BANK HANDLOWY W WARSZAWIE SA

REPORT ON OPERATIONS

2001

Contents

I. THE POLISH ECONOMY IN 2001

1. Key macroeconomic trends

In 2001, the development of the Polish economy was affected by an acceleration of recessionary processes both at home and abroad. Nonetheless, the clear weakening in business activity was accompanied by a marked improvement in the level of both internal and external equilibrium.

Preliminary figures indicate that real GDP growth came to 1.1%, the lowest increase since the recession of the early 1990s. The principal factor behind slow GDP growth was a fall in investment, with gross capital formation dropping 13.8%, including a 12.9% decline in fixed investment. This fall was primarily responsible for the 2% decrease in domestic demand recorded in 2001. Consumption growth was also slacker, at just 1.8%, with personal consumption up 2.1%, whereas a year earlier the corresponding figures had stood at 2.4% and 2.6%, respectively.

Industry slid into recession. Industrial output contracted in absolute terms from the second quarter onwards, and over the whole of 2001 slipped 0.2% on the previous year, with manufacturing output down 0.6%. Last year also saw the slump in construction become more pronounced, with output here sinking almost 10%.

One consequence of sluggish economic growth, and also of demographic changes and the continuation of restructuring within the economy, was a surge in the rate of registered unemployment, which leapt to 17.4% in December 2001, as against 15% twelve months before. The jobless total increased to over 3.1 million.

With domestic demand growth negative last year, the economic expansion that did occur was driven by foreign demand. On a cash basis, exports rose 7.2% year-on-year, while imports went up just 1.3%, which is traceable to weak domestic demand, low oil prices and zloty appreciation. However, a gradual slowdown in export growth had already become visible by the latter half of the year, the result of poorer economic activity worldwide, and particularly in the EU countries. With growth in exports outpacing that of imports, the trade gap narrowed, leading to a decrease in the current account deficit, which dropped to US$ 7.04bn, or 4% of GDP, compared to 6.3% a year before. The pattern of financing for this deficit also improved, with a dominant role being played by foreign direct investment (accounting for over 90% of the deficit), despite FDI coming down in nominal terms compared to 2000 due to the weaker Polish economy and the smaller scale of privatisation. The official reserve assets declined US$ 901m in 2001, to stand at US$ 26.6bn, mainly as a result of the early repayment of Polish government debt to Brazil, which was partly funded from the foreign exchange reserves of the central bank.

The year 2001 brought a distinct fall in inflation. The annual increase in the Consumer Price Index (CPI) declined to 3.6% in December, as against 8.5% a year earlier, thereby well undershooting the 6%-8% inflation target set by the National Bank of Poland (NBP). Producer price growth (as measured by the PPI) was 0.2% lower December-on-December, and annualised average growth came to 1.6%. The most important factors constraining inflation were positive price shocks (fuel prices down 17.6% over the year, and moderate food price growth), weak consumer demand, and the appreciation of the zloty.

Growth in monetary aggregates did not represent any threat to the process of containing inflationary pressure. Money supply growth stood at 40.4bn zloty, equivalent to an annual 13.6%. Total deposits rose 14% (as against 15.5% in 2000, albeit in a situation of much higher inflation), which attests to a maintenance of the propensity to save despite the reduction in deposit rates in the wake of successive cuts in official interest rates. The second half of the year saw growth in foreign currency deposits pick up substantially, while the final two months witnessed waning growth in zloty deposits (particularly personal balances); the latter was undoubtedly linked to the introduction of a tax on interest income. The downward trend in lending growth, a positive factor in holding down inflation, was sustained both for personal outstandings (up just under 15%, compared to 32% in 2000) and loans to corporates (up 5.4%, as against 13.5%), which constituted yet another confirmation of sagging domestic demand.

The optimistic macroeconomic assumptions written into the draft Budget for 2001, which yielded a large overestimation of government receipts, had by mid-year already made it necessary to revise the Budget (adjusting the deficit target upwards by 8.6bn zloty relative to the original 20.5bn). In December, the new Government decided to carry out a second revision, raising the ceiling on government spending and increasing the deficit target by a further 3.8bn zloty in order to make good part of the debt outstanding from the years 1998-2000 (although this did not include arrears in transfers to open-ended pension funds). As a result, the projected deficit was increased to 32.9bn zloty, some 4.5% of GDP, and funded by larger issues of Treasury securities and by Eurobonds. In the event, the government deficit came to 32.6bn zloty, equivalent to 98.8% of the target as revised.

Basic economic indicators

	2001	2000	1999	Change, 2000/2001
	% change on previous year			
Gross Domestic Product (real growth)	1.1	4.0	4.1	-2.9
Personal consumption	2.1	2.6	5.2	-0.5
Gross fixed investment	-10.2	2.7	6.8	-12.9
Industrial output (real growth)	-0.2	7.1	4.4	-7.3
Inflation	December/December			
CPI	105.5	108.5	109.8	-3.0
PPI	101.6	105.7	108.1	-4.1
Unemployment, December (%)	17.4	15.0	13.0	2.4
	% GDP			
Government deficit	4.5	2.2	2.0	2.3
Current deficit	4.0	6.3	7.5	-2.3
	US$ million			
Exports, goods	30 281	28 257	26 347	7.2
Imports, goods	41 962	41 424	40 727	1.3
Balance of trade	-11 681	-13 167	-14 380	-11.3
Current balance	-7 040	-9 952	-11 569	-29.3

2. *The zloty money market and FX market*

With inflationary pressure ebbing markedly and economic stagnation deepening, the National Bank of Poland gradually loosened its monetary policy in 2001, carrying out six cuts in official interest rates, totalling seven and a half points altogether. As a result, at year end

2001 the lombard rate stood at 15.5% and the rediscount rate at 14.0%, while the reference rate (the minimum rate on 28-day reverse repos) stood at 11.5%. Nevertheless, the exceptionally steep fall in inflation (down from an annual 8.5% in December 2000 to 3.6% in December 2001) meant that real interest rates stayed in double figures for the greater part of the year, remaining the highest among those emerging markets of comparable investment risk, which had specific consequences for developments on the market for debt securities.

Cuts in base rates led to a steady decline in interbank rates, which were also impacted by the open market operations conducted by the central bank (primarily reverse repos involving NBP money market bills). The National Bank also continued outright sales, begun in September 2000, of Treasury bonds issued as a result of the conversion of Treasury liabilities to the NBP into negotiable securities; these sales are intended to achieve an "operational liquidity shortage" within the banking system, thereby heightening the effectiveness of interest rate policies.

The policy of bringing down base rates little by little was one of the main factors conditioning the situation on the Treasury bill market. Combined with the high level of real interest rates, this produced record demand for T-bills (139bn zloty), which – despite the very large supply of bills on the primary market, amounting to almost 50bn zloty – pushed prices up and yields down; this downtrend in yields was also maintained on the secondary T-bill market and on the T-bond market.

The dominant trend on the Polish FX market in 2001 was for the zloty to appreciate strongly in both nominal and real terms. The twelve-month average value of the dollar slipped to 4.0976 zloty in 2001 from 4.3455 zloty a year previously, representing nominal zloty appreciation against that currency of 5.7%. The euro traded at an average of 3.5867 zloty during the year, down from 4.0114 zloty in 2000, with the zloty thus gaining a hefty 10.6% against the single currency in nominal terms, which was largely the result of last year's euro depreciation against the dollar. In relation to the reference currency basket (the "virtual basket", as it existed before the zloty was floated), the zloty gained a nominal 8.4%, while in real terms it went up some 6.5% (as adjusted by annualised average PPI inflation of 1.6%). Over the whole year, the zloty dipped sharply only once, in July, due to the financial difficulties being suffered by Argentina and Turkey, and also because of the statement by Leszek Miller that a financial crisis in Poland was probable.

Zloty appreciation in 2001 was chiefly fed by an influx of foreign portfolio investment targetting Polish debt securities, the result of the high yields obtainable on these and the slow narrowing of interest rate differentials. Another factor attracting foreign investors to Poland was the decrease in investment risk issuing from the gradual restoration of macroeconomic equilibrium, particularly external equilibrium. Last year's zloty appreciation was also fuelled by the inflow of capital associated with the privatisation of further Polish companies, although the smaller scale of privatisation meant that this factor was of much less importance to the zloty than it had been in previous years.

3. The banking sector

The slowdown in the economy in 2001 and deterioration in the financial situation of both corporates and persons led to weaker growth in income from banking activity and in total assets at the banks, especially in the size of loan books. Preliminary figures from the NBP put the net earnings of the banking sector in 2001 at 4.5bn zloty, an increase of 7% on the year before. However, this increase was made possible almost exclusively by stronger earnings at the two largest retail banks, while the remaining banks together recorded a fall in profits of 24%.

Growth in the sector's net earnings from banking activity declined to 5%. A major factor behind this was the narrowing of interest margins as asset yields dropped (the reasons for this included falling interest rates at home and abroad, and also the rise in the relative proportion of foreign currency assets, earning lower rates of interest), together with a decrease in the relative share of performing assets as loss assets increased dramatically. However, the adverse effect of movements in interest margins was offset by growth in non-interest income. Particularly rapid growth was seen in net FX gains (up 64%), the result of the banks' active involvement on the currency market, including in forwards and options.

In response to flagging growth in income, some institutions undertook restructuring measures, which allowed growth in expense within the banking industry to be reduced to 3%, the lowest level for several years. An especially large part in cutting costs was played by staff downsizing, which was additionally encouraged by consolidations and by the expanding application of modern banking technologies.

