

## INTRODUCTION

### **1. Basic information about the core business of the Bank Handlowy w Warszawie S.A. Group (“the Group”)**

#### **1.1. Operations of the parent entity - Bank Handlowy w Warszawie SA (“the Bank”)**

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,
- provide factoring services,
- trade in securities on its own account and act as an agency in securities trading,
- operate securities accounts,
- provide 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,
- provide financial services consisting in the provision of acquisition activity within the meaning of the Act on Organisation and Operation of Pension Funds,
- accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
- provide 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.

## **1.2. Operations of entities of the Group**

Other segments of business of subsidiary undertakings included in the Group and other subordinated (joint-venture and associated) undertakings are as follows:

- banking operations,
- brokerage operations,
- provision of financial, lease, and factoring services,
- investment operations,
- insurance operations (undertaking under liquidation),
- industrial production with differentiated profile of final products (exclusively undertakings to be resold).

## 2. Time limits for the operation of the Bank and entities of the Group

The Group does not include any undertakings with a limited time of operations.

## 3. Financial data presentation periods

These Consolidated Annual Financial Statements of the Bank are compiled for the period from 1 January 2003 to 31 December 2003. The comparable financial data is 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 Jabłowska-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 Jabłowska-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.

As of the date of signing of the Consolidated Annual Financial Statements of the Bank for 2003, the composition of the Bank's Management Board had changed in connection with the resignation of Mr Wiesław Kalinowski from the function of Vice-President of the Bank's Management Board as of 30 March 2004.

## **5. Internal organisational units of the Bank and of entities of the Group**

The Consolidated Annual Financial Statements of the Bank for 2003 and comparable financial data for 2002 contain the financial data of all of the Bank's organisational units and entities of the Group through which their operations are performed. The internal organisational units of the Bank do not prepare separate financial statements.

## **6. Business combinations**

In 2003 and in 2002 no business combinations occurred.

## **7. Going concern**

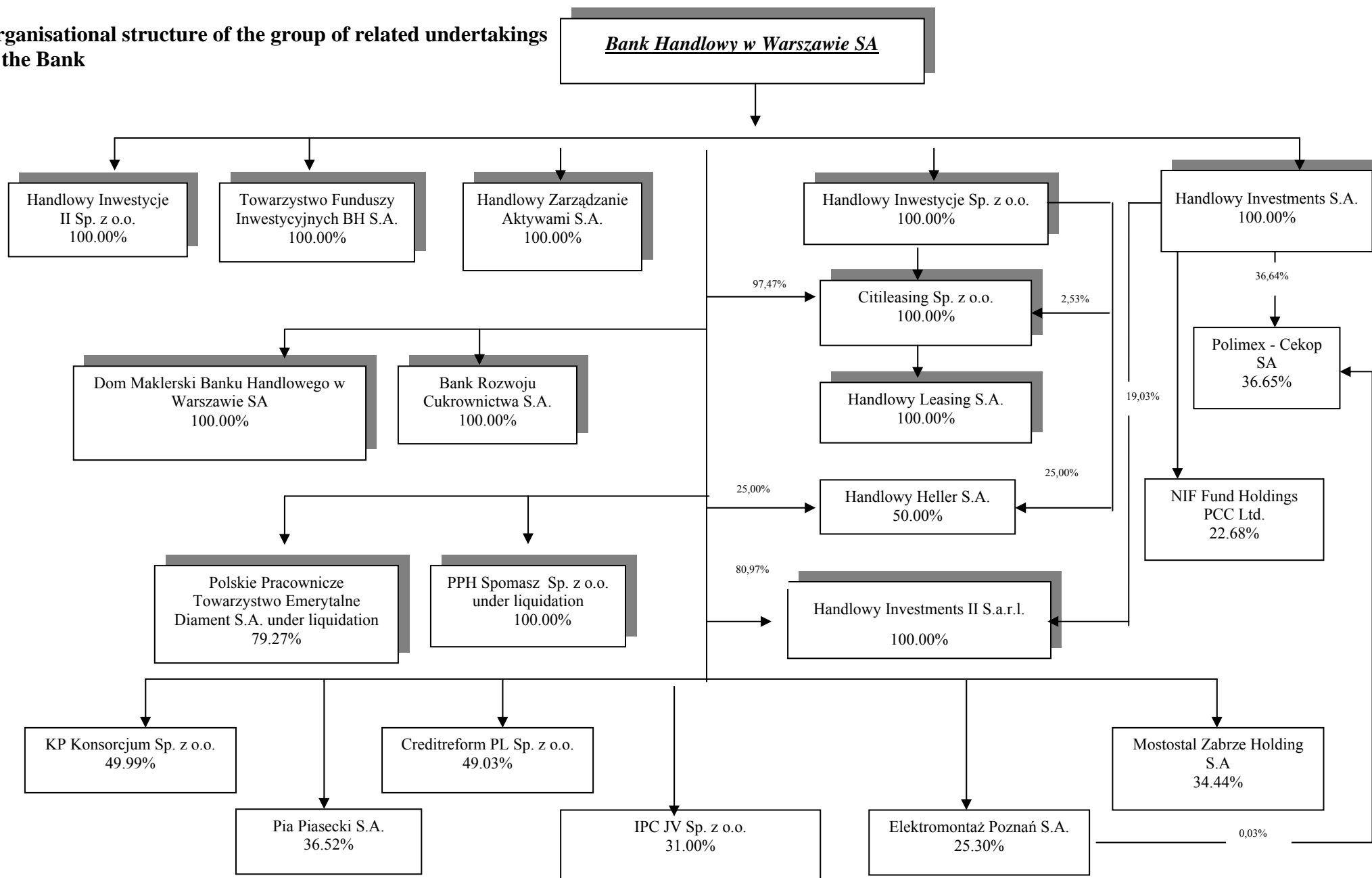
The Consolidated Financial Statements for 2003 have been prepared under the assumption of continued operation of the Bank and of entities of the Group in the foreseeable future with no circumstances directly indicating any threat to such continued operation, except for the subsidiary undertakings Polskie Towarzystwo Emerytalne DIAMENT S.A. under liquidation as of 23 June 2003 and PPH Spomasz Sp. z o.o. under liquidation as of 3 November 2000.

