

## INTRODUCTION

### 1. Bank's operations

Bank Handlowy w Warszawie SA ('the Bank') has its registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded on the strength of a Notarial Deed of 13 April 1870. The Bank is registered in the Register of Entrepreneurs in the National Court Register maintained by the District Court for Warsaw, XIX Commercial Department in Warsaw, under KRS number 0000001538.

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:

- accepting deposits payable on request or on a given date and account operation for such deposits,
- operation of other bank accounts,
- performing cash settlements in all forms accepted in domestic and international banking relations,
- extending loans and cash advances in Poland and abroad, as well as consumer loans and credits as defined in the provisions of a separate Act,
- conducting operations which involve cheques and bills of exchange,
- issuing and confirming sureties,
- issuing and confirming bank guarantees and open letters of credit,
- performing FX operations,
- provision of agency services in money transfers abroad by residents and settlements with non-residents in Poland,
- issuing of banking securities,
- commissioned operations related to issue of securities,
- safe-keeping of valuable objects and securities and safe-box services,
- issuing of payment cards and processing of operations executed with use of such cards,
- purchase and sales of receivables,
- processing of forward transactions.

The Bank may also:

- take up or purchase shares and rights attaching to shares, shares of other legal entities and investment fund units,
- organise and service financial lease projects,
- render factoring services,
- trade in securities on its own account and act as an agency in securities trading,
- operate securities accounts,
- render financial consulting and advisory services,
- undertake commitments relating to the issue of securities,
- perform the function of a representative bank within the meaning of the Bonds Act,
- purchase and sell real estate,
- 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,
- accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
- render insurance agency services,
- act as a depository for pension funds,
- act as a depository for investment funds.

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

## **2. Time Limits for the operation of the Bank**

The operation of the Bank are not limited in time.

## **3. Financial data presentation periods**

This Bank's annual financial statements are compiled for the period from 1 January 2003 to 31 December 2003. The comparable financial data of the Bank are presented for the period from 1 January 2002 to 31 December 2002.

## **4. Bank's Management Board and Supervisory Board**

As of 31 December 2003 the Management Board of the Bank consisted of the following members:

Sławomir Sikora	President of the Bank's Management Board
Wiesław Kalinowski	Vice-President of the Bank's Management Board
Philip Vincent King	Vice-President of the Bank's Management Board
David J. Smith	Vice-President of the Bank's Management Board
Sunil Sreenivasan	Vice-President of the Bank's Management Board
Lidia Jabłonowska-Luba	Member of the Bank's Management Board

The following changes of the Bank's Management Board occurred in 2003:

– resigned on:

30 May 2003	Cezary Stypułkowski
24 June 2003	Shirish Apte
28 August 2003	Witold Walkowiak

– appointed on:

26 June 2003 - Vice-President of the Bank's Management Board; on 2 July 2003 - President of the Bank's Management Board	Sławomir Sikora
15 April 2003	David J. Smith
26 June 2003	Sunil Sreenivasan
3 November 2003	Lidia Jabłonowska-Luba

As of 31 December 2003, the Supervisory Board consisted of the following members:

Stanisław Sołtysiński	President
Jean Paul Votron	Vice-President
Shirish Apte	Member
Göran Collert	Member
Andrzej Gdula	Member
Mirosław Gryszka	Member
Allan J. Hirst	Member
Edward Kuczera	Member
Andrzej Olechowski	Member
Krzysztof Opawski	Member
Carlos Urrutia	Member
Edward T. Walsh	Member

In 2003, the following changes in the Supervisory Board took place:

– resigned on:

1 April 2003	Krzysztof Barcikowski
24 March 2003	David. J. Smith

– appointed on:

25 June 2003	Shirish Apte
25 June 2003	Andrzej Olechowski

## **5. Internal organisational units of the Bank**

The Bank's annual financial report for 2003 and comparable financial data for 2002 contain the financial data of all of its organisational units through which operations are performed. As of 31 December 2003, these included the Head Office in Warsaw, 57 branches and 102 establishments servicing clients in Poland. None of the units prepare separate financial statements.

## **6. Related parties**

The Bank is a parent entity and material investor. The list of subsidiaries, joint venture and associated undertakings held by the Bank is presented in note 10 to the balance sheet. The Bank is preparing a consolidated financial report for 2003.

## **7. Business combinations**

In 2003 and in 2002 no business combinations occurred.

## **8. Going concern**

The financial statements for 2003 have been prepared under the assumption of the Bank's continued operation in the foreseeable future with no circumstances directly indicating any threat to such continued operation.

## **9. Reclassification and presentation of financial data for 2002**

The presented financial data for 2002 has not been reclassified and is consistent with the data previously published in the annual report for 2002, excluding the changes in data presentation in the following notes of balance sheet and loss account: 12C, 13A, 13B, 14C, 20A, 27F, 37, 38, 43 and 44. These changes were implemented in order to provide consistency in presentation with current reporting period.