The banks experienced a further worsening in loan portfolio quality, expressed in a rising proportion of irregular assets within those portfolios. This is attributable to the decline in the credit capacity of their customers, particularly corporate ones, due to the mounting crisis within the Polish economy. The upshot of this was that net provisioning expense climbed 14%, to 5.1bn zloty. Overall provisioning expense was further increased by the steep downturn on the capital market, which forced banks to establish additional valuation allowances against financial fixed assets.

The year 2001 brought a continuation of consolidations within the banking industry. Of the 20 largest banks at the beginning of 2001 by total footing, 6 were incorporated into other institutions in the course of the year as a result of mergers. At year end, the concentration ratio within the industry, as measured by the proportion of total banking sector assets held by the 10 largest banks, stood at 76%, compared to 67% at the end of 2000.

4. The capital market

The year 2001 was exceptionally unfortunate for stock market investors. From January to September, the Warsaw Stock Exchange was in the grip of an acute slump that represented a continuation of the downward trend begun back in the first half of 2000. This downswing was linked to the deteriorating economic environment both in Poland and abroad. An improvement in investor sentiment was not forthcoming until the fourth quarter, when the market began pricing in an expected economic upturn and healthier company profits, these being projected to follow on from the monetary easing carried out by the central bank.

All in all, the main Warsaw share index, the WIG, lost 22.0% over the year, as against a decline of 1.3% the year before. The WIG-20 index, which tracks the largest companies by market capitalisation and turnover, tumbled even further, sliding 33.5%, compared to a 1.5% increase in 2000. In this context, the share prices commanded by the banks listed on the Warsaw Exchange fared relatively well. The WIG-BANKI index gained 8.9%, whereas in

2001 it had gone down 4.1%. Stock exchange turnover in 2001 came to 84.5bn zloty (down 53% on 2000), while total market capitalisation at year end stood at 103.4bn zloty (down 21%). The number of companies listed on the Warsaw Exchange rose from 225 to 230.

II. MAJOR EVENTS EXERTING A SIGNIFICANT INFLUENCE ON THE BUSINESS AND EARNINGS OF THE BANK IN 2001

- On January 12, 2001, the Polish Treasury transferred to PKO Bank Polski S.A. 1,558,067 shares in the Bank, which then represented 2.23% of the Bank's authorised capital and confer the right to 1,558,067 votes at the General Meeting of Shareholders, this constituting 2.23% of all voting rights. Following the transaction, the Treasury held 3,250,000 shares in the Bank, representing 4.65% of the Bank's authorised capital and conferring the right to 3,250,000 votes at a General Meeting of Shareholders, which constituted 4.65% of all voting rights.

- On January 16, 2001, a subsidiary undertaking of the Bank, Handlowy Inwestycje Sp. z o.o., Warsaw, sold 6,134 shares in Danuta S.A., Malbork, to D International Sp. z o.o., these representing an interest of 28.77% in the equity of Danuta S.A. and conferring the right to 28.77% of votes at a General Meeting of that company's Shareholders.

- On January 29, 2001, Citibank Overseas Investment Corporation, New Castle, USA ("COIC"), in an off-market transaction acquired 437,500 of the Bank's Series I Convertible Bonds, admitted for public trading, from ZCI Netherlands B.V., a subsidiary of Zurich Financial Services. After the transaction COIC held 17,648,500 of the Bank's Convertible Bonds, which are exchangeable for 17,648,500 shares at dates set by the Management Board.

- On February 13, 2001, the Bank acquired from the National Bank of Poland 34,549 shares in Bank Handlowy International S.A., Luxembourg ("BHI"), representing an interest of 28.79% in the share capital of BHI and conferring the right to the same percentage of votes at that bank's General Meeting of Shareholders. The acquisition of these shares in BHI stemmed from a conditional agreement, concluded on December 27, 2000, by which the Bank was to purchase all shares in BHI held by the NBP. In line with the provisions of that agreement, the Bank had obtained the requisite approvals for the transaction from the Supervisory Board of BHI and the Luxembourg Monetary Institute. As a result of the transaction, the Bank holds 87,741 shares in BHI, constituting 73.12% of its share capital.

- **On February 28, 2001, the Registry Court entered in the business register maintained at the National Court Registry the merger of the Bank and Citibank (Poland) S.A. ("CPSA") performed pursuant to resolutions of extraordinary general meetings of shareholders of both the banks adopted on November 3, 2000 ("the Merger"), and registered the increase in the authorised capital of Bank Handlowy ensuing from the Merger. The Merger was carried out by transferring the entire assets of CPSA to the Bank in consideration for shares to be provided by the Bank to the shareholders of CPSA. On the registration of the increase in the Bank's authorised capital stemming from the Merger, this capital stands at 430,308,400**

zloty, divided into 107,577,100 bearer shares, each with a par value of 4 zloty. Following the recording of the Bank's Series C shares on the securities accounts held by the previous CPSA shareholders, which took place on March 21, 2001, COIC, a subsidiary of Citibank N.A., together with its direct subsidiaries Centaur Investment Corporation and Foremost Investment Corporations, held 99,069,074 shares in the Bank, representing 92.09% of the Bank's authorised capital and conferring the right to 90,069,074 votes at a General Meeting of Shareholders, which constitutes 92.09% of total voting rights.

- On March 14, 2001, a Preliminary Act of Sale was signed concerning shares in Cuprum Bank S.A., Lubin. The shares being sold by Bank Handlowy w Warszawie SA represent an interest of 55.2% in the authorised capital of Cuprum Bank SA, carrying 50.2% of voting rights at a General Meeting of that bank's shareholders. The Preliminary Act of Sale is a conditional agreement, containing covenants that defer performance of the transaction, such as the requirement that the purchasing party obtain the approval of the Commission for Banking Supervision to acquire the shares in Cuprum Bank S.A. on the terms and conditions specified in the Act of Sale, and also obtain a final ruling from the President of the Agency for Competition and Consumer Protection permitting acquisition of the shares.

- On April 1, 2001, in performance of an agreement concluded on March 23, 2001, between Bank Handlowy and Citibrokerage S.A. ("Citibrokerage") the transfer of a business as understood under Art. 551, of the Civil Code, this constituting an organisationally separate establishment of Bank Handlowy, previously trading as Bank Handlowy w Warszawie SA, Warsaw Branch V, Capital Markets Centre ("COK BH") to Citibrokerage was effected. The COK BH brokerage business was transferred to Citibrokerage as a non-cash consideration for equity against an increase in the authorised capital of Citibrokerage, pursuant to a resolution of the General Meeting of Shareholders of that company adopted on March 7, 2001. On the transfer of COK BH to Citibrokerage, the name of the latter company was changed to "Dom Maklerski Banku Handlowego SA" ("DM BH").

- After the assimilation of 37,659,600 Series C ordinary bearer shares with the 69,917,500 Series A ordinary bearer shares already listed, which took place on April 12, 2001, there were 107,577,100 of the Bank's ordinary bearer shares listed for trading on the Warsaw Stock Exchange.

- On April 26, 2001, the rating agency Moody's Investors Service Limited upgraded the Bank's financial strength rating from D+ to C-. This change stemmed from the agency expanding its ratings scale from nine to thirteen grades. The current scale is as follows: A, A-, B+, B, B-, C+, C, C-, D+, D, D-, E+, E.

- On May 7, 2001, the Bank concluded a syndicated loan agreement with Polish State Railways S.A., with the total amount of the facility provided being the euro equivalent of 700m zloty. Other participants in the syndication are Dresdner Kleinwort Wasserstein, Westdeutsche Landesbank Girozentrale London Branch, and Westdeutsche Landesbank Polska S.A. The Bank's participation was agreed at the euro equivalent of 233.3m zloty. The loan was granted for one year, to finance the objectives set for the borrower under the Act on the Commercial Incorporation, Restructuring and Privatisation of the "Polish State Railways" State Enterprise, of September 8, 2000.

- On May 18, 2001, 4,000,000 shares in the company of Pia Piasecki S.A., Kielce, were recorded on the Bank's securities account. As a result of the exchange of 400 convertible bonds held by the Bank, each with a par value of 100,000 zloty, for shares in Pia Piasecki S.A., the Bank acquired 4,000,000 shares in the company, each with a par value of 2 zloty, at a price of 10 zloty per share, which shareholding constitutes an interest of 36.52% in the company's authorised capital and confers the same percentage of votes at a General Meeting of Shareholders. Together with its subsidiary undertakings, the Bank held 4,615,093 shares in the company, representing 42.13% of its authorised capital and carrying the same percentage of voting rights at a General Meeting of Shareholders. Prior to this transaction, the Bank did not hold any shares in that company.

- On June 1, 2001, a subsidiary undertaking of the Bank, Handlowy Investments S.A., Luxembourg, disposed of 2,500,000 shares in Frantschach Świecie S.A., which represented a 5% interest in this company's capital and conferred the same proportion of voting rights. As a result of this transaction, neither the Bank nor Handlowy Investments S.A. hold any shares in Frantschach Świecie S.A.

- On June 25, 2001, an Ordinary General Meeting of Shareholders of the Bank adopted a resolution on the distribution of net earnings for the year 2000, which also specified the date of record and the date for payment of a dividend.

