

INTRODUCTION

1. Essential information on the activities of the Bank Handlowy w Warszawie SA Group (“Group”)

1.1. Activities of the parent entity Bank Handlowy w Warszawie SA (“Bank”)

Bank Handlowy w Warszawie SA (“Bank”) has its registered office in Warsaw at ul. Senatorska 16, 00-923 Warszawa. The Bank was founded by Notarial Deed of April 13, 1870. The Bank is registered with the District Court for the Capital City of Warsaw, Commercial Department XIX of the National Court Registry (KRS), under registry number 000 000 1538.

According to the Polish Classification of Economic Activity (PKD), the principal business of the Bank is “Other banking activity.” According to the classification adopted 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 activities related to banking operations as permitted by law.

Pursuant to the Bank’s Articles of Association, the Bank performs the following banking operations:

receiving savings deposits, including term deposits, and operating accounts for those deposits

opening and operating 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, and consumer credits and loans within the meaning of the provisions of a separate Act,

conducting operations which involve cheques and bills of exchange,

extending and certifying sureties

extending and certifying bank guarantees and opening letters of credit,

performing FX operations,

mediating in cash transfers abroad by residents and in domestic settlements with non-residents,

issuing bank securities,

performing operations commissioned by customers and relating to the issue of securities,

safekeeping valuables and securities, and providing safe deposit facilities,

issuing payment cards and performing operations which involve the use thereof,

purchasing and disposing of debts,

conducting forward financial transactions.

The Bank may also:

take up or acquire 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 as an intermediary,
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,
buy and sell real property,
perform settlements for trading in securities, property rights and derivative financial instruments,
exchange debt for the debtor's assets on terms agreed with the debtor,
buy and sell derivative financial instruments on the Bank's own account and as an intermediary,
render financial services consisting in pension selling activities, within the meaning of the Pension Funds Organisation and Operation Act,
accept orders to purchase, sell or subscribe for participation units and investment certificates of investment funds,
act as depositary for pension funds,
act as depositary for investment funds.

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

1.2. Activities of undertakings constituting the Capital Group

Principal segments of activity pursued by the subsidiary undertakings constituting the Capital Group and other subordinated undertakings (joint ventures and associated undertakings):

- banking activity,
- brokerage activity,
- financial, leasing and factoring services,
- investment activity,
- insurance activity,
- industrial production of various final products (for resale only).

2. Period of incorporation of the Bank and undertakings constituting the Capital Group

The Capital Group does not include undertakings with a defined period of incorporation.

3. Financial data presentation periods

The Bank's semi-annual consolidated financial statements are compiled for the period from 1 January 2003 to 30 June 2003. Comparative balance sheet data, off-balance sheet data and equity movements are presented for the period from 1 January 2002 to 31 December 2002 and from 1 January 2002 to 30 June 2002. Comparative profit and loss account and cash flow data is presented for the period from 1 January 2002 to 30 June 2002.

4. Management Board and Supervisory Board

As of 30 June 2003 the Management Board consisted of the following members:

Sławomir Sikora	Vice President acting as President of the Bank's Management Board, from 2 July 2003 President of the Bank's Management Board,
Wiesław Kalinowski	Vice President
Philip Vincent King	Vice President
David J. Smith	Vice President
Sunil Sreenivasan	Vice President
Witold Walkowiak	Vice President

The following changes in the Management Board occurred in the first half of 2003:

- resigned: Cezary Stypułkowski,
Shirish Apte,
- appointed: Sławomir Sikora,
David. J. Smith,
Sunil Sreenivasan.

As of 30 June 2003 the Supervisory Board consisted of the following members:

Stanisław Sołtysiński	President, Vice-president
Jean Paul Votron	
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 the first half of 2003 the following changes in the Supervisory Board took place:

- resigned: Krzysztof Barcikowski,
David. J. Smith,
- appointed: Shirish Apte,
Andrzej Olechowski.

On the date when the Bank's semi-annual financial report 2003 was signed, the composition of the Bank's Management Board was changed, as Mr. Witold Walkowiak handed in his resignation as a Vice President of the Bank's Management Board effective from 28 August 2003.

5. Internal organisational units of the Bank and entities constituting the Capital Group

The Bank's consolidated financial statements for 2003 and comparative financial data for 2002 contain the financial data from all organisational units of the Bank and entities constituting the Capital Group through which their operations are performed. Neither the internal organisational units of the Bank nor the entities forming the Capital Group, included in the consolidated accounts, prepare separate financial statements.

6. Merger

In the first half of 2003 and in the presented 2002 reporting periods, no merger occurred.