## **10. Opinion issued by auditors on the previous period financial statements of the Bank**

The Bank's financial statements as of 31 December 2002 were audited by the chartered auditor KPMG Polska Audyt Sp. z o.o. which issued an unqualified opinion.

## 11. Accounting principles

### *General information*

The Bank's 2003 annual financial statements 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 (Journal of Laws No. 139, item 1569, as amended),
- Regulation of the Council of Ministers dated 16 October 2001 concerning specific principles that should be met by issuers of securities (Journal of Laws No 139, item 1568, with amendments),

and with the provisions of:

- the Accounting Act of 29 September 1994 (Official Journal of 2002, No. 76, item 964, as amended),
- Regulation of the Ministry of Finance dated 10 December 2001 on specific accounting principles for banks (Official Journal No. 149, item 1673, as amended),
- 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, item 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, item 1672, as amended).

### *Tangible and intangible fixed assets*

The tangible and intangible fixed assets are recognised at their purchase price less accumulated depreciation, and also charges for permanent diminution in value at the end of the period. Depreciation is calculated using the straight-line method at rates defined in the approved depreciation schedule for 2003.

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 %

Assets with unit original value 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.

Computer software and licenses (except main operating system which is depreciated at the rate of 20%)	34.0 %
Goodwill	5.0%
Other intangible fixed assets	20.0%

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. It should be noted that no revaluation based on the indices published by the Central Statistical Office has taken place since 31 December 1995.

Fixed assets under construction are presented as the amount of all incurred expenses connected directly with uncompleted construction, assembly or improvement of fixed asset.

### *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 President of the National Bank of Poland ('NBP').

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 used for the translation of foreign currency balances are as follows:

		in PLN	
		31 December 2003	31 December 2002
1	USD	3.7405	3.8388
1	GBP	6.6686	6.1802
1	EUR	4.7170	4.0202

### *Equity investments – interests in subordinated undertakings*

Investments in subordinated entities, comprising subsidiaries, joint venture and associated entities, are classified as 'financial assets available for sale'.

Material interests in subordinated entities are accounted for under the equity method. Changes in their value 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 of the previous year's results.

Trading shares in subordinated entities are recognised in the balance sheet at their purchase price including write-downs for 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 for any permanent diminution in value.

### *Outstanding loans and other receivables*

The Bank is at an advanced stage in the 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.

Amounts due from financial institutions, non-financial sector and government sector are presented in the balance sheet as the difference between the sum of their nominal value and interest accrued, and the value of specific provisions created for credit risk.

Purchased receivables are presented in the balance sheet as the difference between the sum of their nominal value and, unsettled discount, and the value of specific provisions created for credit risk.

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 (Journal of Laws No. 149, position 1672 as later amended). The provisions for possible credit losses have been calculated in accordance with the risk classification of particular balance sheet and off-balance sheet exposures. The following minimum provision percentages have been applied to provisions for particular risk categories:

Normal (only consumer loans) and watch loans	1.5 %
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Certain collateral, specified in 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 is taken into account in the calculation of provisions necessary for problem loans. Moreover, pursuant to the provisions of said Regulation, the required level of provisions for normal loans (cash lending and consumer loans) and watch loans is reduced by an amount equivalent to 25% of the general risk provision.

Impaired loans where there is no possibility 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 are recorded at cost net of provisions against any permanent diminution in value.

Interest, discount and premium on all types of debt securities are accrued/amortised to profit and loss account on a straight line basis. Adjustments to fair value or for permanent diminution in value are made in relation to the value of the securities as described above.

### *Reposessed assets in lieu of bad debts*

Assets reposessed in lieu of debts are recognized at fair value. A specific provision is established for the difference between the outstanding debt and the reposessed assets or a revaluation write down for the assets is made.

Substandard loans  
Doubtful loans  
Loss loans

### *Provisions*

Specific provisions and write-downs for permanent diminution in value are established in accordance with the principles set out in the Accounting Act and in Regulations by the Minister of Finance on the particular accounting principles of banks and on the principles of creating provisions for the risks related to the operations of banks dated 10 December 2001.

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 'Other provisions' in liabilities.

In compliance with the Banking Act dated 29 August 1997 (Official Journal of 2002, No. 72, item 665, as amended), 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*

Expenses are recognised and accounted for by the Bank on an accrual basis. In particular, this includes the general expenses of the Bank.

### *Equity*

Capital and own equity are stated at nominal value, except for the revaluation fund which to the extent it includes the results of valuation of financial assets available for sale is disclosed at the net amount.

### *Derivative instruments*

Derivative instruments are recognised as financial assets and liabilities held for trading purposes. Derivatives are valued at their market value. The effects of changes in market value are included in the profit and loss account as income or expense from financial operations.

To date, the Bank has not adopted 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 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 and letters of credit.

Bank fees and commissions not related to single closed transactions are amortised on a straight-line basis to the profit and loss account for the period of the transaction they are related to.