  The Ordinary General Meeting resolved:

  1. that net earnings for the year 2000, amounting to 204,711,297.06 zloty be distributed as follows:
     a) payment of a dividend of 130,659,600.00 zloty to shareholders and bondholders holding Series I convertible bonds, meaning that the dividend attributable per share and per bond shall be 1 zloty,
     b) appropriation to capital of 71,051,697.06 zloty, this comprising:
        – an appropriation to the capital surplus of 21,051,697.06 zloty,
        – an appropriation to the general risk reserve of 50,000,000.00 zloty,
     c) appropriation of 3,000,000.00 zloty to a special-purpose fund, namely, the Employee Social Benefit Fund,
  2. that the Bank's Management Board be authorised to make use of the appropriation of 3,000,000.00 zloty to the Employee Social Benefit Fund in order to increase funds available for the purpose of addressing the housing needs of the Bank's staff,
  3. that the date of record be July 26, 2001,
  4. that the date for payment of the dividend be September 3, 2001.

- On June 27, 2001, the Bank sold part of the shares it held in MHB Mitteleuropaische Handelsbank Aktiengesellschaft Deutsch-Polnische Bank ("MHB AG"). In performance of an Act of Sale signed on December 21, 2000, the Bank (as the selling party), transferred 2,131 ordinary shares in MHB AG, each with a par value of DM 10,000, to NORD/LB Nordeutsche Landesbank Girozentrale, Hannover (the purchasing party), for a consideration of DM 24,184,795. The shareholding thus sold represented an interest of 22.80% in the share capital of MHB AG and conferred the right to exercise 22.80% of votes at a General Meeting of Shareholders.

- On July 10, 2001, the Warsaw Regional Court ruled that an increase be registered in the authorised capital of the Bank's subsidiary, Dom Maklerski Banku Handlowego S.A., and amendments be registered to that company's articles of association. The company's authorised capital was increased against a non-cash consideration to the company made by Bank Handlowy in the form of its brokerage business, previously trading as Bank Handlowy w Warszawie SA, Warsaw Branch V, Capital Markets Centre. As a result of the increase in the company's authorised capital, the Bank took up 37,300 Series B registered ordinary shares, each with a par value of 1,500 zloty, i.e., all the shares newly issued by the company. Following the registration of the increase, the company's authorised capital now amounts to 70,950,000 zloty, divided into 47,300 registered ordinary shares with a par value of 1,500 zloty each, these comprising 10,000 Series A shares and 37,300 Series B shares, which confer the right to 47,300 votes at a General Meeting of the company. All of these shares are held by Bank Handlowy.

- On September 18, 2001, the Bank sold its entire shareholding of 295,336 shares in Centro Internationale Handelsbank AG (Centrobank) to Raiffeisen Zentralbank Oesterreich AG (RZB, Austria), for a consideration of ATS 300,000,000, with this holding constituting 45.09% of the share capital of Centrobank and conferring the right to the same percentage of votes at a General Meeting of Shareholders.

- On November 12, 2001, the Bank concluded a subscription agreement with the European Investment Bank, whereby Bank Handlowy committed itself to take up, on the primary market, bonds to a par value of 200,000,000 zloty at an issue price equivalent to 45.7893 percent, with these bonds subsequently being issued on November 23, 2001.

- On November 16, 2001, the Bank concluded another subscription agreement with the European Investment Bank, whereby Bank Handlowy committed itself to take up, on the primary market, bonds to a par value of 300,000,000 zloty at an issue price equivalent to 45.8696 percent, with these bonds subsequently being issued on November 29, 2001.

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

- On December 19, 2001, the rating agency Moody's Investors Service Limited downgraded the Bank's financial strength rating from C- to D+. Moody's said thet these rating actions reflected the impact of a difficult operating environment on the Bank's financial fundamentals, the deterioration of asset quality and the high restructuring expense flowing from the Bank's merger with Citibank (Poland) SA. However, the agency noted that the Bank was strengthening its franchise, developing its product range, working to improve asset quality and reducing costs. Nonetheless, in view of the current difficult economic environment, the agency believed that the effects of these measures will only become visible in the longer term.

- By December 31, 2001, the Bank had sold its entire claim on OAO Gazprom, then valued at US$ 33,800,000, to a connected undertaking, namely, OOO Commercial Bank "Citibank T/O", Moscow. This claim had arisen on the Bank's sub-participation in a syndicated loan arranged by Dresdner Bank. The bank received from Citibank T/O 100% of the value of the claim thus sold, as carried at the transaction date.

III. SHAREHOLDERS HOLDING AT LEAST 5% OF THE BANK'S AUTHORISED CAPITAL AND OF TOTAL VOTES AT A GENERAL MEETING OF SHAREHOLDERS

At December 31, 2001, the shareholders in the Bank holding no less than 5% of the Bank's authorised capital and of total voting rights at a General Meeting of Shareholders, either directly or indirectly (via subsidiary undertakings), were as follows:

- Citibank Overseas Investment Corporation, New Castle, Delaware, USA ("COIC"), a subsidiary of Citibank N.A., which was entitled to exercise 91.39% of voting rights at a General Meeting of Shareholders (i.e., 98,315,774 votes), and held a 91.39% interest in the Bank's authorised capital (i.e., 98,315,774 shares).

All other shareholders, including the Polish Treasury, held less than 5% of the Bank's authorised capital and of voting rights at a General Meeting of Shareholders.

IV. BASIC DATA ON BALANCE SHEET AND FINANCIAL PERFORMANCE

1. BALANCE SHEET

The figures included in the present Report of the Management Board on the operations of the Bank in 2001 refer to the financial data for the Bank subsequent to the merger with Citibank (Poland) S.A. ("CPSA") and the transfer of COK BH to Dom Maklerski Banku Handlowego SA ("DM BH") as a non-cash consideration for equity. For this reason, the Bank's performance over the twelve months of 2001 and of 2000 is not directly comparable, nor are the balance sheet items presented as at December 31, 2001, as these are discussed and compared with those at December 31, 2000.

At December 31, 2001, the Bank's total assets (net of accumulated depreciation, specific provisions and valuation allowances) stood at 33,150m zloty, representing an increase of 57.8% on year end 2000. The Bank's asset growth was higher than that reported at the end of 2000, a particular reason for this being the effects of the merger.

At December 31, 2001, the largest single item in the Bank's assets, amounting to 14,200m zloty, were claims (net of provisions) on non-financial customers and government. Compared to year end 2000, growth in this asset item came to 41.2%, with a slight decrease in its share in total assets, down from 47.9% to 42.8%.

Claims on other financial institutions increased 22.5%, with a 12.3% rise in interbank placements. However, this item shrank as a proportion of total assets, coming down from 27.2% to 21.1%. The balance on claims on financial institutions came to 6,987m zloty.

The Bank's total portfolio of debt securities climbed 72.5% compared to the end of 2000, to stand at 2,410m zloty at the end of December 2001. Treasury securities represented 66.8% of this portfolio (with 21.1% of these securities being Treasury bonds and 78.9% being Treasury bills). The second largest component were debt securities issued by the National

Bank of Poland, which accounted for 25.6% of the total portfolio. The remainder of the portfolio, accounting for 7.5%, chiefly comprised corporate bonds and commercial paper.

The Bank's holdings of equities and other securities came down 190m zloty, primarily due to a reduction in the interests held in associated undertakings, and also because of a decrease in the outstanding debt of subsidiaries on subordinated loans and additional payments to capital, received from the Bank to finance capital investments.

Large growth was recorded at year end in fixed assets and intangibles. The value of fixed assets and intangibles stood at 2,386m zloty, an increase of 1,654m zloty compared to the end of 2000. This increase was mainly associated with acquired goodwill arising on the Bank's merger with CPSA. At the end of December, 2001, the latter amounted to 1,389m zloty.

The growth in the Bank's business activity in 2001 was principally supported by external funding, i.e., by customer deposits. At year end, the Bank had taken 69.3% more funds from non-financial customers and government than at the end of 2000. Liabilities to non-financial customers and government totalled 17,210m zloty at the end of December, representing 52% of the Bank's total liabilities and capital. The Bank's loan to deposit ratio worsened.

Due to the substantial deposit growth recorded, the Bank scaled back its use of interbank funding. At the end of December 2001, the volume of funds sourced from financial institutions was 8.6% lower than it had been at year end 2000, and these funds had declined from 25.5% of total liabilities and capital at the end of 2000 to 14.8% at the end of the reporting period.

The Bank's capital funds (excluding net earnings) stood at 5,742m zloty at the end of December 2001 and were equivalent to no less than 17.3% of total liabilities and capital. Compared to December 31, 2000, this constitutes an increase of 2,707m zloty, or 89.2%.

By year end 2001, the Bank had achieved a 7% share of the overall Polish banking sector in terms of total assets (gross), thereby ranking third in size, as against a share of 4.8% at the end of December 2000.

Balance sheet

Thousand zloty	**2001**	**2000**	**Change**
	period end		**2001/2000**
Cash & due from Central Bank	2 322 443	699 315	232.1%
Due from financial institutions	6 986 733	5 703 753	22.5%
Due from non-financial customers and government	14 200 047	10 054 121	41.2%
Debt securities [1)]	2 410 113	1 397 002	72.5%
Equity investments [1), 2)]	877 387	1 067 346	-17.8%
of which: convertible bonds issued by subsidiary	52 384	57 329	-8.6%
Fixed assets & intangibles	2 385 616	731 227	226.2%
Other assets	3 968 101	1 349 729	194.0%
T O T A L A S S E T S	**33 150 440**	**21 002 493**	**57.8%**

Thousand zloty	2001	2000	Change
	period end		2001/2000
Due to Central Bank	212 486	315 483	-32.6%
Due to financial institutions	4 895 223	5 356 138	-8.6%
Due to non-financial customers and government	17 210 185	10 166 268	69.3%
Securities issued and outstanding	-----	4	-----
Other liabilities	4 500 943	1 649 719	172.8%
Provisions	425 913	275 330	54.7%
Capital funds	5 742 054	3 034 840	89.2%
Current period earnings	163 636	204 711	-20.1%
TOTAL LIABILITIES & CAPITAL	**33 150 440**	**21 002 493**	**57.8%**

[1)] Convertible bonds issued by Handlowy Investments reclassified as equity investments.
[2)] Includes equity held in subsidiary, associated and other undertakings, units in investment funds and other property rights, and also subordinated loans and additional payments to the capital of other companies.