Among the remaining subordinated undertakings of the Bank, there is a threat to continued operations of the following associated undertakings: Pia Piasecki S.A. and Mostostal Zabrze Holding S.A.

According to the announcement of the Management Board of Pia Piasecki S.A. contained in the Current Report disclosed to the public, on 30 June 2003 the District Court in Kielce declared Pia Piasecki S.A. bankrupt.

According to the standpoint of the Management Board of Mostostal Zabrze Holding S.A. contained in the Semi-Annual Report for 2003, there are certain factors which put into question the Company's ability to continue its operations. Such doubts can be caused by the failure to execute the intentions and planned actions undertaken by the Management Board in order to rectify the financial situation of the Company. Taking into account the initiatives undertaken by the Management Board, and also the economic situation and market experience, on 30 July 2003 the shareholders of Mostostal Zabrze Holding S.A. adopted unanimously the resolution concerning the further existence of the Company.

## 8. Organisational structure of the group of related undertakings of the Bank



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

### 9.1. Subsidiary undertakings of the Group

#### 9.1.1. Consolidated financial subsidiary undertakings included in the Group (consolidated in full)

Company name	Registered office	Core business	Registration Authority	Balance sheet value of shares in PLN thousand	Percent of authorised share capital held	Share in the total number of votes at the General Meeting of Shareholders
Dom Maklerski Banku Handlowego SA	Warsaw	Brokerage activity	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000002963	-	100	100

The value of shares purchased, amounting to PLN 70,950 thousand, is eliminated against shareholder's equity. In the Consolidated Annual Financial Statements of the Bank for 2002, this undertaking was fully consolidated.