7. Going concern

The consolidated financial statements for the first half of 2003 are compiled under the assumption of continued operations of the Bank and entities constituting the Capital Group in the foreseeable future, with no circumstances directly indicating any threat to such continued operations, except for the subsidiary entities 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 other subordinated entities of the Bank there is a threat to continued operation of Pia Piasecki S.A. and Mostostal Zabrze Holding S.A. which are associated undertakings of the Bank.

According to the public announcement by the Pia Piasecki S.A. Management Board in a current report, on 30 June 2003 the District Court in Kielce adjudicated Pia Piasecki S.A. bankrupt.

According to the position of the Management Board of Mostostal Zabrze presented in the company's semi-annual report for 2003 there are factors that may constitute a threat to continued operation of the entity. These doubts may result from failure to fulfil the objectives and activities planned by the Management Board in order to improve the company's financial standing. Taking into account the activities undertaken by the Management Board, and the company's economic potential and market experience, the shareholders of Mostostal Zabrze Holding S.A. adopted a unanimous resolution on 30 July 2003 concerning further operation.

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

9.1 Subsidiary undertakings constituting the Capital Group

9.1.1 Fully consolidated subsidiary financial undertakings

Name of company	Location	Principal activity	Registration Body	Book value of shares (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
Dom Maklerski Banku Handlowego SA	Warsaw	Brokerage	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000002963	-	100.00	100.00

Purchase value of shares in the entity amounting to PLN 70 950 thousand is eliminated against shareholders' equity.

In the annual consolidated financial statements of the Bank for 2002 and in the semi-annual consolidated financial statements for 2002 the entity was fully consolidated.

9.1.2 Financial subsidiaries constituting the Capital Group not included in the consolidation, accounted for under the equity method

Name of undertaking	Location	Principal activity	Registration Body	Book value of shares (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
Handlowy Inwestycje Sp. z o.o.	Warsaw	Investment activity	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000038928	30 345	100.00	100.00
Handlowy Inwestycje II Sp. z o.o.	Warsaw	Investment activity	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000033180	18 406	100.00	100.00
Handlowy Investments S.A.	Luxembourg	Investment activity	District Court for Luxembourg, Commercial Register Section: B, No 57746	0	100.00	100.00

Handlowy Investments II S.a.r.l.	Luxembourg	Investment activity	District Court for Luxembourg, Commercial Register Section: B, No 61343	16 329	100.00	100.00
Citleasing Sp. z o.o.	Warsaw	Leasing	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000057370	156 460	100.00	100.00
Handlowy Leasing S.A.	Warsaw	Leasing	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000031640	0	100.00	100.00
Handlowy Zarządzanie Aktywami S.A.	Warsaw	Brokerage	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000034423	4 728	100.00	100.00
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A.	Warsaw	Insurance	District Court for the Capital City of Warsaw - Commercial Department XX of the National Court Registry (KRS) Registry number: KRS 0000081054	797	79.27	79.27
Towarzystwo Fund. Inwestycyjnych BH S.A.	Warsaw	Investment activity	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000002717	12 111	100,00	100.00
Bank Rozwoju Cukrownictwa S.A.	Poznań	Banking	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000007876	38 814	100,00	100.00

In the annual consolidated financial statements of the Bank for 2002 and in the semi-annual consolidated financial statements for 2002 the entities were accounted for under the equity method.

9.1.2.1 Justification of exclusion from the consolidation

The subordinated financial entities listed in par. 9.1.2 have been excluded from full consolidation in accordance with Article 57, par.1 and Article 58, par.1 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121, item 591, a subsequently amended). Bank Rozwoju Cukrownictwa S.A. listed in the table is intended to be sold or liquidated. The figures for those entities are low compared to the financial data of the Bank as parent entity and immaterial from the point of view of true and fair presentation of the Capital Group's financial performance.

Financial data for entities excluded from consolidation is presented in the table below:

Name of company	Total assets (book value) PLN ‘000s	Interest income from banking operations or net income on sale and financial operations PLN ‘000s	Shareholders’ equity, including:						Fixed assets PLN ‘000s	Average employment in the first half of 2003 in FTEs
				Authorise d capital PLN 000s	Capital reserve PLN 000s	Other shareholders’ equity, including:				
							Unremitte d profit for previous years PLN ‘000s	Net profit PLN ‘000s		
Citleasing Sp. z o.o.	282 532	7 075	156 460	120 000	24 489	11 971	1 329	4 023	74 670	12
Handlowy Leasing S.A.	926 463	30 282	(10 570)	3 125	239	(13 934)	(15 783)	1 849	24 828	42
Handlowy Inwestycje Sp. z o.o.	35 582	14	30 345	4	35 066	(4 725)	(8 512)	596	5 123	-
Handlowy Inwestycje II Sp. z o.o.	18 365	9	18 406	4	25 080	(6 678)	(7 133)	455	25	-
Handlowy Investments S.A.	167 347	-	(6 582)	42 083	-	(48 665)	(69 311)	(1 114)	156 200	-
Handlowy Investments II S.a.r.l.	32 817	85	16 329	58 061	-	(41 732)	(48 118)	994	24 502	-
Handlowy Zarządzanie Aktywami S.A.	5 375	2 932	4 728	5 000	5	(277)	(668)	391	129	12
Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A.	1 119	1	1 005	100	1 668	(763)	(460)	(303)	602	6
Towarzystwo Funduszy Inwestycyjnych BH S.A.	13 389	7 227	12 111	13 000	29 000	(29 889)	(31 815)	1 926	122	5
Bank Rozwoju Cukrownictwa S.A.	43 439	1 170	38 814	25 064	1 932	11 818	6 725	1 167	5 116	7

9.1.3 Non-financial subsidiaries constituting the Capital Group excluded from the full consolidation and not accounted for under the equity method

Name of company	Location	Principal activity	Registration Body	Book value of shares (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
PPH Spomasz Sp. z o.o. in liquidation	Warsaw	Production of catering and trading equipment	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 3035	9 443	100.00	100.00

In the annual consolidated financial statements of the Bank for 2002 and in the semi-annual consolidated financial statements for 2002 the entity was not fully consolidated or accounted for using the equity method. It was carried at cost adjusted for permanent diminution in value.

9.1.3.1 Justification of exclusion from equity accounting

The non-financial subsidiary specified in item 9.1.3 has been excluded from equity accounting in accordance with Article 57, par.1 of the Accounting Act of 29 September 1994 (Journal of Laws No. 121, item 591, as subsequently amended). The entity is intended for liquidation and is accounted for at cost adjusted for permanent diminution in value.

Financial data for the entity is presented in the table below:

Name of company	Total assets (book value) PLN ‘000s	Interest income from banking operations or net income on sale and financial operations PLN ‘000s	Shareholders’ equity, including:						Fixed assets PLN ‘000s	Average employment in the first half of 2003 in FTEs
			Authorise d capital	Capital reserve	Other shareholders’ equity, including:					
			PLN 000s	PLN 000s	PLN 000s	PLN 000s	PLN 000s	PLN 000s		
PPH Spomasz Sp. z o.o. in liquidation	Entity in liquidation									

9.1.4 Changes in the structure of the Capital Group

In the first half of 2003 the structure of the Capital Group changed due to the following events:

- asset takeover by the Bank as a result of liquidation of the subordinated undertaking Budowa Centrum Plac Teatralny Sp. z o.o. in liquidation, where the Bank had a 61.25% capital share and the same voting power share at the General Meeting;
- sale of all shares in the subsidiary undertaking "Bytom Collection" Sp. z o.o. located in Radzionków, where the Bank had a 100% capital share and the same voting power share at the General Meeting;
- sale of all shares in the subsidiary undertaking Handlowy Leasing S.A. located in Warsaw within the Capital Group, to the subsidiary entity Handlowy Inwestycje Sp. z o.o.

9.2 Other subordinated undertakings (joint subsidiaries and associated undertakings)**9.2.1 Joint subsidiaries and associated undertakings accounted for under the equity method**

Name of company	Location	Principal activity	Registration Body	Book value of investment (PLN' 000s)	Holding of share capital (%)	Voting power at the General Meeting (%)
PKO/Handlowy PTE S.A.	Warsaw	Insurance	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000045235	16 214	50.00	50.00
Handlowy Heller S.A.	Warsaw	Factoring	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000005577	9 992	50.00	50.00
KP Konsorcjum Sp. z o.o.	Warsaw	Investment fund management	District Court for the Capital City of Warsaw - Commercial Department XIX of the National Court Registry (KRS) Registry number: KRS 0000044147	5 536	49.99	49.99
Polimex - Cekop S.A.	Warsaw	Foreign trade enterprise	District Court for the Capital City of Warsaw - Commercial Department XX of the National Court Registry (KRS) Registry number: KRS 0000046844	34 210	36.64	36.64

In the annual consolidated financial statements of the Bank for 2002 and in the semi-annual consolidated financial statements for 2002 the entities were accounted for under the equity method