2. PROFIT & LOSS ACCOUNT

In 2001, the Bank generated net earnings of 164m zloty, down 20.1% on the previous year. Total net income from banking activity stood at 2,075m zloty, having risen 519m zloty compared to 2000 (33.4%), while net operating income went up 62m zloty on the previous year (21.9%). This performance is attributable to the following:

- substantial growth in net FX gains, up 301m zloty (62%), chiefly traceable to sound performance on trading in FX financial instruments;

- an increase in net fee income of 153m zloty, or 46.1%, primarily thanks to fee income from loan origination, securities custody services, cash transactions, the issue of payment cards and card transactions;

- an increase of 169% in income from equity investments, which rose to 50m zloty. This was achieved thanks to the gains recognised on the sale of part of the Bank's equity holdings in associated undertakings, namely, Mitteleuropaische Handelsbank AG (24.1m zloty) and Centro Internationale AG (2.2m zloty), and to dividend income from interests in associated undertakings (8.2m zloty) and in subsidiaries, with the latter including dividends of 13m zloty from Dom Maklerski Banku Handlowego SA.

Profit and loss account

Thousand zloty	Twelve months 2001	2000	Change 2000/2001
Net interest income	739 628	725 266	2.0%
Net fee income	484 646	331 669	46.1%
Net FX gains/losses	783 468	482 658	62.3%
Net gains/losses on financial operations	16 328	-3 063	663.1%
Income from equity investments	50 436	18 748	169.0%
Net income from banking activity	**2 074 506**	**1 612 027**	**33.4%**
Net income from other operations	49 881	21 264	134.6%
General expense	-1 051 475	-816 835	28.7%
Depreciation	-160 903	-119 435	34.7%
Goodwill amortisation	-60 371	-----	-----
Net movements in provisions & valuation allowances	-503 821	-354 827	42.0%
Net operating income	**347 817**	**285 446**	**21.9%**
Extraordinary gains/losses	13	19	-31.6%
Pre-tax earnings	**347 830**	**285 464**	**21.8%**
Corporate income tax	-184 194	-80 754	128.1%
Net earnings	**163 636**	**204 711**	**-20.1%**
Return on equity [1)]	3.1%	6.2%	-3.1
Return on assets [2)]	0.5%	1.0%	-0.5
Net interest margin, total assets [3)]	2.5%	3.5%	-1.0
Net interest margin, earning assets [4)]	3.3%	4.4%	-1.1
Earnings per share, zloty [5)]	1.52	2.93	-1.41
Diluted earnings per share, zloty [6)]	1.25	2.20	-0.95

1) Net earnings (loss) to average total capital (including current period earnings).
2) Net earnings (loss) to average total assets.
3) Annualised net interest income to average total assets.
4) Annualised net interest income to average earning assets.
5) Based on weighted average number of ordinary shares held by shareholders in given period and on net earnings for previous twelve months.
6) Based on total number of shares and convertible bonds and on net earnings for previous twelve months.

The Bank's earnings in 2001 were impacted by higher charges to specific provisions against claims and off balance sheet exposures, and against capital investments, and also charges to general provisions, which together came to a net 503.8m zloty, an increase of 149m zloty (42%) on the previous year. The additional specific provisioning carried out against claims and off balance sheet exposures stemmed from the deterioration observed in corporate finances, resulting in a lowering of loan portfolio quality. This involved customers in the car, steel and metal industries, and one customer in the transportation industry.

The reporting period also saw an amortisation charge of 60.4m zloty performed against the goodwill arising on the Bank's merger with CPSA. This was taken to "other operating expense".

In 2001, the Bank for the first time established a provision against retirement pay and anniversary bonuses, as provided for under the collective agreement with the Bank's staff, with these provisions amounting to 25m zloty. This sum was taken to general expense.

A major influence on the Bank's net earnings in 2001 was exerted by a change in the rate applied in calculating deferred tax benefits relating to specific loan provisions. It was assumed that the vast majority of these provisions would not be charged off prior to the end of 2003, and the calculation of deferred tax was therefore performed at the 22% rate that is to be in force after that date, rather than the 28% rate currently applicable. This change increased the tax payable on the Bank's pre-tax earnings by 60.3m zloty.

Net interest income & non-interest income

The strengthening of the Bank's position on the currency market following the merger with CPSA allowed it to record strong FX gains. These totalled 783m zloty, compared to 483m zloty in 2000. This figure represented 37.8% of net income from banking activity (as against 31% in 2000).

A significant item impacting the Bank's earnings was also net interest income, which amounted to 740m zloty, rising just 2% on 2000. Despite this modest increase, net interest income still accounted for a very substantial 35.7% of net income from banking activity. However, due to the narrowing of interest margins, this proportion is declining systematically (in 2000, it stood at 46,6%).

Net fee income was up 46.1% compared to December 31, 2000, coming to 485m zloty. The prime source of this growth were loan origination fees (up 117.7%). Fees associated with the Bank's securities custody services also increased (going up 38.9%), as did charges related to the operation of current accounts, particularly those for the issue of payment cards and settlement of card transactions, and also fees on cash deposits and disbursements. Net fee income accounted for 23.4% of net income from banking activity.

General expense

Growth in the Bank's general expense was more rapid in 2001 than it had been 2000, mostly as a result of the merger with Citibank (Poland) S.A. General expense stood at 1,051m zloty, a rise of 28.7%, which can chiefly be ascribed to a sharp 97.8% increase in occupancy and equipment expense. Occupancy and equipment expense accounted for 50% of all general expense (as against 32.6% at year end 2000). Particularly steep growth was observed in the expense of outsourcing, telecommunications costs, advertising and marketing expense, and also the expense of computer equipment. Further, property rental and administration expense was also high.

General expense

Thousand zloty	Twelve months 2001	2000	Change 2000/2001
Personnel expense	**478 570**	**392 241**	**22.0%**
Salaries	386 691	320 274	20.7%
Staff benefits	91 879	71 967	27.7%
Other expense	**572 905**	**424 594**	**34.9%**
Premises & equipment	526 144	266 032	97.8%
Taxes & charges	5 593	8 781	-36.3%
Bank Guarantee Fund	16 168	39 603	-59.2%
Provisions:	25 000	110 178	-77.3%
of which:			
Retirement pay & anniversary bonuses	25 000	0	-
Restructuring salaries	*0*	*92 209*	-
Restructuring other expense of premises & equipment	*0*	*17 969*	-
Total general expense	**1 051 475**	**816 835**	**28.7%**

Salary expense constituted 36.8% of general expense in 2001, a decrease of 2.4 points on the previous year. Staff benefits made up 8.7% of general expense.

In all, general expense absorbed 50.7% of net income from banking activity.

In 2001, the Bank established a provision against retirement pay and anniversary bonuses amounting to 25m zloty. Under the staff compensation system in place, the Bank guarantees staff employed under its collective agreement retirement pay and anniversary bonuses based on years of service at the Bank, or total years in employment (in the case of those who joined the Bank before 1997). In previous years, these items of compensation were taken to expense on disbursement, with no provision made against future payments. However, the Management Board deemed it more appropriate to establish a provision against those payments and therefore resolved to alter the Bank's accounting principles in this area, starting from the 2001 financial year.

The year 2001 saw a reduction in staffing at the Bank in the wake of the merger. The process of developing the target post-merger organisational structure was completed at mid-year, allowing the previously planned downsizing of the Bank's staff to be carried out. At year end 2001, the total number of staff employed at the Bank, in terms of full-time equivalent posts, stood at 5,159. Average monthly staff remuneration at the Bank stood at 6,555 zloty in 2001, having risen 32.1% compared to 2000.

Effective tax rate

The corporate income tax reported in the profit and loss account has two components, namely, current tax liabilities and deferred tax arising from temporary differences. In 2001, the amount of tax deducted from the Bank's earnings was increased due to the result of a 6 basis point reduction in the rate of tax used to calculate future deferred tax benefits arising on specific provisions.

This change in the estimation of tax benefits meant that the effective tax rate was higher in 2001 than it had been in 2000.

3. CAPITAL EMPLOYED & RISK-BASED CAPITAL

The Bank's total capital funds at year end 2001 stood at 5,742m zloty (excluding net earnings), reflecting an increase on year end 2000 of 2,707m zloty, or 89.2%. The basic factor behind this swift capital growth was the merger of the Bank and CPSA.