#### 9.1.2. Non-consolidated financial subsidiary undertakings included in the Group (not consolidated in full), accounted for by the equity method

Company name	Registered office	Core business	Registration Authority	Balance sheet value of shares in PLN thousand	Percent of authorised share capital held	Share in the total number of votes at the General Meeting of Shareholders
Citileasing Sp. z o.o.	Warsaw	Lease operations	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000057370	162,573	100	100
Handlowy Leasing S.A.	Warsaw	Lease operations	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000031640	0	100	100
Handlowy Inwestycje o.o.	Sp. z Warsaw	Investment activity	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000038928	6,460	100	100
Handlowy Inwestycje II Sp. z o.o.	Warsaw	Investment activity	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000033180	3,892	100	100
Handlowy Investments S.A.	Luxembourg	Investment activity	District Court for and in Luxembourg, Commercial and Company Register Section: B, No. 57746	0	100	100
Handlowy Investments II S.a.r.l. Luxembourg	Luxembourg	Investment activity	District Court for and in Luxembourg, Commercial and Company Register Section: B, No. 61343	18,259	100	100

Company name	Registered office	Core business	Registration Authority	Balance sheet value of shares in PLN thousand	Percent of authorised share capital held	Share in the total number of votes at the General Meeting of Shareholders
Handlowy Zarządzanie Aktywami S.A.	Warsaw	Brokerage activity	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000034423	5,124	100	100
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. under liquidation	Warsaw	Insurance	District Court for the capital city of Warsaw, XX Business Department of the National Court Register Register No.: KRS 0000081054	225	79.27	79.27
Towarzystwo Funduszy Inwestycyjnych BH S.A.	Warsaw	Investment activity	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000002717	16,759	100	100
Bank Rozwoju Cukrownictwa S.A.	Poznań	Banking	District Court in Poznań, XXI Business Department of the National Court Register Register No.: KRS 0000007876	38,787	100	100

In the Consolidated Annual Financial Statements of the Bank for 2002, these undertakings were accounted for under the equity method.

#### 9.1.2.1. Justification for non-consolidation

The non-consolidated financial subsidiary undertakings listed in 9.1.2 were not consolidated (by full method) pursuant to Article 57 item 1 and Article 58 item 1 of the Accountancy Act of 29 September 1994 (Journal of Laws No. 121, item 591 as amended). Bank Rozwoju Cukrownictwa S.A. is intended for sale or liquidation. The remaining undertakings are minor in comparison to the Bank and immaterial with respect to the true and fair presentation of the financial result of the Group.

The table below presents the financial data of the undertakings excluded from consolidation

Company name	Balance sheet total	Interest income from banking activity or net income from sale of goods and products and financial operations	Shareholders' equity, including:						Fixed assets	Average employment in 2003
				Authorised share capital	Equity reserves	Other shareholders' equity, including:				
							Net financial profit/loss of previous years	Net financial profit/loss		
		in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in full time job equivalents
Citileasing Sp. z o.o.	255,186	11,194	162,573	123,120	24,495	14,958	1,329	6,112	58,203	13
Handlowy Leasing S.A.	1,028,911	56,565	(2,191)	3,125	239	(5,555)	(15,782)	10,227	671,048	41
Handlowy Inwestycje Sp. z o.o.	13,171	1,028	6,460	4	8,066	(1,610)	(10,362)	4,034	9,488	2
Handlowy Inwestycje II Sp. z o.o.	3,892	2,154	3,892	4	10,080	(6,192)	(7,128)	936	28	-
Handlowy Investments S.A.	175,753	82	(31,445)	44,539	-	(75,984)	(73,563)	(2,852)	165,312	-
Handlowy Investments II S.a.r.l.	34,552	118	18,259	61,449	-	(43,190)	(50,997)	1,983	25,932	-
Handlowy Zarządzanie Aktywami S.A.	6,178	6,468	5,124	5,000	5	119	(437)	556	190	13
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A. under liquidation	339	1	284	100	1,668	(1,484)	(642)	306	4	1
Towarzystwo Funduszy Inwestycyjnych BH S.A.	18,214	18,644	16,759	13,000	29,000	(25,241)	(30,205)	4,964	75	5
Bank Rozwoju Cukrownictwa S.A.	42,573	1,686	38,787	25,064	8,657	5,066	-	1,141	3,234	7



**9.1.3. Non-financial subsidiary undertakings included in the Group, not accounted for by the equity method**

Company name	Registered office	Core business	Registration Authority	Balance sheet value of shares in PLN thousand	Percent of authorised share capital held	Share in the total number of votes at the General Meeting of Shareholders
PPH Spomasz Sp. z o.o. under liquidation	Warsaw	Production of catering and commercial equipment	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 3035	9,443	100.00	100.00

In the Consolidated Annual Financial Statements of the Bank for 2002, the undertaking was not consolidated by the full method or accounted for by the equity method. But was carried at cost adjusted for permanent diminution in value.