9.2.2. Associated undertakings excluded from equity method accounting

Name of undertaking	Location	Principal activity	Registration Body	Book value of investment (PLN' 000)	Holding of share capital (%)	Voting power at the General Meeting (%)
Elektromontaż Poznań S.A.	Poznań	Construction and power supply services	District Court for Poznan, Commercial Department XXI of the National Court Registry (KRS) Registry number: KRS 0000060700	6 000	25.30	25.30
Mostostal Zabrze Holding S.A.	Zabrze	Construction	District Court for Katowice Registry number: KRS 0000049844	8 610	34.44	34.44
NIF Fund Holdings PCC Ltd.	Guernsey	Investment activity	no data available	37 615	22.68	22.68
Pia Piasecki S.A.	Kielce	Construction	District Court for Kielce, Commercial Department X of the National Court Registry (KRS) Registry number: 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 Department XVI Registry number: RHB 33125	328	49.03	49.03
IPC JV Sp. z o.o.	Warsaw	Construction and administration of a building	District Court for the Capital City of Warsaw, Commercial Department XVI Registry number: RHB 24144	-	31.00	31.00

In the annual consolidated financial statements of the Bank for 2002 and in the semi-annual consolidated financial statements for 2002 the entities were not accounted for under the equity method. The entities were accounted at cost net of provision for permanent diminution in value.

9.2.2.1 Justification of exclusion from equity method accounting

The non-financial associated undertakings mentioned above were excluded from equity method accounting pursuant to Article 57, par. 1 of the Accounting Act of 29 September 1994 (Journal of Laws 121, item 591, as subsequently amended). The entities are intended for sale. The entities were accounted for at cost net of provision for permanent diminution in value.

Financial data for the entities is presented in the table below:

Name of company	Total assets	Interest income from banking activity or net income from sale of goods and materials and financial operations	Shareholders' equity, including:						Fixed assets	Average employment in the first half of 2003
				Authorised capital	Capital reserve	Other reserves, including				
							Unremitted profit from prior years	Net profit		
	PLN '000s	PLN '000s	PLN 000s	PLN 000s	PLN 000s	PLN 000s	PLN 000s	PLN 000s	PLN 000s	in FTEs
Elektromontaż Poznań S.A.	74 211	28 485	56 437	54 082	3 043	(688)	-	(688)	37 737	278
Mostostal Zabrze Holding S.A.	177 715	60 687	(30 027)	20 327	114 386	(169 737)	(166 814)	(9 158)	64 457	530
NIF Fund Holdings PCC Ltd.	No data available									
Pia Piasecki S.A.	Entity in liquidation									
Creditreform PL. Sp. z o.o.	702	2 277	102	670	17	(585)	(536)	(43)	220	41
IPC JV Sp. z o.o.	63 526	5 151	(871)	13 500	451	(14 822)	(27 590)	(7 092)	58 295	13

9.2.3. Changes in the structure of other subordinated undertakings (joint subsidiaries and associated undertakings)

In the first half of 2003, the following changes in the structure of joint subsidiaries and associated undertakings took place:

- The Bank – parent entity and its subsidiary undertaking Handlowy Inwestycje II Sp. z o.o. sold the whole of its parcel of shares in the associated undertaking ZO Bytom S.A. The sold parcel of shares constituted 27.64% of the shareholding in the ZO Bytom S.A. share capital and accounted for 27.64% of the total voting power at the company's General Meeting.

10. Reclassification of financial data for 2002

In order to retain the comparability of the financial data for the first half of 2002 with the financial data for the reporting periods of the first half 2003 and 2002, the financial data for that period, as previously published in the consolidated 2002 semi-annual statement, were reclassified.

An explanation of the differences arising from the reclassification as well as the financial consequences of those changes are presented in the additional explanatory notes (see: Additional Explanatory Notes, par. 32)

11. Auditor's opinion on the consolidated financial statements for the previous period

The consolidated financial statements of the Bank as at 30 June 2002 were audited by KPMG Polska Audyt Sp. z o.o. certified accountant who issued an unqualified opinion.

The consolidated financial statements of the Bank as at 31 December 2002 were audited by KPMG Polska Audyt Sp. z o.o. certified accountant who issued an unqualified opinion.