CAPITAL EMPLOYED

Thousand zloty	2001 period end	2000 period end	Change 2000/2001
Authorised capital	430 308	279 670	53.9%
Capital surplus	3 044 585	538 000	465.9%
Reserve capital	1 707 873	1 706 979	0.1%
General risk reserve	390 000	340 000	14.7%
Revaluation reserve	76 958	77 860	-1.2%
Other supplementary capital (convertible bonds)	92 330	92 330	0.0%
Total capital funds	**5 742 054**	**3 034 839**	89.2%
Core capital	5 572 776	2 864 649	94.5%
Supplementary capital	169 288	170 190	-0.5%

As a result of the merger of the Bank and CPSA, the Bank’s capital funds increased 2,636m zloty. The Bank’s authorised capital, previously amounting to 279,670 thousand zloty, was raised by 150,638 thousand zloty, to stand at 430,308 thousand zloty. This was carried out by the issue of 37,659,600 Series C ordinary bearer shares, with a par value of 4 zloty each, which were provided to the shareholders of CPSA in exchange for the transfer of the entire assets of CPSA to the Bank. This authorised capital of 430,308 thousand has been divided into 107,577,100 bearer shares, each with a par value of 4 zloty. At the same time, the surplus of the fair value of the shares issued over their par value was taken to the Bank’s capital surplus, which as a result rose 2,486m zloty.

Another source of capital growth was the retention of net earnings for 2000, with 34.7% of these earnings being taken to capital through appropriations to the capital surplus (10.3%) and to the general risk reserve (24.4%); these appropriations amounted to 21,051 thousand zloty and 50,000 thousand zloty, respectively. The contribution of capital funds to financing the Bank’s activity came to 17.3%, compared to 14.5% at the end of 2000.

At year end 2001, the Bank was the most strongly capitalised in Poland, accounting for 14.2% of total capital within the Polish banking sector.

The rapid capital growth recorded by the Bank meant that, despite an increase in risk-weighted assets and off balance sheet exposures, risk-based capital was higher than at year end 2000. At December 31, 2001, the Bank’s risk-based capital ratio stood at 21.2%. This was above both international standards and the domestic requirements set by the NBP.

The risk-based capital ratio presented herein has been calculated in application of the principles specified in Regulation no. 5/98 of the Commission for Banking Supervision on the method of calculating a bank's risk-based capital ratio and the percentage risk weights to be assigned to particular categories of asset and off balance sheet exposure, December 2, 1998.

Risk-based capital

thousand zloty	2001	2000
	period end	
Risk-weighted exposures	**24 715 504**	**17 464 853**
Capital base (eligible capital)	**5 243 734**	**2 731 132**
Risk-based capital ratio	**21.22%**	**15.64%**

4. EXTERNAL FUNDING

At December 31, 2001, the Bank's external funding totalled 22,191m zloty, an increase of 41.6% compared to year end 2000.

Deposits represented the core source of funding for the Bank's assets in 2001. The balance of funds taken from non-bank customers rose 74.5% on the previous reporting period, to stand at 18,529m zloty. Thanks to this growth, the Bank's share of the total deposits taken by the banking sector (excluding interbank deposits) climbed from 3.7% to 5.7% at year end. Meanwhile, the funding accessed by the Bank from financial institutions decreased 8,4%.

The strong deposit growth achieved was the result of the Bank expanding its product range and applying a more flexible pricing policy. An issue of fundamental importance affecting the volume of non-bank deposits was also the prevailing interest rate environment.

EXTERNAL FUNDING EMPLOYED

thousand zloty	2001	2000	Change 2000/2001
	period end		
Due to central bank	**208 128**	**304 214**	**-31.6%**
Demand	1 242 712	586 544	111.9%
Time	3 609 870	4 709 710	-23.4%
Interbank takings	841 193	2 162 552	-61.1%
Borrowings	1 658 303	2 054 104	-19.3%
Due to other financial institutions	1 110 374	493 054	125,2%
Due to customers & government	**17 130 228**	**10 070 252**	**70.1%**
Demand	3 767 864	1 873 078	101.2%
Time	13 362 364	8 197 174	63.0%
Securities issued & outstanding	**0**	**4**	**-----**
CDs	0	4	-----
Total external funding	**22 190 938**	**15 670 724**	**41.6%**

excluding interest payable

The Bank's deposit products were not only addressed to large companies and institutions, but also to personal customers. In winning personal deposits, the Bank was able not only to take advantage of the launch and expansion of its own Retail Banking Division, but also to draw extensively on the enlarged branch network afforded by the merger of the retail operations of

Handlobank and Citibank. The Retail Banking Sector of Bank Handlowy w Warszawie SA now operates under the Citibank logo.

The Bank continued its relationship with various government sector institutions, such as Health Trusts and local government institutions, and also with universities and colleges (both public and private); as a result, it was able to maintain its funding from government deposits, which totalled 878m zloty.

Due to non-bank customers

thousand zloty	2001	2000	Change
	period end		2000/2001
Due to:			
Persons	6 037 483	3 813 048	58.3%
of which: Retail Banking Sector	4 244 432	862 958	391.8%
Corporates and institutions	10 205 405	5 349 958	90.8%
Government	877 679	880 648	-0.3%
Non-bank financial institutions	1 398 788	550 334	154.2%
Other	9 660	26 597	-63.7%
Total due to non-bank customers	**18 529 015**	**10 620 585**	74.5%

excluding interest payable

Particularly fast growth was attained in personal zloty balances. These went up from 2,305m zloty in the previous year to 3,906m zloty at the end of 2001, an increase of 69.4%. This allowed the Bank to increase its share of total personal deposits at the banks from 1.9% at year end 2000 to 2.8% at December 31, 2001 (with the Bank's share of personal zloty deposits rising from 1.5% to 2.2%).

The deposits taken by the Retail Banking Sector rose 392%, going up from 863m zloty to 4,244m zloty at December 31, 2001. This represented 70% of personal deposits at the bank and 23% of all liabilities to non-bank customers.

Due to non-bank customers

thousand zloty	2001	2000	Change
	period end		2000/2001
Zloty deposits	**12 975 470**	**7 198 694**	**80.2%**
Demand	2 551 227	1 108 125	130.2%
Time	10 424 243	6 090 569	71.2%
Foreign currency deposits	**5 543 885**	**3 395 295**	**63.3%**
Demand	1 495 389	795 636	87.9%
Time	4 048 496	2 599 659	55.7%
Other	**9 660**	**26 597**	-63.7%
Total due to non-bank customers	**18 529 015**	**10 620 585**	**74.5%**

excluding interest payable

The determining factor behind the overall growth in deposits in 2001 was the stronger growth recorded in zloty balances. Compared to the previous year, zloty deposits from non-bank customers grew 80.2%, to stand at 12,975m zloty. This was equivalent to 70% of all deposits taken. Foreign currency deposits totalled 5,544m zloty, an increase on the year of 63.3%.

IV. OPERATIONS

1. LENDING & OTHER RISK EXPOSURES

With a view to improving the quality and soundness of the loan portfolio, credit risk management methods were updated in 2001. The Bank is now applying a new system of credit risk assessment and new lending procedures, and has altered the organisation of its lending division. The change in credit risk assessment methodology was accompanied by a stricter separation of responsibilities between risk assessment and lending decisions, and also credit administration and monitoring functions. Further, changes were made in the structure of authority concerning the Bank's financial exposures, and the process of management decision-making was made more efficient.

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

Lending to non-bank customers (gross)

	2001	**2000**	**Change**
thousand zloty	**period end**		**2000/2001**
Zloty loans	10 803 111	6 419 085	68.3%
Foreign currency loans	5 022 047	4 704 688	6.7%
Total loans outstanding	**15 825 158**	**11 123 773**	**42.3%**
Non-financial customers	14 904 640	10 485 547	42.1%
Financial institutions	891 297	598 586	48.9%
Government	29 221	39 640	-26.3%
Total loans outstanding	**15 825 158**	**11 123 773**	**42.3%**
Corporates	14 410 200	10 914 650	32.0%
Persons	1 385 737	169 483	717.6%
Government	29 221	39 640	-26.3%
Total loans outstanding	**15 825 158**	**11 123 773**	**42.3%**

excluding interest receivable

At December 31, 2001, outstanding loans (gross) to non-bank customers totalled 15,825m zloty. This reflected growth of 42.3% compared to the previous reporting period. The prime reason for this growth was the merger of the Bank and CPSA.
This strong growth in loan outstandings increased the Bank's share in the total market for bank loans, which climbed from 5.3% at year end 2000 to 7.1% at the end of 2001.

The largest segment of the Bank's loan portfolio were loans to corporates. These went up 32.0% compared to the year before, to stand at 14,410m zloty. The Bank's share of total bank lending to corporates rose 2.0 points, coming to 9.0% at year end 2001. Dynamic growth was seen in outstanding loans to persons (up 718%). These accounted for 8% of the Bank's loan exposures. By contrast, loans to government institutions trended downwards, falling 26.3% compared to the previous period.

At December 31, 2001, the volume of zloty loans granted by the Bank was 68.3% higher than at the end of 2000. The proportion of zloty loans in the overall portfolio increased from 57.7% at year end 2000 to 68.3% at the end of 2001.

In the course of 2001, the Bank played an active part in arranging and funding syndicated loans for large investment projects. The most important of these included the following:

- a loan for the restructuring and commercial incorporation of Polish State Railways S.A., with the total facility representing the euro equivalent of 700m zloty. Other participants in the syndication are Dresdner Kleinwort Wasserstein, Westdeutsche Landesbank Girozentrale London Branch, and Westdeutsche Landesbank Polska S.A. The Bank's participation, as arranger and agent bank, amounts to €18,151,000;
- a US$ 392m facility for the construction of a power station by the firm of Elektrownia Pątnów II Sp. z o.o. Other participants in the syndication are Citibank N.A. London, Westdeutsche Landesbank Girozentrale, the European Bank for Reconstruction and Development, and Kredyt Bank S.A. The Bank's share of this syndication is US$ 27.5m;
- a loan for the modernisation and expansion of the hotel stock of Orbis S.A., with the Bank providing €7.5m of the finance involved;
- a loan for the purchase of passenger aircraft by LOT Polish Airlines S.A., totalling 28.6m zloty. The Bank's share of this facility, as the co-arranger alongside Citibank N.A. London, and a participant in funding the syndication, amounts to US$ 10m;
- a loan to the firm of Polska Telefonia Cyfrowa Sp. z o.o., with the Bank's participation standing at €25m;
- a €4.7m loan to the company of Lafarge Cement Polska S.A. to finance ongoing operations.