**9.1.3.1. Rationale for exclusion from equity method**

The non-consolidated subsidiary undertaking listed in 9.1.3 was not consolidated by the equity method pursuant to Article 57 item 1 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121, item 591 as amended). The undertaking is intended for sale or liquidation. It is valued at the acquisition price, taking into account write-downs for permanent loss in value.

**9.1.4. Changes in the structure of the Group**

In 2003, the composition of the Group changed due to:

- sale of “Bytom Collection” Sp. z o.o. based in Radzionków in which the Bank held 100% stake in the capital and the same number of votes at the general meeting of shareholders of the Company;
- taking over by the Bank of the assets due to liquidation of the subsidiary Budowa Centrum Plac Teatralny Sp. z o.o. under liquidation in which the Bank held 61.25% stake in the capital and the same number of votes at the general meeting of shareholders of the Company;
- sale of the whole shareholding held in the subsidiary Handlowy Leasing S.A. based in Warsaw within the Group, for the subsidiary undertaking Handlowy Inwestycje Sp. z o.o. The shareholding sold by the Bank represented a 0.01% stake in the capital of this undertaking. As a result of this transaction, Handlowy Inwestycje Sp. z o.o. held 100% stake in capital and the same number of votes at the general meeting of shareholders of Handlowy Leasing S.A.;
- claiming by Handlowy Inwestycje Sp. z o.o. shares in the increased authorised share capital of Citileasing Sp. z o.o. The claiming of shares has been covered by a contribution in kind of shares in Handlowy Leasing S.A. As a result of this transaction, Handlowy Inwestycje Sp. z o.o. holds a 2.53% stake in the capital of Citileasing Sp. z o.o. and the same number of votes at the general meeting of shareholders of this enterprise, and Citileasing Sp. z o.o. holds a 100% stake in the

capital of Handlowy Leasing S.A. and the same number of votes at the general meeting of shareholders of this enterprise;

- reimbursement for the Bank of supplementary payment made by the Bank for the subsidiary Handlowy Inwestycje Sp. z o.o., at the total amount of PLN 27,000 thousand, pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Handlowy Inwestycje Sp. z o.o. of 2 April 2003;
- reimbursement for the Bank of supplementary payment made by the Bank for the subsidiary Handlowy Inwestycje II Sp. z o.o., at the total amount of PLN 15,000 thousand, pursuant to the resolution of the Extraordinary General Meeting of Shareholders of Handlowy Inwestycje Sp. z o.o. of 2 April 2003;

## 9.2. Other subordinate (joint-venture and associated) undertakings

### 9.2.1. Joint-venture and associated undertakings accounted for by the equity method

Company name	Registered office	Core business	Registration Authority	Balance sheet value of shares in PLN thousand	Percent of authorised share capital held	Share in the total number of votes at the General Meeting of Shareholders
Handlowy Heller S.A.	Warszawa	Factoring	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000005577	10,646	50.00	50.00
KP Konsorcjum Sp. z o.o.	Warszawa	Management of investment funds	District Court for the capital city of Warsaw, XIX Business Department of the National Court Register Register No.: KRS 0000044147	6,059	49.99	49.99
Polimex - Cekop S.A.	Warszawa	Foreign trade centre	District Court for the capital city of Warsaw, XX Business Department of the National Court Register Register No.: KRS 0000046844	32,800	36.64	36.64

In the Consolidated Annual Financial Statements of the Bank for 2002, the undertakings were accounted for by the equity method.

