that company and the same percentage of votes at a General Meeting of Shareholders. The acquisition of these shares was carried out solely for the purpose of resale.

On November 30, 2001, the Bank acquired shares in the private limited company of PPH Spomasz Sp. z o.o. representing 100% of that company's equity and entitling the Bank to 100% of votes at a General Meeting of Shareholders. The company is scheduled to be wound up.

On November, 30, a capital increase of the Bank's wholly-owned subsidiary Citileasing Sp. z o.o. was registered. The Bank acquired all shares of the new issue amounting to 20,000 thousand zloty.

On December 3, 2001, the Bank concluded an agreement with an associated undertaking, Mostostal Zabrze-Holding S.A., to terminate as of that date the Investment Agreement previously concluded between Mostostal Zabrze-Holding S.A. and the Bank on April 27, 2000, which had provided for the possibility of taking up that company's issue of series VI shares.

On December 27, 2001, an increase was registered in the capital of an associated undertaking, PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A., with the Bank participating in that increase on equal terms with PKO BP S.A., each taking up half of an additional share issue totalling 60,000 thousand zloty. The proportion of equity held by the Bank remained unchanged, at 50% of the authorised capital.

Bank Handlowy Finance B.V., a subsidiary undertaking in which the Bank held 100% of the authorised capital, was wound up as of December 31, 2001.

## **9. Joint ventures not subject to consolidation by the full consolidation or equity methods**

In 2001, the Bank was not engaged in any joint ventures with connected undertakings.

## **10. Staffing**

In 2001, average staffing at the Bank stood at 5,403 full-time equivalents, including 34 blue collar workers.

## **11. Compensation to members of management and Supervisory Board, including profit-sharing bonuses**

The compensation paid to members of management (members of the Management Board and managing directors) in 2001 amounted to 6,675 thousand zloty (gross).

Compensation to members of management for posts held in the directing bodies of the Bank's subsidiary and associated undertakings in 2001 totalled 187 thousand zloty (gross).

Compensation to members of the Bank's Supervisory Board for 2001 totalled 476 thousand zloty (gross). Members of the Supervisory Board did not receive remuneration for posts held in the directing bodies of the Bank's subsidiary or associated undertakings.

## **12. Loans, advances, guarantees and endorsements extended to staff and to members of management and the Supervisory Board**

At December 31, 2001, the Bank's exposures under loans, advances, guarantees and endorsements extended to staff and to members of management and the Supervisory Board were as follows:

	thousand zloty		
	<b>Guarantees &amp; endorsements</b>	<b>Bank loans &amp; advances*</b>	<b>Loans from Works Welfare Fund</b>
Staff	2 852	59 290	47 304
Management	519	-	-
Members of Supervisory Board	-	-	-
<b>Total:</b>	<b>3 371</b>	<b>59 290</b>	<b>47 304</b>

\* The interest rates and repayment schedules of loans and advances are established on market terms.

At December 31, 2001, members of management had drawn 2 thousand zloty in advance payments from the Bank. No advance payments had been made to members of the Supervisory Board.

At December 31, 2001, there were no outstanding advance payments, loans, advances, guarantees or endorsements extended to members of the Bank's management and Supervisory Board by the Bank's subsidiary or associated undertakings.

## **13. Significant events relating to prior periods reported in the annual accounts for 2001**

In 2001, there were no significant events at the Bank relating to prior periods that had a material effect on the accounts for the reporting period.

## **14. Significant post balance sheet events not reported in the annual accounts for 2001**

On February 4, 2002, a subscription agreement was concluded between the Bank and the European Investment Bank, whereby the Bank undertook to take up, on the primary market, bonds to a par value of 300,000,000 zloty, to be issued on February 14, 2002, at an issue price equivalent to 49.53 percent. This represents a further agreement with the European Investment Bank under a 3bn zloty bond issuance facility which the latter Bank has put in place. The bonds have a maturity of from 1 to 30 years, have been admitted for public trading, and are being issued in several tranches. By year end 2001, two issues had been performed, to a value of 200m zloty and 300m zloty.

On 7 March 2002 Citibank Overseas Investment Corporation, New Castle, USA („COIC”), a subsidiary of Citibank N.A., purchased a total of 753,300 ordinary series C bearer shares of Bank Handlowy. COIC is the parent company of Bank Handlowy. COIC acquired 376,650 shares from

Centaur Investment Corporation at 67.00 PLN per share and 376,650 shares from Foremost Investment Corporation at 67.00 PLN per share. Both those companies are members of Citigroup Inc.

On March 12, 2002, Citibank Overseas Investment Corporation ("COIC"), the parent of Bank Handlowy and a subsidiary of Citibank N.A., presented all Special Participating Convertible Bonds („Special Bonds”) held by it for conversion into shares of Bank Handlowy. The number of Special Bonds presented for conversion is 17,648,500.