Loan portfolio quality

The year 2001 brought a deterioration in loan portfolio quality, which was mirrored in a 4.5 point increase relative to December 2000 in the percentage of special mention and irregular loans within the total portfolio. This also contributed to a 40% growth in specific provisions. There were a number of factors at work here, namely:

- the worsening economic situation in Poland;
- the deterioration in the financial performance of certain industries or borrowers, which necessitated the downgrading of the exposures concerned, now classified in higher risk categories;
- the application of a stricter provisioning policy.

Loan portfolio quality

Thousand zloty		2001	2000	Change
		Period end		2000/2001
Loans to customers, gross		**15 825 158**	**11 123 773**	**42.3%**
Classified satisfactory		10 641 956	7 978 713	33.4%
Classified special mention		1 116 543	1 103 524	1.2%
Classified irregular		4 066 659	2 041 536	**99.2%**
of which:	*substandard*	1 149 105	*248 684*	*362.1%*
	doubtful	1 622 261	*748 810*	*116.6%*
	loss	1 295 293	*1 044 042*	*24.1%*
Share in total portfolio:				
Special mention & irregular loans		32.8%	28.3%	4.5
Special mention loans		7.1%	9.9%	-2.9
Irregular loans		25.7%	18.4%	7.3

Excluding interest receivable

Claims classified substandard increased very sharply, going up 362% compared to the end of the previous year, and rising from 2.2% to 7.3% of the portfolio. The proportion of doubtful loans also increased, up from 6.7% to 10.3% of total outstandings. On the other hand, the proportion of loss loans in the total loan book declined, coming down from 9.4% of the portfolio to 8.2% at December 31, 2001.

Provisions against outstanding loans to non-bank customers

Thousand zloty	2001	2000	Change
	period end		2000/2001
Specific provisions	**1 177 060**	**840 905**	**40.0%**
Against overdrafts and loans classified special mention	1 245	-	-
Against loans classified irregular	1 175 815	840 905	39.8%
Specific provisions/ total loans	7.4%	7.6%	-0.2
Specific provisions/ satisfactory & special mention loans	0.0%	-	-
Specific provisions/ irregular loans	28.9%	41.2%	-12.3

The volume of specific provisions established against irregular classifications, standing at 1,177m zloty, fully complies with the requirements laid down in the regulations of the National Bank of Poland.

The Bank also charged 50m zloty to general provisions, making full use of the statutory incentive to do so. These funds, which the Bank can dispose of freely, constitute a guarantee of full financial safety.

Off balance sheet exposures

At December 30, 2001, the Bank's off balance sheet exposures totalled 9,884m zloty. This represents an increase of 59.4% compared to the end of 2000. The increase involved here is primarily traceable to steep growth in undrawn lines of credit. This growth mainly stemmed from the Bank's merger with CPSA. At year end, the undrawn lines made available by the

Bank amounted to 6,779m zloty, an increase of 115.2% on the end of 2000. As a proportion of all contingent commitments extended, these facilities rose 17.8 points, to stand at 68.6%.

The volume of guarantees extended by the Bank also trended upwards. The Bank's commitments on these stood at 2,738m zloty, up 8.3% compared to December 31, 2000.

In the period under review, a decline was seen in the value of the Bank's off balance sheet commitments under both import L/Cs issued and export L/Cs confirmed. L/Cs issued fell 39%, to 185m zloty, while L/Cs confirmed dropped 45%, to 63m zloty. Altogether, the Bank's exposure on L/Cs utilised as a payment instrument in foreign trade came to 2.5% of the off balance sheet commitments it had extended.

Contingent liabilities

	2001	**2000**	**Change**
Thousand zloty	**period end**		**2000/2001**
Total contingent liabilities	**9 884 155**	**6 198 946**	**59.4%**
Guarantees	2 737 591	2 527 225	8.3%
L/Cs issued	184 874	302 674	-38.9%
L/Cs confirmed	63 155	115 360	-45.3%
Undrawn lines of credit	6 779 275	3 149 687	115.2%
Underwriting commitments	119 260	104 000	14.7%
Provisions against contingent liabilities	**125 913**	**25 330**	**397.1%**
Provisions/ contingent liabilities	**1.3%**	**0.4%**	**0.9**

Compared to the end of 2000, the Bank stepped up its specific provisioning against contingent liabilities, mainly against guarantees. At December 31, 2001, the ratio of specific provisions established to contingent liabilities undertaken had risen to 1.3%, as against 0.4% at year end 2000.

Lease finance

An attractive supplement to the products on offer from the Bank are the lease finance services provided by both Handlowy-Leasing S.A. and Citileasing Sp. z o.o. These two companies are to merge in the near future, and will subsequently continue trading as Handlowy-Leasing S.A. At present, Handlowy-Leasing S.A. (together with Citileasing Sp. z o.o.) is one of the largest lease finance companies in Poland in terms of the volume of assets leased.

The fixed assets financed by the company, under both operating and capital lease agreements, comprise industrial machinery and equipment, complete process technology and industrial plant installations, and also – under a special financing programme – printing and construction machinery, telecommunications systems and transportation equipment.

Most lease finance companies suffered a fall in turnover in 2001, and the market contracted 20%-30%. The overall economic slowdown, insufficient domestic demand and the difficulties faced by lease finance companies in accessing bank loans to fund their operations meant that many of these firms had to declare bankruptcy. The companies that managed to survive last year's crisis were those linked to capital groups of Banks and therefore enjoying easier access to funding.

At year end 2001, Handlowy-Leasing S.A. held a 5.4% share of the lease finance market, as measured by the net value of assets leased. The net value of the assets leased by the company stood at 409.8m zloty, while the number of lease agreements concluded rose to 1,092.

Factoring

Factoring services are provided both by the Bank and by the specialised company of Handlowy-Heller S.A. The latter offers comprehensive factoring services on the Polish market involving the financing of, and trade in, receivables. The company was established by the Bank together with a Dutch partner, NMB Heller Holding N.V., in 1994.
The financial services offered by Handlowy-Heller S.A. include the factoring of domestic receivables on a recourse or non-recourse basis, the non-recourse factoring of export receivables, the ongoing handling of receivables collection, and debt recovery in relation to delinquent receivables.

Handlowy-Heller S.A occupies a leading position in terms of turnover on the market for factoring services. Its share of the total market, measured by the value of receivables purchased, stands at around 12%.
In 2001, the company's turnover amounted to 973.4m zloty, a decrease of 26.2% compared to the year before. This decline involves customers with whom factoring agreements had been signed in previous years. However, turnover on services provided to new customers gained during the year came to almost 198m zloty, an increase of 31% compared to the new business obtained in 2000. In the course of 2001, the company concluded 38 new factoring agreements.

In 2001, the company joined the Polish Confederation of Private Employers and began liaison with other factoring companies in Poland with a view to initiating, with the help of KPMG, changes to statutory regulations concerning the taxation of factoring services.

The present unfavourable economic situation is seen by factoring companies as an opportune moment to develop their operations, since slacker growth results in lower corporate liquidity, thereby contributing to an increase in the turnover of companies trading in receivables.

2. MONEY & FX MARKET ACTIVITY

FX market
Due to the change in the Fx law in 1999, the FX trading in zloty is now split between on-shore and off-shore trading. Therefore, the FX market in Poland becomes more and more open and it is now very vulnerable not only to domestic but to international developments as well. On the other hand, as far as market activity is concerned, the FX market in Poland consolidated in 2001. This was caused by the economic slowdown in Poland, which had a direct impact on all financial markets. Daily turnover in 2001 was little changed from the level of around $1.5-2.0 bln reported a year ago. The market was the most volatile during the summer months in reaction to the crisis in Argentina.

In the wake of the merger, Bank's share in interbank FX turnover reached 15% and the bank remained among top market makers in 2001. As far as revenues are concerned, the year was very successful.

Derivatives and Fixed Income market
Unlike the Fx market, the Polish derivatives market in still in a growth phase. Bank was a leader in interbank trading in 2001 with its market share estimated at 30% in the swap and FRA markets. The Bank Handlowy's share in the Fixed Income market was estimated at 8-10% in 2001.

Money market
In 2001 Bank continued to be an active player in open market operations and it actively managed its own liquidity as well as it acted on behalf of clients. The money market was still overliquid and the NBP continued to drain liquidity from the market in 2001.
On the interest rate side, the situation in the money market was very favorable in 2001. In the wake of the economic slowdown, the Monetary Policy Council kept reducing interest rates throughout the whole year of 2001. This resulted in high revenues from money market trading. Bank had around 10% share in the interbank deposit market and around 14% in the interbank swap market.

Customer Trading
The 2001 was a very good year as far as customer P/L is concerned, but customer volumes were affected by the economic slowdown in the second half of 2001. The bank greatly benefited from the merger and its customer base range from international corporations to small and medium enterprises. Moreover, the strong results were also thanks to very successful sales of derivatives to corporate customers. The bank offered the whole range of derivatives products such as FRAs, IRS, CIRs and options.