**9.2.2. Associated undertakings not accounted for by the equity method**

Company name	Registered office	Core business	Registration Authority	Balance sheet value of shares in PLN thousand	Percent of authorised share capital held	Share in the total number of votes at the General Meeting of Shareholders
Elektromontaż Poznań S.A.	Poznań	Construction, assembly and power services	District Court in Poznań, XXI Business Department of the National Court Register Register No.: KRS 0000060700	6,000	25.30	25.30
Mostostal Zabrze Holding S.A.	Zabrze	Production and service construction industry	Registration Court in Katowice Register No.: KRS 0000049844	-	34.44	34.44
NIF Fund Holdings PCC Ltd.	Guernsey	Investment activity	N.D.	31,621	22.68	22.68
Pia Piasecki S.A.	Kielce	Construction industry	District Court in Kielce, X Department of the National Court Register Register No.: KRS 0000007779	-	36.52	36.52
Creditreform PL. Sp. z o.o.	Warsaw	Business intelligence agency	District Court for the capital city of Warsaw, Commercial Court, XVI Business Registration Department Register No.: RHB 33125	328	49.03	49.03
IPC JV Sp. z o.o.	Warsaw	Construction and operation of a building	District Court for the capital city of Warsaw, Commercial Court, XVI Business Registration Department Register No.: RHB 24144	-	31.00	31.00

In the Consolidated Annual Financial Statements of the Bank for 2002, the undertakings were not accounted for by the equity method. The undertakings were valued at the acquisition price, taking into account write-downs for permanent loss in value.

**9.2.2.1. Rationale for exclusion from valuation by equity method**

The above-mentioned non-financial associated undertakings excluded from equity method accounting pursuant to Article 57 item 1 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121, item 591 as amended). The above-mentioned undertakings are intended for sale. They are valued at the acquisition price, taking into account write-downs for permanent loss in value.

The table below presents the financial data of the undertakings

Company name	Balance sheet total	Interest income from banking activity or net income from sale of goods and products and financial operations	Shareholders' equity, including:						Fixed assets	Mean employment in 2003
				Authorised share capital	Equity reserves	Other shareholders' equity, including:				
							Net financial profit/loss of previous years	Net financial profit/loss		
		in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in PLN thousand	in full time job equivalents
Elektromontaż Poznań S.A.	84,789	57,618	55,271	54,082	3,043	(1,854)	-	(1,854)	30,401	278
Mostostal Zabrze Holding S.A.	172,624	42,628	,(66,187)	20,327	-	(86,514)	(50,272)	(40,320)	64,508	bd
NIF Fund Holdings PCC Ltd.	No data available									
Pia Piasecki S.A.	Entity under liquidation									
Creditreform PL. Sp. z o.o.	651	4,279	194	670	17	(493)	(536)	49	181	40
IPC JV Sp. z o.o.	60,565	10,925	(4,277)	13,500	451	(18,228)	(27,590)	(10,498)	57,190	13

### 9.2.3. Changes in the structure of other subordinated (joint-venture and associated) undertakings

In 2003, the structure of joint-venture and associated undertakings changed due to:

- the Bank, together with its subsidiary undertaking Handlowy Inwestycje II Sp. z o.o., sold the whole shareholding in associated undertaking ZO Bytom S.A. The shareholding sold constituted in total a 27.64% stake in the authorised share capital of ZO Bytom S.A. and authorised to 27.64% of the total number of votes at the general meeting of shareholders in the Company.
- sale of the whole shareholding held in joint-venture PKO/Handlowy PTE S.A. based in Warsaw, in which the Bank held 50% stake in the capital and the same number of votes at the general meeting of shareholders of the Company.

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

The presented financial data for 2002 has not been reclassified and is consistent with data previously published in the annual report for 2002, except for changes in data in the following notes of the balance sheet and profit and loss account: 12D, 13A, 13B, 13C, 13E, 14C, 16C, 21A, 29F, 40, 46 and 47. These changes were implemented in order to provide consistency in presentation with the current reporting period.

## **11. Opinion of the certified auditor on examination of Consolidated Financial Statements for the previous period**

The Consolidated Financial Statements of Bank as of 31 December 2002 were audited by the certified auditor KPMG Polska Audyt Sp. z o.o. which issued an unqualified opinion.