12. Accounting principles

General information

The semi-annual consolidated financial statements of the Bank for 2003 were prepared in accordance with:

- Ordinance of the Council of Ministers dated 16 October 2001 concerning current and periodical information reported by issuers of securities (Official Journal No 139, item 1569, as subsequently amended),
- Ordinance of the Council of Ministers dated 16 October 2001 concerning specific principles which should be met by the prospectus and abridged prospectus (Official Journal No 139, item 1568, as subsequently amended),

and in accordance with the provisions of:

- the Accounting Act of 29 September 1994 (Journal of Laws of 2002 No 76, item 694 as amended),
- Ordinance of the Minister of Finance dated 10 December 2001 on specific accounting principles for banks (Journal of Laws No. 149, item 1673, as subsequently amended),
- Ordinance of the Council of Ministers dated 12 December 2001 concerning preparation of consolidated financial statements of banks and consolidated financial statements of financial holdings (Journal of Laws No. 152, item 1728),
- Ordinance of the Minister of Finance dated 12 December 2001 on specific principles for recognition, valuation method, disclosure and presentation of financial instruments (Journal of Laws No. 149, item 1674),
- Ordinance of the Minister of Finance dated 10 December 2001 on the rules for creating provisions for the risks related to the operations of banks (Journal of Laws No. 149, item 1672, as subsequently amended).

12.1 Accounting principles of the Capital Group

The accounting principles applied by the Bank – parent entity, are compliant with the Accounting Act of 29 September 1994 (Journal of Laws of 2002 no. 76, item 694 as amended), and the executive regulations issued pursuant thereto, including the specific nature of bookkeeping by banks.

The accounting principles applied by the consolidated entity (full consolidation) and by domestic entities accounted for under the equity method agree in all material respects with the principles applied by the Bank.

The accounting principles applied by foreign entities accounted for under the equity method are in accordance with laws of the country in which the entity concerned is headquartered. The differences resulting from the application of different accounting principles by those entities have no significant effect on the Bank's consolidated financial statements.

12.1.1. Consolidation principles

Entities included in the consolidation

Under the Accounting Act and the Ordinance of the Minister of Finance dated 12 December 2001, the Bank is required to consolidate subsidiary undertakings which are banks or financial institutions, with a option to make exclusions and exemptions from consolidation in accordance with Article 57 par. 1 and Article 58 of the Act.

In the previous periods and as at 30 June 2003, the full consolidation method was applied to the subsidiary undertaking Dom Maklerski Banku Handlowego w Warszawie S.A. The financial statements of Dom Maklerski Banku Handlowego w Warszawie S.A. ("DM BH") was fully consolidated for the first time in semi-annual consolidated financial statements for 2001. Consolidation of balance sheets, profit and loss statements and cash flow statements was made by summing up appropriate items of balance sheets, profit and loss statements and cash flow statements of the Bank and DM BH, including adjustments and consolidation eliminations. The balance sheet and profit and loss account of DM BH were appropriately modified and adapted to the grouping and presentation standards applied in the Bank's balance sheet and profit and loss account.

The following are excluded from the consolidated financial statements:

- share capital of the consolidated subordinated undertaking,
- purchase costs of shares in the consolidated subordinated undertaking,
- mutual receivables and liabilities of consolidated subordinated undertakings,
- income and costs of operations between consolidated subordinated undertakings,
- unrealised profits or losses resulting from operations between consolidated subordinated undertakings, included in the consolidated asset value,
- dividends receivable or payable by a subordinated undertaking to consolidated entities.

Financial data of other financial subsidiary undertakings are included in the consolidated financial statements under the equity method (see par. 9).

Presentation of other subordinated undertakings

Shares in other subordinated undertakings (excluded from consolidation) constituting material durable assets of the Bank are accounted for in the consolidated financial statements under the equity method, except entities intended for sale. Shares in these entities are carried in the balance

sheet at cost less any provision for permanent diminution in value. The list of subordinated undertakings other than financial subsidiary undertakings with their valuation method is presented in par. 9.

Financial statements of subordinated undertakings are consolidated on an equity basis in the Bank's financial statements as parent entity, by recognition of the Bank's share in the results of those entities. Value of shares in entities consolidated on an equity basis is calculated and recognized in consolidated balance sheet proportionally to the percentage share of the parent entity in shareholders' equity of the entity as of balance sheet date, including consolidation adjustments.

At balance sheet date, any changes in value of subordinated undertakings accounted for under the equity method are recognized in the consolidated profit and loss account as "Share in net profits (losses) of subordinated undertakings accounted for under the equity method". The result as at 31 December 2001 of revaluation of subordinated undertakings, which were not accounted for under the equity method in the consolidated financial statements, was recognized as an adjustment to the opening balance of the consolidated result brought forward in the consolidated financial statements for 2002.

Changes in consolidation principles

In the first half of 2003 and in the presented reporting periods of 2002, the principles of recognition of subordinated undertakings in the Bank's consolidated financial statements did not change.