## **15. Financial data and inflation**

The financial data reported in these financial statements have not been adjusted for inflation. Over the twelve months ended December 31, 1999, December 31, 2000, and December 31, 2001, inflation as measured by the Consumer Price Index (December-on-December) did not exceed 20%, running at 9.8%, 8.5% and 3.6% in the respective periods concerned. The above inflation rates have been taken from the Statistical Bulletin published by the Central Statistical Office.

## **16. Changes to accounting policies in 2001**

In the financial statements as at December 31, 2001, and for the year then ended the Bank introduced two accounting policy and management estimate changes (see: Introduction p. 8):

- for the first time ever the Bank created an accrual for retirement and length of service bonuses for employees covered by the Collective Labour Agreement; this accrual, in the amount of PLN 25,000 thousand, directly increased the Bank's general expenses for the period
- the Bank adopted the 22% tax rate for the measurement of the deferred tax asset on specific provisions for loan losses in place of the 28% tax rate used previously; this rate has been enacted and will come into force starting from 2004; as the Bank now assumed that the loan losses for which provisions have been created will not generally crystallize earlier for tax purposes. The new rate used increased income tax expense reported by PLN 60,312 thousand zloty.

## **17. Reconciliation of differences between data presented in the accounts, together with comparable financial data, and previously published accounts**

The financial data referring to 2000 contained in the present accounts have not been altered and correspond to those presented in the previously published accounts for 2000.

In the Annual Report for 2001, changes arising from the audit of the Bank's books of account have been performed in relation to data included in the previously published quarterly report for the fourth quarter of 2001 with respect to the balance sheet, off balance sheet items, profit and loss account, and cash flow statement. The effect of these changes has been to increase total assets by 31,467 thousand zloty, decrease net earnings by 21,293 thousand zloty, and increase off balance sheet items by 1.333.488 thousand zloty.

## **18. Currency mix of assets and liabilities**

The Bank's foreign exchange position at December 31, 2001, has been calculated in compliance with the principles specified in Resolution no. 2/2000 of the Commission for Banking Supervision on the establishment of a normative provision for permissible foreign exchange risk in banking activities, November 8, 2000 (as published in *Dziennik Urzędowy NBP* no. 15/2000, item 27).

At December 31, 2001, the Bank's FX positions in the major currencies were as follows:

thousand zloty						
Country	Currency	Assets	Liabilities	OBS amounts receivable	OBS amounts payable	Position: long (+) / short (-)
USA	USD	14 842 551	12 764 705	22 864 093	24 975 642	(33,703)
European Union	EUR	8 535 719	8 029 594	3 608 498	3 915 730	198,893
UK	GBP	486 140	589 879	116 100	13 131	(770)
Switzerland	CHF	1 198 555	644 112	443 794	995 571	2,666
Sweden	SEK	223 982	228 555	49 218	44 648	(3)
Denmark	DKK	46 329	47 733	0	1 611	(3,015)
Australia	AUD	2 854	2 592	0	1 220	(958)
Norway	NOK	7 295	6 502	0	1 811	(1,018)
Canada	CAD	94 426	94 788	0	102	(464)
Japan	JPY	69 183	34 067	18 889	54 360	(355)
Czech Republic	CZK	463 658	279 797	315 980	505 668	(5,827)
Hungary	HUF	814	664	0	0	150
Total non-convertible currencies		199,259	199 903	0	0	(644)
<b>Total</b>		<b>26 170 765</b>	<b>22 922 891</b>	<b>27 416 572</b>	<b>30 509 494</b>	
<b>Overall net position</b>						<b>201 709</b>

Euro component currencies:

thousand zloty						
Country	Currency	Assets	Liabilities	OBS amounts receivable	OBS amounts payable	Position: long (+) / short (-)
Germany	DEM	367 610	299 922	97	0	67 786
European Union	EUR	8 019 977	7 696 045	3 608 401	3 914 629	17 704
Belgium	BEF	108 679	2 459	0	0	106 220
Austria	ATS	1 915	1 992	0	0	(77)
France	FRF	17 348	16 169	0	1 101	78
Italy	ITL	12 485	6 564	0	0	5 921
Holland	NLG	4 250	3 484	0	0	766
Spain	ESP	1 476	1 259	0	0	217
Finland	FIM	1 682	1 473	0	0	209
Ireland	IEP	232	200	0	0	32
Portugal	PTE	31	27	0	0	4
Greece	GRD	33	0	0	0	33
<b>Total</b>		<b>8 535 644</b>	<b>8 029 594</b>	<b>3 608 498</b>	<b>3 915 730</b>	<b>198 893</b>

During 2001, the Bank did not exceed the regulatory limits permissible for foreign exchange risk. At December 31, 2001, the Bank's FX risk capital amounted to 2,262,381 thousand zloty, which was greater than the Bank's capital requirement against foreign exchange risk, being 15,493 thousand zloty.