## **12. Accounting principles**

### *General information*

The Consolidated Annual Financial Statements of Bank for 2003 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 the specific principles that should be met by issuers of securities (Journal of Laws No 139, item 1568, as amended),

and with the provisions of:

- the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 964, as amended),
- Regulation of the Ministry of Finance dated 10 December 2001 on specific accounting principles for banks (Journal of Laws No. 149, item 1673, as amended),
- Regulation of the Ministry of Finance dated 12 December 2001 on the specific principles of preparing consolidated financial statements of banks and consolidated financial statements of a financial holding (Journal of Laws No. 152, item 1728),
- Regulation of the Ministry of Finance dated 12 December 2001 on specific principles for recognition, valuation and presentation of financial instruments (Journal of Laws 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 (Journal of Laws No. 149, item 1672, as amended).

## 12.1. Accounting standards adopted by the Group

The accounting standards adopted by the Bank are consistent with the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No. 74, item 694, as amended) and enforcement regulations issued on its basis, taking into account the specific standards for accounting by banks.

The accounting standards adopted by the fully consolidated subsidiary undertaking and by the domestic undertakings accounted for by the equity method are materially consistent with the standards adopted by the Bank.

The accounting standards adopted by the foreign undertakings accounted for by the equity method are consistent with the accounting standards valid in the countries where these undertakings are based. In spite of the fact that these undertakings do not apply uniform accounting standards, the differences arising from the differences in these standards do not have a significant effect on the Consolidated Financial Statements of the Bank.

### 12.1.1. Rules of including in the Consolidated Financial Statements of the Bank the data of subordinated undertakings

#### *Rules of accounting for consolidated undertakings*

Pursuant to the Accounting Act and the Regulation of the Minister of Finance of 12 December 2001, the Bank is obliged to consolidate subsidiary undertakings which are banks and financial institutions, with the possibility to use exclusions from consolidation and additional exemptions from consolidation set forth in Article 57 item 1 and Article 58 of the Act.

In previous periods and as of 31 December 2003, the subsidiary undertaking Dom Maklerski Banku Handlowego SA is subject to consolidation by the full method. The financial statements of subsidiary undertaking Dom Maklerski Banku Handlowego w Warszawie SA ("DM BH") was included for the first time in the consolidated financial statement of the Bank for the first half of 2001, with the use of the full consolidation method. Balance sheets, profit and loss accounts, and cash flow statements were consolidated by adding the respective items in the balance sheets, profit and loss accounts, and cash flow statements of the Bank and DM BH, taking into account adjustments and consolidation eliminations. The balance sheet and the profit and loss account of DM BH were appropriately modified and adjusted to grouping and presentation of the balance sheet and profit and loss account of the Bank, before being included into consolidation.

The following are excluded from the Consolidated Financial Statements:

- authorised share capital of the consolidated subsidiary undertaking,
- cost of acquisition of interests in the consolidated subsidiary undertaking,
- mutual receivables and liabilities of the consolidated undertakings,
- income and expenses corresponding to operations performed between consolidated undertakings,
- unrealised profits and losses arising from operations performed between consolidated undertakings, included in the value of non-consolidated assets,
- dividends due or paid by the undertaking to consolidated undertakings.

The data of the remaining subsidiary financial undertakings are included in the Consolidated Financial Statements by the equity method (see 9).

*Principles of accounting for other subordinated undertakings*

Interests in other (non-consolidated) subordinated undertakings constituting significant items of fixed assets of the Bank are included in the Consolidated Financial Statements by the equity method, except for undertakings intended for sale. Interests in these undertakings are disclosed in the Balance Sheet at acquisition price, taking into account write-downs for permanent loss in value. The list of other subordinated undertakings, other than subordinated financial undertakings, together with the indication of the valuation method used, is presented in item 9.

Valuation of subordinated undertakings by the equity method is made in the financial statements of the Bank by disclosing the Bank's share in the profits or losses of such undertakings. The value of interests in the undertakings accounted for by the equity method is determined and disclosed in the consolidated balance sheet pro rata to the percent share of the parent entity in the shareholders' equity of the undertaking as of the balance sheet day of the parent entity, taking into account consolidation adjustments.