Calculating the shareholders' equity

Shareholders' equity is carried at nominal value, except for the revaluation fund, which, for its part concerning the consequences of revaluation of financial assets for sale, is carried at its net value. Consolidated shareholder's equity include the Bank's equity as parent entity and the Bank's share in the change in the equity of consolidated entities or entities accounted for under the equity method during the period under consolidation or equity method accounting, and for any dividends received from the consolidated undertakings.

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. The consolidated profit and loss account includes the adjusted result of the parent entity and share in the profit of consolidated entities or entities accounted for under the equity method, attributable to the parent entity. The consolidation adjustments of the result of the parent entity relate to elimination of dividends and interest received from consolidated entities or entities accounted for under the equity method.

Goodwill and negative goodwill of subordinated undertakings

As at 30 June 2003 and in the presented reporting periods of 2002, there is no goodwill or negative goodwill of subordinated undertakings.

Corporate income tax

The presentation of corporate income tax includes the current tax liability of the Bank and DM BH (fully consolidated) arising from the income earned as well as deferred tax. (see par. 12.2.).

12.2. Accounting principles of the parent entity

Tangible and intangible fixed assets

The tangible and intangible fixed assets are recognised at cost less accumulated depreciation. Depreciation is charged using the straight method at the rates defined in the approved depreciation schedule for 2003.

Example annual depreciation rates employed by the Bank:

Buildings and structures	1.5 %	-	4.5 %
Motor vehicles	14.0 %	-	20.0 %
Computers		34.0 %	
Office equipment		20.0 %	
Other tangible fixed assets	7.0 %	-	20.0 %
Computer software and licences (except main operating system which is depreciated at the rate of 20%)		34.0 %	
Other intangible fixed assets		20.0%	

Assets with an initial unit value of less than PLN 3,500 are expensed as they are brought into use.

In 2002, the Bank introduced into the balance sheet the rights of perpetual usufruct over land, which it was given free-of-charge in previous years, under laws then in force. The rights of perpetual usufruct over land are entered in the balance sheet as fixed assets under the heading "real estate" and in the Liabilities as accruals and deferred income.

Previously, fixed assets were periodically subjected to value adjustments with the indices published by the President of the Central Statistical Office. The results of revaluation are reflected in the revaluation reserve in the Bank's equity. No revaluation based on the indices published by the President of the Central Statistical Office has taken place since 31 December 1995.

Foreign currencies

Balance sheet and off-balance sheet items denominated in foreign currencies are translated at the average exchange rate for the given currency at the balance sheet date as published by the President of the National Bank of Poland.

Foreign exchange differences arising from the revaluation of balance-sheet foreign exchange positions are applied in the profit and loss account to the net result on foreign exchange.

The exchange rates applied to these financial statements are as follows:

in PLN

	30 June 2003	31 December 2002	30 June 2002
1 USD	3.8966	3.8388	4.0418
1 GBP	6.4240	6.1802	6.1869
1 EUR	4.4570	4.0202	4.0091

Equity investments -interests in subordinated undertakings

Investments in subordinated undertakings defined as subsidiaries, joint subsidiaries and associated undertakings are classified as financial assets available for sale.

Fixed assets - material interests in subordinated undertakings are accounted for under the equity method, except for the subsidiary undertaking Dom Maklerski Banku Handlowego w Warszawie SA, which was consolidated (using the full consolidation method). Changes in their value as of revaluation date are recognised in the profit and loss account as participation in net profits (losses) of subordinated undertakings accounted for under the equity method. The result of revaluation of those subordinated undertakings as at 31 December 2001 was recognised in 2002 as adjustment to the opening balance for previous years results.

Interests in subordinated undertakings available for sale are recognised in the balance sheet at cost net of provisions against any permanent diminution in value.

Equity investments- interests in other entities

Interests in entities other than subordinated undertakings are classified as financial assets available for sale. They are recognised in the balance sheet at cost net of provisions against any permanent diminution in value.

Outstanding loans and other receivables

The Bank is in the process of implementation of the new valuation principles for outstanding loans based on effective interest rate net of specific provisions established.

In 2002, the Bank implemented the procedure in one of the information systems used by the Consumer Banking Sector. The system is used for recording consumer loans and advances against credit cards.

Amounts due from financial and non-financial institutions and from the Budget are recognised in the balance sheet as the difference between their nominal value plus interest receivable and the value of specific provisions for credit risk.