*Bonuses, retirement and Jubilee Awards*

Depending on their professional grade, Bank employees may be awarded bonuses from the incentive fund, bonuses under the bonus scheme applicable in a given area, or an annual discretionary incentive award as approved within internal regulations of employees' salaries. Bonuses are awarded after the end of the period in which performance is assessed.

Bank employees may also be awarded bonuses in the form of management options. The manager options may be exercised at the earliest minimum 18 months after they have been awarded. A provision is established for future payments, which is verified and revaluated until the options are exercised. The provision is included in 'Accruals and deferred income'.

Within its salary scheme, the Bank guarantees its employees retirement severance benefits whose amount is dependent on the years of service with the Bank and with Citigroup entities directly prior to eligibility date. Moreover, the Bank's employees who were hired under the provisions set in the Company's Labour Contract have the right to jubilee payments. 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 provision for future payments is made and is included in 'Accruals and deferred income'.

*Other operating income/expenses*

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

*Corporate income tax*

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

Deferred tax is calculated using the balance-sheet method, taking into account both assets and liabilities items expected to be subject in the future tax periods to the corporate income tax constituting the basis for calculating the provision, and the deferred corporate income tax assets, and is shown in the profit and loss account or the revaluation reserve (fund). The provision and the deferred corporate income tax assets are presented in the balance sheet together.

**12. EUR/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:

in PLN

	31 December 2003	31 December 2002
Exchange rate as at	4.7170	4.0202
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month in the reporting period	4.4474	3.8697
The highest rate for the last day in the month in the reporting period	4.7170	4.0810
The lowest rate for the last day in the month in the reporting period	4.1286	3.5910

### 13. 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 the periods presented.

The major items of the profit and loss account, net profit per ordinary share and diluted profit per ordinary share are converted into EUR at rates being the arithmetical mean of the average zloty/EUR rates of exchange announced by the National Bank of Poland, in force on the last day of each month of the respective periods presented.

#### BALANCE SHEET

in thousand EUR

ASSETS	31 December 2003	31 December 2002
Cash, and due from Central Bank	251,540	243,597
Due from financial sector	1,851,368	1,369,986
Due from non-financial sector	2,809,597	3,366,834
Due from budget sector	664	1,268
Debt securities	729,672	1,083,576
Equity investments and other securities and financial assets	848,844	1,234,328
Tangible and intangible fixed assets	436,540	545,777
Other assets	124,687	159,611
<b>Total assets</b>	<b>7,052,912</b>	<b>8,004,977</b>

<b>LIABILITIES</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
Due to the Central Bank	8,723	30,332
Due to financial sector	811,126	857,717
Due to non-financial sector	3,824,308	3,995,562
Due to budget sector	98,610	158,274
Liabilities arising on financial instruments	712,812	1,040,391
Other liabilities	241,747	327,133
Provisions	94,834	110,789
Equity	1,260,752	1,484,779
<b>Total liabilities</b>	<b>7,052,912</b>	<b>8,004,977</b>

	<b>in thousand EUR</b>	
<b>INCOME STATEMENT</b>	<b>12 months to 31 December</b>	
	<b>2003</b>	<b>2002</b>
Net interest income	167 558	177 215
Net fees and commissions income	117 406	130 193
Income from shares, other securities and floating-rate financial instruments	14 559	2 050
Net gains on financial operations	17 441	100 498
FX gains	108 234	132 564
Profit on banking activity	425 198	542 520
Operating profit	88 187	93 283
Profit (loss) before taxation	88 187	93 283
<b>Net profit (loss)</b>	<b>54 528</b>	<b>62 715</b>

	<b>in thousand EUR</b>	
<b>MAJOR CASH FLOW STATEMENT ITEMS</b>	<b>12 months to 31 December</b>	
	<b>2003</b>	<b>2002</b>
Net cash flow from operating activities– indirect method	29 543	(274 084)
Net cash flow from investing activities	66 167	130 320
Net cash flow from financing activities	(52 611)	(283 512)
Net cash flow, total	43 099	(427 276)
<b>Change in net cash</b>	<b>43 099</b>	<b>(427 276)</b>
Cash at beginning of period	213 814	678 150
Cash at end of period	256 913	250 874

**14. Main differences between Polish and International Accounting Standards**

The Bank prepares financial statements in accordance with the 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 in accordance with PAS, shares in special purpose investment companies are valued using the equity method. In the financial statements prepared in accordance with IAS, interests in such companies are fully consolidated;
- in the financial statements prepared in accordance with PAS repo/reverse repo transactions on securities, of the sell-buy-back and buy-sell-back types, are presented as independent purchase or sale transactions with the current date, and respectively as repo or reverse repo transactions with the future date. In the financial statements prepared in accordance with IAS, sell-buy-back and buy-sell-back transactions are recognised as deposits;
- in accordance with IAS 39, selected categories of financial assets and liabilities require valuation at amortised cost calculated with the use of the effective rate of return. So far, the Bank has implemented the method of effective interest rate in one of the systems used, in the Consumer Banking Sector. Within this system, recording of consumer loans and recording of loans connected with the operation of credit cards is made.