Changes in value of subordinated undertakings accounted for by the equity method as of the valuation date are disclosed in the consolidated profit and loss account as "Share in net profits (losses) of subordinated undertakings accounted for by the equity method". The profit or loss from revaluation of subordinated undertakings which were not accounted for in the previous periods in the consolidated financial statements by the equity method, as of 31 December 2001, was disclosed in the Consolidated Financial Statements for 2002 as the adjustment of the opening balance of the consolidated profit/loss from previous years.

*Changes in consolidation principles*

In 2003 and 2002, the principles of accounting for subordinated undertakings in the consolidated financial statements of the Bank did not change.

*Determination of equity*

Equity and own funds are disclosed at par value, except for revaluation fund which in the part corresponding to the results of valuation of financial assets available for sale is disclosed on the net basis. Consolidated shareholders' equity and funds include shareholders' equity and funds of the Bank and share in the change of equity of the consolidated undertaking or undertaking accounted for by the equity method, attributable to the Bank, which occurred during the whole consolidated period or period covered by valuation by the equity method, and by dividends received from the consolidated undertaking.

*Determination of financial profit/loss*

The financial profit/loss is determined with the use of conservative valuation principle as well as the accrual principle and income and expense matching principle. The financial profit or loss includes total income obtained and the expenses corresponding to such income, applicable to the specific reporting period, irrespectively of the date of their payment. The consolidated profit or loss includes the adjusted profit or loss of the parent entity and the share in profits and losses of consolidated undertakings or undertakings accounted for by the equity method, attributable to the parent entity. Consolidation adjustments of the financial profit/loss of the parent entity refer to the elimination of dividends and interest received from consolidated undertakings or undertakings accounted for by the equity method.

*Goodwill and negative goodwill of subordinated undertakings*

As of 31 December 2003 and 31 December 2002, no goodwill and negative goodwill of subordinated undertakings exists.

*Income tax*

Corporate income tax is disclosed in respect of the current tax liability of the Bank and DM BH (consolidated by the full method) for the income received and the deferred tax (see item 12.2.).

**12.2. Accounting principles of the parent entity***Tangible and intangible fixed assets*

Tangible and intangible fixed assets are recognised at their purchase price less accumulated depreciation, and less provisions 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 %
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%	

Assets with unit original value less than PLN 3,500 are expensed on a one-off basis as of the date 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 in the balance sheet as fixed assets, in the group of real estate, and as deferred income in liabilities.

Previously, fixed assets were periodically subjected to value adjustments in accordance 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 represent as the amount of all expenses incurred in connection with uncompleted construction, assembly or improvement of the 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 Consumer 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, reduced by the 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 specific provision percentages have been applied to provisions for particular risk categories:

Normal (only consumer loans) and watch loans	1.5 %
Substandard loans	20 %
Doubtful loans	50 %
Lost loans	100 %

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 the 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 a 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 the 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 fair value of the reposessed assets.

### *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 the 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 (Journal of Laws 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 in the balance sheet as 'Other provisions' in liabilities.

### *Prepayments and accruals*

In order to assign the costs to the reporting period to which they correspond, the Bank recognises prepayments and accruals. In particular, this includes the general expenses of the Bank.

### *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.

### *Interest income and expense*

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

### *Fee and commission income and expense, bank fees*

Bank commissions and fees are mainly comprised of amounts obtained for operation of bank accounts and performing banking operations as well as for the service of credit cards, 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 no earlier than 18 months after they have been awarded. A provision is established for future payments, which is reviewed 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 benefits the amount of which 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.

#### *Income tax*

Corporate income tax includes the Bank's current tax liability arising from income earned and deferred tax.

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

### **13. EUR/Zloty rates**

In the periods encompassed by the Consolidated Financial Statements and the comparable financial data, the following rates of exchange of PLN against EUR, as set by the NBP, were valid:

	<b>in PLN</b>	
	<b>31 December 2003</b>	<b>31 December 2002</b>
Exchange rate as at balance sheet date	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

#### 14. Major items of the consolidated balance sheet, consolidated profit and loss statement and consolidated cash flow statement converted into EUR

The major items of the consolidated balance sheet and the consolidated cash flow statement concerning these Financial Statements and comparative data have been 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 consolidated 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.