The Bank makes specific provisions, as prescribed by the Ordinance of the Minister of Finance dated 10 December 2001 on the rules for creating provisions for the risks related to the operations of banks (Journal of Laws No. 149, item 1672 as amended). The credit risk provisions have been calculated according to the classification of balance sheet and off-balance sheet exposures based on

the risk category. The following minimum provision percentages have been applied to the different risk categories:

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

The collaterals specified in the Ordinance of the Minister of Finance dated 10 December 2001 on the rules for creating provisions for the risks related to the operations of banks is taken into account in the calculation of the mandatory specific provisions for credit risk exposure. In accordance with that Ordinance, provisions for normal exposure in respect of consumer loans and advances and watch exposures noted above are covered by an allocation of up to 25% of the balance of the general provision held by the Bank.

Loan receivables constituting bad debt are recognized as charges to the specific provisions for bad debt.

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, as appropriate. Changes in the fair value of debt securities available for sale are recognised in the 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 accounted for in the profit and loss account using the straight-line method. Adjustments for fair value or for permanent diminution in value are made in relation to the value of the securities determined in the way described above.

Repossessions

Assets repossessed for debt are carried at fair value. A specific provision is established for the difference between the outstanding debt and the lower value fair value of repossessed assets or a value adjustment is made for such assets.

Provisions

The Bank establishes specific provisions and provisions for permanent diminution in value in accordance with the provisions of the Accounting Act and of the Ordinance of the Minister of Finance dated 10 December 2001 on special bank accounting provisions and the rules for creating provisions for the risks related to the operations of banks.

Specific provisions are made based on the assessed risk arising on any particular asset or off-balance sheet commitment.

Specific provisions for 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 sheet items are disclosed in the position "Other provisions" in Liabilities.

According to the Banking Act of 29 August 1997 (Journal of Laws No. 140, item 939 as amended), the Bank created in the previous years a general risk provision to cover potential risk inherent in banking activity. This general risk provision was charged to costs. The provision is shown under "Other provisions" in Liabilities.

Prepayments and accruals

In order to assign costs to the relevant reporting periods, income and expense are recognised and accounted for on an accrual basis. In particular, this includes general expenses of the Bank.

Derivative instruments

The Bank recognises all derivative instruments as financial assets and liabilities held for trading purposes. Derivatives are marked at their market value. The effects of changes in market value are allocated to financial income or costs, as appropriate.

So far, the Bank has never implemented hedge accounting.

Interest income and expense

Interest income includes interest received or accrued on interbank placements, loans and securities. Interest income and discount accrual 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 is recognised in the profit and loss account on an accrual basis.

Commission and fee income and expense

Bank commissions and fees are mainly comprised of amounts other than interest income on loans, guarantees, L/Cs and fees for the maintenance of bank accounts, banking operations, and the servicing of payment cards.

Bank commissions and fees which are not related to one-off closed transactions are amortised on a straight-line basis against the profit and loss account over the life of the underlying transaction.

Bonuses, retirement and Jubilee Awards

Bank employees, depending on their classification level in the organizational structure, can receive incentive fund awards, bonuses under the bonus scheme applicable in the relevant area, or an annual recognition award pursuant to the regulations applicable throughout Citigroup. Bonuses and awards are granted after the end of the result assessment period.

Performance bonuses for management are granted in the form of manager options. Manager options can be exercised 18 months from the date the option is granted. A provision is established for future payments, verified and updated until the options are exercised, which is shown under "Accruals and deferred income" in Liabilities.

Within its salary scheme, the Bank guarantees its employees who were hired under employment contracts retirement and jubilee payments that are based on the number of years in employment with the Bank and with Citigroup entities directly prior to eligibility date. Employees hired by the Bank under the Company's Labour Contract, are also entitled to years-of-service bonuses. In case of employees hired prior to 1 March 2001, the bonus includes the number of years of employment defined according to the provisions of the Company's Labour Contract in force from 1 January 1997. A provision is made for future payments, shown under "Accruals and deferred income" in Liabilities.

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 assessed using the balance-sheet method, taking into account for CIT purposes both assets and liabilities providing a basis for calculation of the provision and assets in respect of deferred income tax, and it is applied to the profit and loss account or the revaluation reserve, as appropriate.