3. EQUITY INVESTMENTS

In 2001, the Bank consistently continued the business strategy it has adopted of scaling down the total value and number of its equity investments. This approach was accompanied by an orientation towards increasing the unit value of certain holdings considered active or strategic investments, with a parallel trend towards reducing the value of sub-portfolios of associated undertakings and companies in which the Bank has a minority interest. In addition, the downturn on the stock exchange and the greater attention paid to debt securities and futures contracts meant that the Bank refrained from larger equity purchases in 2001.

Equity investments

Thousand zloty	**2001 period end**	**2000**	**Change**
Investments in subsidiary undertakings	347 302	124 236	179.6%
Investments in associated undertakings	217 185	407 568	-46.7%
Investments in other undertakings	57 770	87 514	-34.0%
Units in investment funds & other property rights	20 119	20 119	0.0%
Subordinated loans & additional payments to capital	235 011	427 909	-45.1%
of which: convertible bonds, Handlowy Investments S.A.	52 384	57 329	-8.6%
Total equity investments	**877 387**	**1 067 346**	**-17.8%**

The increase seen in the Bank's investments in subsidiaries is principally attributable to the amalgamation of the interests held by the two banks on performance of the merger. Furthermore:

– the Bank took up an additional share issue carried out by its subsidiary, Citibrokerage (now DM BH), with a total par value of 55,950 thousand zloty, doing so through the transfer to Citibrokerage of the Bank's own brokerage business, previously an establishment of Bank Handlowy trading as COK BH. This transaction substantially increased the Bank's interest in DM BH, which rose to 70,950 thousand zloty;

– the Bank purchased 34,549 shares in Bank Handlowy Internationale S.A. for a total price of 32,696 thousand zloty. The Bank thus increased its shareholding in this company, carried at 77,242 thousand zloty, to 73.12%, and therefore reclassified it as a subsidiary undertaking (prior to this purchase, the company had been classed as an associated undertaking);

– the company of Spomasz Sp. z o.o. was purchased for 13,502 thousand zloty;

– the Bank also took up 10,000 shares, for a total of 6,000 thousand zloty, in the increased capital of Towarzystwo Funduszy Inwestycyjnych S.A.

– the Bank has increased its equity investment in its subsidiary company - Citileasing Sp. z o.o., for a total of 20,000 thousand zloty

Movements in the Bank's equity holdings in associated undertakings primarily involved the following:

– the sale of part of the shares held by the Bank in Mitteleuropaische Handelsbank AG, valued at 37,361 thousand zloty. Following the sale, the Bank holds 19.99% of this company's capital, classing this as a minority holding;

– the sale of the Bank's entire capital holding in Centro Internationale Handelsbank, comprising 295,336 shares valued at 100,773 thousand zloty;

– the acquisition of a direct 40,000 thousand zloty interest in the associated undertaking Pia Piasecki S.A. This was carried out through the conversion to shares of convertible bonds held by the Bank;

– a contribution of 30,000 thousand zloty to the capital of PKO/Handlowy PTE S.A. as consideration for 3,000 shares in that company. This additional payment was performed due to the pension fund managed by PKO/Handlowy PTE S.A. failing to achieve the minimum rate of return required by the Agency for the Supervision of Pension Funds.

The disposal of equity holdings by subsidiary investment companies resulted in a 45.1% reduction in their outstanding debt to the Bank under subordinated loans and additional payments to their capital, which had been utilised by these companies to finance their capital investments.

In connection with the merger with CPSA, the Bank realigned the policy directions of its equity investment portfolio.

The reclassification of certain of the Bank's equity investments, coupled with organisational changes to the system of corporate supervision in place, led to three equity portfolios being identified:

- an active investment portfolio,
- an available for sale portfolio,
- a strategic investment portfolio.

The active investment portfolio comprises equity holdings offering a potentially high return on investment.
The available for sale portfolio comprises equity investments that have no predetermined rate of return, together with reclassified strategic investments in other banks (at home and abroad).
The strategic investment portfolio comprises holdings in companies that allow the Bank to expand its product range, and also to competitive position on Poland's financial services market. Examples of these investments include the Dom Maklerski Banku Handlowego S.A brokerage house, the Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A investment fund company, the Handlowy Zarzadzanie Aktywami S.A. asset management company, the Handlowy Leasing S.A. lease finance company, the Handlowy Heller S.A. factoring company, the Polskie Pracownicze Towarzystwo Emerytalne "Diament" S.A. staff pension fund company, and the Obsługa Funduszy Inwestycyjnych i Emerytalnych Sp. z o.o. pension and investment fund support company.

The equity investment policy being pursued by the Bank recognises the new circumstances ensuing from the Bank's merger with CPSA, and also the changes that have taken place in the macroeconomic environment and structure of the Polish economy.
The guiding principle of this policy is to seek to achieve the target profile of equity investments while optimising the earnings stream from capital transactions and minimising the risk, including reputation risk, carried by those transactions.
The policy directions mapped out by the Bank for the particular portfolios it holds are as follows:

- In relation to strategic investments, the Bank will be looking to streamline this portfolio further, while allowing for the possibility of raising the capital of certain companies involved which are of major significance for the objectives set for the Bank's group of companies as a whole,
- In relation to available for sale investments (including those acquired under restructuring), the Bank will sustain its efforts to dispose of its holdings in other banks at home and abroad (by selling its interest in Cuprum Bank S.A., completing the rehabilitation of Bank Rozwoju Cukrownictwa S.A., and cutting back to a minimum its shareholdings in banks abroad, or disposing of these).

4. CAPITAL MARKET BROKERAGE ACTIVITY

In performance of an agreement concluded on March 23, 2001, between the Bank and its subsidiary, Citibrokerage, on April 1 the Bank's brokerage business of COK BH, previously an organisationally separate establishment within Bank Handlowy, was transferred to

Citibrokerage, which as of that day changed its name to DM BH. The Bank thus ceased carrying on brokerage activity through its own organisational establishments. The Bank currently conducts its capital market brokerage activity through the offices of DM BH, in which it holds 100% of the equity.

Despite the dullness of the primary market in 2001, DM BH came second in the annual ranking of all brokerage houses in terms of their primary market activity, compiled by the *Rzeczpospolita* daily newspaper.

The value of the securities issues arranged by DM BH in 2001 stood at 2,507.2m zloty, giving it a 22.92% share of the Polish market. DM BH organised 5 of the 32 public offerings arranged in Poland, thereby capturing a 15.63% share of all public offerings. It also played a pioneering role in establishing the first Internet portal site for the Warsaw Stock Exchange. This involved the first pending public offering in Poland where share subscriptions were carried out utilising the IT system in place at the Exchange. In addition, in 2001 DM BH acted as underwriter for public issues totalling 22,133.4 thousand zloty, taking second place among Polish underwriters.

The business transacted by DM BH in 2001 also put it in second place among all brokerage houses in terms of both share trading on the Warsaw Stock Exchange (trades totalling 7,003.79m zloty, representing a market share of 11.57%) and bond trading (trades totalling 490.16m zloty, representing a market share of 9.62%). In addition, DM BH was the seventh largest broker in futures contracts, accounting for 5.33% of turnover by volume (398,963 contracts). The futures market represents one of the most promising in Poland.

DM BH was also a leading player on the Polish capital market in its role as sponsor for issues by 40 listed companies and 8 unlisted ones. In 2001, the number of securities accounts maintained by DM BH fell by 6 when compared to the 13,389 accounts operated altogether by COK BH and Citibrokerage SA at the beginning of the year. Nevertheless, it is worth noting that DM BH gained 153 new clients that do not hold their securities at DM BH, but at a depository banks, of which at Bank Handlowy.

During the period under review, DM BH launched a package of analytical services for institutional and private clients that encompasses daily and weekly bulletins, fundamental analyses, teleconferencing, and direct meetings between investors and analysts. Several dozen presentations were also held concerning the various products on offer to clients. These presentations mainly focussed on asset management services and share offerings on the primary market.

5. CUSTODY SERVICES

In 2001, Bank Handlowy continued its provision of custody services involving securities. The Bank is one Poland's leading depositories. It offers its services both to foreign investors active on the Polish capital market and to domestic financial institutions, including investment and pension funds. In doing so, the Bank operates as an integral part of the global custody network of Citibank N.A. known as Global Securities Services.

The custody services provided by the Bank include operating securities and cash accounts, settling securities transactions, handling dividend and interest payments, portfolio valuation and execution of customer proxies, and it also arranges customer representation at general meetings of shareholders.

The Bank is also active in helping to develop the legal regulations for the securities market, with its representatives participating in the work of the Council of Depositories at the Polish Banking Association. The strong position held by the Bank allows it to put forward its own proposals as regards amendments to existing regulations or the establishment of practices that bring the market closer to international standards. Drawing on their own experience and professional skills, staff from the Bank's Custody Department collaborate on the introduction of new systemic solutions with the Securities and Exchange Commission, the National Securities Depository, the Warsaw Stock Exchange, and the Agency for the Supervision of Pension Funds.

The Bank acts as depository for five open-ended pension funds, namely, AIG OFE, SAMPO OFE, OFE Pocztylion, Pekao OFE and Zurich OFE, and also for the Staff Pension Fund of Telekomunikacja Polska SA.

The Bank was the first Polish depository to take part in winding up an open-ended pension fund, with its assets being acquired by a fund for which the Bank is the depository. The winding up and transfer of assets to the Bank was completed in a manner that ensured the uninterrupted operations of both the fund acquiring the assets and the depository itself.