<b>CONSOLIDATED BALANCE SHEET</b>	<b>in EUR thousand</b>	
	<b>31 December 2003</b>	<b>31 December 2002</b>
Cash, and due from Central Bank	251,540	243,597
Due from financial sector	1,699,771	1,138,244
Due from non-financial sector	2,810,041	3,368,984
Due from budget sector	687	1,338
Debt securities	729,680	1,083,594
Due from subordinated undertakings accounted for by the equity method	168,766	243,083
Interests subordinated undertakings accounted for by the equity method	54,980	71,906
Interests in other undertakings	8,635	17,282
Other securities and financial assets	768,381	1,126,175
Tangible and intangible fixed assets	436,646	545,966
Other assets	125,219	159,868
<b>Total assets</b>	<b>7,054,346</b>	<b>8,000,039</b>

<b>CONSOLIDATED BALANCE SHEET</b>	<b>in EUR thousand</b>	
	<b>31 December 2003</b>	<b>31 December 2002</b>
Due to financial sector	759,435	774,565
Due to non-financial sector	3,828,795	4,003,890
Due to budget sector	98,803	158,361
Liabilities arising on financial instruments	712,812	1,040,391
Due to subordinated undertakings accounted for by the equity method	47,640	69,652
Other liabilities	242,426	327,319
Provisions	94,834	112,545
Shareholders' equity	1,260,878	1,482,985
<b>Total liabilities</b>	<b>7,054,346</b>	<b>8,000,039</b>

<b>Major items of the consolidated profit and loss account</b>	<b>in EUR thousand</b>	
	<b>12 months to 31 December</b>	
	<b>2003</b>	<b>2002</b>
Net interest income	166,803	177,593
Net fees and commissions income	123,073	134,187
Income from shares, other securities and floating-rate financial instruments	14,559	2,050
Net gains on financial operations	17,636	100,774
FX gains	108,234	132,564
Profit on banking activity	430,305	547,168
Operating profit	90,137	92,806
Profit (loss) before taxation	90,137	92,807
Share in net profits (losses) of subordinated undertakings accounted for by the equity method	6,595	2,134
<b>Net profit (loss)</b>	<b>56,342</b>	<b>61,876</b>

Major items of the consolidated cash flow statement	in EUR thousand	
	12 months to 31 December	
	2003	2002
Net cash flow from operating activities– indirect method	29,536	(274,280)
Net cash flow from investing activities	66,156	130,511
Net cash flow from financing activities	(52,611)	(283,512)
Net cash flow, total	43,081	(427,281)
<b>Change in net cash</b>	43,081	(427,281)
Cash at beginning of period	213,837	678,182
Cash at end of period	256,918	250,900

## 15. Main differences between Polish and International Accounting Standards

**15.1.** The Bank prepares financial statements in accordance with Polish Accounting Standards ('PAS'). There are some differences in accounting principles adopted for preparation of these Financial Statements and International Accounting Standards ('IAS'). The principal differences are 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 a deposit or as an investment, respectively;
- 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 the information system used by the Consumer Banking Sector. The system is utilised for recording of consumer loans and recording of loans connected with the operation of credit cards is made.

**15.2.** Reconciliation of net profit consolidated financial statements of the Bank prepared in accordance with Polish Accounting Standards compared to net profit of the Bank prepared in accordance with International Accounting Standards.

The only difference between Polish Accounting Standards and International Accounting Standards that has a material impact on the Bank's financial statements is the different treatment of sell buy back and buy sell back transactions.

This however impacts only net profit and net assets remain unchanged due to the timing nature of the difference.

The reconciliation does not include the impact of effective interest rate implementation. According to the Regulation of the Ministry of Finance dated 10 December 2001 on specific accounting principles for banks, the implementation of effective interest rate evaluation has been postponed to 31 December 2004.

- Reconciliation of the net profit for the period between 1 January 2003 and 31 December 2003 is as follows:

	<b>in PLN thousand</b>
<b>Net profit in accordance with Polish Accounting Standards</b>	<b>250 576</b>
Adjustment for sell buy back and buy sell back transactions	58 237
Differences in calculation of the deferred tax arising from the difference in the accounting principles used	(11 065)
<b>Net profit in accordance with International Accounting Standards</b>	<b>297 748</b>