In calculating its capital requirement against foreign exchange risk, the Bank applies the standardised method, as specified in Resolution no. 2/2000 of the Commission for Banking Supervision, November 8, 2000.

**19. Sources and uses of funds**

	thousand zloty
<b>Sources of funds</b>	<b>December 31, 2001</b>
Banks and other financial institutions	5 107 710
Customers and government	17 210 185
Other external sources	4 926 855
Capital funds, including earnings	5 905 690
<b>Total sources of funds</b>	<b>33 150 440</b>

	thousand zloty
<b>Uses of funds</b>	<b>December 31, 2001</b>
Placements at banks	5 298 049
Advances to customers and government	14 200 047
Securities, including equities	3 104 872
Other uses	10 547 472
<b>Total uses of funds</b>	<b>33 150 440</b>

The funds taken from customers and government in connection with transactions performed via the Bank's branch offices, and the corresponding advances made to customers and government, are shown below as at December 31, 2001. These items are broken down by region, in line with the organisation of the Bank's branch network.

thousand zloty		
Name of region / Trade area by voivodship and borough	Funds taken from customers & government	Advances made to customers & government
Bydgoszcz Region	796 525	1 322 575
voivodships:		
Kujawy Pomerania, Pomerania, Warmia & Mazuria and following boroughs from Western Pomerania: Sławno, Koszalin, Kołobrzeg, Białogard, Świdwin, Szczecinek, Drawsko, municipal borough of Koszalin		
Cracow Region	459 020	738 950
voivodships:		
Podkarpacie, Świętokrzyskie, and Małopolska excluding boroughs assigned to Katowice Region		
Katowice Region	1 013 666	1 052 013
voivodships:		
Silesia, Opole and following boroughs from Małopolska: Chrzanów, Oświęcim		
Poznan Region	1 194 958	1 867 626
voivodships:		
Lubusz, Wielkopolska and Western Pomerania excluding boroughs assigned to Bydgoszcz Region		
Warsaw Region	9 317 614	7 669 390
city of Warsaw and following voivodships:		
Mazovia, Lublin, Lodz and Podlasie		
Wroclaw Region	150 289	376 356
voivodship:		
Lower Silesia		
CITIBANK Retail Banking Sector	4 278 113	1 173 137
<b>Total</b>	<b>17 210 185</b>	<b>14 200 047</b>

## 20. Income and expense of brokerage activity

As of April 1, 2001, the Bank no longer conducts brokerage activity through its own establishments. Brokerage activity is carried on via the offices of the Bank's wholly-owned subsidiary, Dom Maklerski Banku Handlowego S.A. The accounts of Dom Maklerski Banku Handlowego S.A. at December 31, 2001, will be incorporated in the Bank's consolidated accounts at December 31, 2001, by the full consolidation method (see Introduction, section 3).



**21. Selected financial data**

The selected financial data presented on the title page of these accounts are expressed in two currencies: in zloty and in euros.

Selected items of assets and of liabilities and capital, taken from the balance sheet, have been translated at the rate of 3.5219 zloty to the euro, which constitutes the mid-rate for the euro published by the National Bank of Poland and ruling on December 31, 2001. Particular items of the profit and loss account and diluted earnings per ordinary share (twelve months) have been translated at the rate of 3.6509 zloty to the euro, which constitutes the arithmetical mean of the euro mid-rates published by the National Bank of Poland and ruling on the final days of each month of 2001.

**22. Basic items of the balance sheet, profit and loss account and cash flow statement, unrounded**

1. The balance sheet compiled at December 31, shows total assets, and total liabilities and capital, of 33,150,439,978.20 zloty.
2. Off balance sheet items at December 31, 2001, amounted to 123,633,765,216.59 zloty, with contingent commitments extended standing at 9,764,894,836.60 zloty.
3. The profit and loss account for the period from January 1, 2001, to December 31, 2001, shows net earnings of 163,636,000.16 zloty.
4. The cash flow statement for the period from January 1, 2001, to December 31, 2001, shows an increase in net cash and cash equivalents of 1,919,490,522.06 zloty.

## Signatures of all members of the Management Board

25.03.2001 r. ..... date	Cezary Stypułkowski ..... name	President ..... post held	..... signature
25.03.2001 r. ..... date	Shirish Apte ..... name	Vice President ..... post held	..... signature
25.03.2001 r. ..... date	Wiesław Kalinowski ..... name	Vice President ..... post held	..... signature
25.03.2001 r. ..... date	Philip King ..... name	Vice President ..... post held	..... signature
25.03.2001 r. ..... date	Witold Walkowiak ..... name	Vice President ..... post held	..... signature
25.03.2001 r. ..... date	Edward Brendan Ward ..... name	Vice President ..... post held	..... signature