12. EURO/Zloty rates

The following average rates of exchange of PLN against EUR, as set by the NBP, applied in periods covered by the consolidated accounts and the comparative financial data:

	30 June 2003	31 December 2002	30 June 2002
Exchange rate in force at:	4.4570	4.0202	4.0091
Average rate, computed as the arithmetical mean of the rates in force on the last day of each month in the reporting period	4.3110	3.8697	3.7026
Average rate computed as the arithmetical mean of the rates in force on the last day of each month of the subsequent 12 months preceding the reporting date	4.1739	3.8697	3.7119
The highest rate for the last day in the month in the period	4.4570	4.0810	4.0091
The lowest rate for the last day in the month in the period	4.1286	3.5910	3.5910

13. Major items of the consolidated balance sheet, consolidated profit and loss statement and consolidated cash flow statement in EURO terms

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

The major items of the consolidated profit and loss statement and diluted profit per ordinary share are converted into the EUR at rates being the arithmetical averages of the average zloty/euro rates of exchange announced by the National Bank of Poland, in force on the last day of each month of the respective period.

The profit per one ordinary share and diluted profit per ordinary share has been converted into EUR at rates being the arithmetical averages of zloty/euro rates of exchange announced by the National Bank of Poland, in force on the last day of each month of the 12 subsequent months preceding the reporting date.

	in EUR thousand		
BALANCE SHEET	30 June 2003	31 December 2002	30 June 2002
Cash and due from Central Bank	253 991	219 724	284 154
Due from financial institutions	999 293	1 026 692	1 634 248
Due from non-financial sector	3 214 764	3 038 813	3 465 321
Due from budget	1 541	1 207	2 403
Debt securities	1 029 491	977 398	768 369
Due from subordinated entities accounted for under the equity method	185 676	219 261	255 130
Equity investments in subordinated entities accounted for under the equity method	68 372	64 859	71 546
Equity investments in other entities	12 448	15 588	44 791
Other securities and other financial assets	904 255	1 015 807	853 454
Tangible and intangible fixed assets	474 221	492 460	562 065
Other assets	168 714	144 201	140 655
Total assets	7 312 764	7 216 010	8 082 135
Due to Central Bank	18 764	27 359	42 964
Due to financial institutions	737 374	698 655	987 959
Due to non-financial sector	3 669 462	3 611 497	3 987 385
Due to budget	113 173	142 841	250 571
Securities issued	-	-	-
Liabilities arising on financial instruments	876 010	938 429	835 551
Due to subordinated entities accounted for under the equity method	45 373	62 826	45 267
Other liabilities	448 308	295 240	360 663
Negative goodwill of subordinated entities	-	-	-
Provisions	100 212	101 515	108 338
Equity	1 304 088	1 337 648	1 463 437
FX differences arising on translation of subordinated entities	-	-	-
Total liabilities	7 312 764	7 216 010	8 082 135

Major items of consolidated profit and loss account	in EUR thousand	
	6 months ended 30 June	
	2003	2002
Net interest income	84 215	87 241
Net fee and commission income	59 794	69 538
Result on equity investments	121	2 143
Result on financial operations	21 692	14 733
FX result	45 064	106 992
Result on banking activity	210 886	280 647
Result on operational activity	29 545	60 877
Gross profit/(loss)	29 545	60 877
Share in net profits (losses) of subordinated entities accounted for under the equity method	4 003	433
Net profit/(loss)	20 995	39 113

Major items of consolidated cash flow statement	in EUR thousand	
	6 months ended 30 June	
	2003	2002
Net cash flow from operating activities – indirect method	15 804	(109 763)
Net cash flow from investing activities	43 527	126 997
Net cash flow from financing activities	687	(239 812)
Net cash flow, total	60 018	(222 578)
Balance sheet change in net cash and cash equivalents	60 018	(222 578)
Cash and cash equivalents at beginning of period	226 311	680 059
Cash and cash equivalents at end of period	286 329	457 481

14. Main differences between Polish and International Accounting Standards

14.1. The Bank prepares consolidated financial statements in accordance with the Polish accounting regulations. There are some differences in accounting principles adopted for these financial statements and those arising from the International Accounting Standards (IAS) The principal differences are as follows:

- in the financial statements prepared according to Polish accounting principles, a general risk provision was created for the first time in 1998 under the Banking Law (simultaneously the risk fund constituting a part of equity under the previous Banking Law was dissolved). In the financial statements prepared according to IAS, a general risk provision was established in

previous years; as a result, temporary timing differences in the level and charges to the general risk provision arise,

- in the financial statements compliant with Polish accounting standards, shares in dedicated investment undertakings are accounted for with the equity method. In IAP financial statements, shares in those undertakings are subject to the full consolidation method of financial statements.
- according to Polish accounting standards, the charge for Employees' Social Fund purposes is made from the net profit. In the financial statements prepared according to IAS, such charges to the fund are presented as an additional general expense in the following year.

The above mentioned temporary timing differences between Polish and International Accounting Standards do not exert a significant influence on the level of consolidated net assets.