In addition, the Bank has made available a service involving the maintenance of registers of foreign securities, whereby it acts as agent in settling securities transactions carried out by customers on foreign markets.

The Bank operates as depository for 27 investment funds set up by the following investment fund companies: Skarbiec TFI SA, WBK AIB TFI SA, SEB TFI SA, Invesco TFI SA, and Pioneer Pekao TFI SA.

6. SERVICES AS AGENT TO THE GOVERNMENT

The Bank's activity as Payment Agent to the Government, carried out under an agreement concluded with the Minister of Finance, involves the provision of services related to the foreign assets and liabilities of the Polish Treasury.
In 2001, the Bank handled over 400 agreements concerning loans, refinancing, debt reduction, compensatory settlements, debt-for-nature swaps and Treasury Eurobond issues, and also operated 12 clearing, countertrade and special accounts.

The settlements performed by the Bank for the account of the Ministry of Finance in connection with the repayment of liabilities and collection of debts totalled 31bn zloty.

In addition, the Bank compiled statistical information and management reports for the Ministry of Finance and the National Bank of Poland with respect to the assets and liabilities of the Polish Treasury.

Pursuant to an agreement with the Ministry of Finance, in 2001 the Bank continued to administer Treasury liabilities arising on the unsettled debts of health service establishments; totalling 8.4bn zloty, these debts are held by thousands of creditors.
In collaboration with voivodship authorities and tax offices, and also with the relevant government ministries, the Bank verified these debts. It then instituted procedures with a view to redeeming those debts (the Bank carried out 12 direct redemptions, and arranged 7 tenders for the cash purchase of health service debts).
The Bank also concluded 19 agreements with the Minister of Finance on the conversion of health service liabilities into Treasury securities, to a total value of 338m zloty.

7. RETAIL BANKING

The strategic objective of a retail bank is to secure a commanding position on the market for personal banking services and achieve a significant market share (at year end 2001, the Bank's share of the retail banking market stood at 2.8%). The fusion of the safety and soundness that is guaranteed by the tradition and track record of Bank Handlowy w Warszawie SA on the Polish market with the international experience of Citigroup on global markets has brought this objective closer.
In April 2001, the customer accounts maintained within the Handlobank retail banking sector were converted from the Profile system to the Systematics system in use at Citibank. Initial problems stemming from this conversion were subsequently eliminated, and the Bank's system is currently fully operative and stable. No changes to the system are envisaged in the near future.

The year 2001 brought a considerable decline in interest rates, which undermined the attraction of bank deposits, particularly in foreign currencies. Nonetheless, the Bank proved capable of preventing any mass runoff of customer funds by offering attractive investment products and other products that made it possible to cushion the effects of the introduction of a tax on interest income. Further, the Bank lowered most of its account and service charges. The result was that the number of newly-opened accounts rose substantially in November and December.

The Citibank retail network consists of 112 full-service offices. The number of retail customers climbed from 211 thousand at the end of 2000 to 608 thousand at year end 2001.

In 2001, the Bank's retail product range was enhanced by the inclusion of a whole series of investment products. The development was also begun of the Citibank Online Internet platform. In 2002, expanding and upgrading this platform will be a priority task for the Bank in its quest to become a leading player on the Internet banking market. The launch of new retail banking products is supported by intensive, state-of-the-art marketing efforts designed to increase recognition of the Citibank brand name and particular Citibank products.

In the years ahead, the Bank's activity in this area will focus on promoting personal accounts, investment products and insurance. In 2002, the Bank plans to offer its customers life assurance.

8. ASSET MANAGEMENT AND INVESTMENT FUNDS

In 2001 third party asset management was one of the most rapidly growing product lines offered by the Bank's capital group. Assets entrusted to Handlowy Zarządzanie Aktywami SA for management increased from PLN 437 million at the end of 2000 to PLN 767 million at 31 December 2001, which represents a 76% growth. Of this PLN 404 million was managed for the different funds of Kapitał Handlowy, PLN 204 million were on Discretionary Managed Accounts of insurance firms and the remaining PLN 159 million on Discretionary Managed Accounts of other corporate and individual customers. If advisory services offered by Handlowy Zarządzanie Aktywami SA are included, total assets under management and for which advisory services are offered rose by 102% from PLN 596 million to PLN 1,202 million.

2001 was also a very good year for the Bank's investment fund society Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA (TFI BH). Assets entrusted to TFI BH by customers rose rapidly – primarily as a result of the inflow of funds from individual customers, which rose by 1,820%. Assets of the five Kapitał Handlowy funds managed by TFI BH rose by PLN 89 million at the end of 2000 to PLN 404 million at the end of 2001. The 354% growth over the 12 months of the year placed TFI BH among the most rapidly growing societies and gave it the seventh position with a market share of 3.4%. This was primarily the result of the commencement of distribution of Kapitał Handlowy investment funds through CitiGold branches.in the second half of the year.

Winning of the tender for setting up and management of the Employee Ownership Fund of Polish State Railroads (Fundusz Własności Pracowniczej Polskich Kolei Państwowych) was another great success of TFI BH. Over 400 thousand employees are to participate in the Fund and total assets that are to be placed in the fund over the next few years are estimated by the managenment of Polish State Railroads to reach PLN 1.3 billion. Registration of the Fund and first payments are expected to be made in 2002.

After 2001 TFI BH is still the clear leader on the Employee Pension Programme market. By the end of the year over 22 Employee Pension Programmes in the form of an agreement with Kapitał Handlowy Senior Special Open Investment Fund (Kapitał Handlowy Senior SOFI) have been registered with the Office of the Superintendent of Pension Funds (UNFE). As a result of effective management and regular inflow of fees, assets of this Fund rose in 2001 by over 400% and at the end of December 2001 amounted to PLN 29.6 million. At the West-Pomeranian Exhibition "My Money" TFI BH received the best fund award for the Employee Pension Programme based on the Kapitał Handlowy Senior SOFI.

Plans for 2002 include a further dynamic growth of assets managed by Handlowy Zarządzanie Aktywami SA through direct asset management and advisory services offered by the company. This is expected to the result of both a growth in the whole asset management business in Poland, as well as a strengthening of the competitive position of Handlowy Zarządzanie Aktywami SA. The planned 100% growth in assets under management will be made possible primarily through the introduction of new asset management products offered both to institutional and individual customers. Among the new products for release in 2002 is a liquidity fund designed to allow companies to invest surplus funds with attractive returns. Another important element of our strategy is the change of name of our investment funds from Fundusze Kapitał Handlowy to CitiFundusze. This should help increase our brand awareness among potential customers.

9. PENSION FUNDS

One of the youngest members of the Bank Handlowy group is the PKO/Handlowy Powszechny Towarzystwo Emerytalne S.A. pension fund company (PKO/Handlowy PTE), which offers pension schemes under the “second pillar” of the pension system and was set up jointly with PKO BP SA. The share capital of this company, at 260m zloty, is one of the largest among all pension fund companies. The value of funds invested almost doubled in 2001, going up from 300m zloty at the end of 2000 to 582m zloty at year end 2001.

For the Bankowy Open-Ended Pension Fund (Bankowy OFE), managed by PKO/Handlowy PTE, the year 2001 was not one of the most auspicious. During 2001, as a result of Bankowy OFE twice failing to achieve the minimum rate of return for the preceding 24 months, as calculated by the Agency for the Supervision of Pension Funds, PKO/Handlowy PTE, as the Fund’s manager, was required to contribute an additional sum of over 38m zloty to the Fund’s assets. At the end of 2001, all funds found themselves above this minimum rate of return, which stood at 10.732%. Bankowy OFE had generated a return of 11.849%. The difficulties encountered by Bankowy OFE in 2001 can be traced to two questions. The first is the investment performance attained, which was well below average, and which stemmed from the strategy adopted of investing in high-tech equities. The second is the very high value of units two years previously, compared to other funds, which produced an elevated reference base for calculating the rate of return.

Given the failure to achieve the minimum rate of return, the investment strategy of Bankowy OFE underwent a change in the course of 2001. At the beginning of the year, 41% of its funds were invested in equities and 46% in bonds, whereas by year end only 19% remained in equities and 61% had been placed in bonds. Due to the lack of stability on the stock exchange, the Fund has scaled back the above-average holding of equities it had in its investment portfolio in favour of debt securities, these being viewed as safer instruments, with less downside risk. The share of equities in its investment portfolio will be increased again when it is considered that there is a real chance of the market downtrend being reversed.

VI. COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS

The scope of the Bank’s cooperation with international financial institutions altered in 2001 as a result of the merger with Citibank (Poland) S.A. Being able to draw on the extensive Citibank international network, there was no need to maintain such a large number of correspondent accounts as in previous years, and settlements were concentrated within the Citibank network as far as was rationally possible. Moreover, due to the substantial growth seen in settlements performed in euros, correspondent accounts in euro legacy currencies were closed during the year. At year end, the Bank had 31 nostro accounts in 23 countries, these being used for both interbank settlements and customer payments.

In August 2001, the Bank concluded a strategic agreement with Kreditanstalt fur Wiederaufbau concerning the opening of a €25m line of credit to finance the capital projects of small and medium enterprises in the areas of infrastructure, environmental protection, energy efficiency, and also investment in industry and services. This is the third initiative of this kind taken by the Bank, alongside facilities provided in previous years by the European Investment Bank. Thanks to lines such as these, small and medium enterprises are able to use the offices of Bank Handlowy to access long-term financing from the assistance funds of the European Union.

The Bank also arranged a 3bn zloty long-term bond issuance facility for the European Investment Bank, the aim of which is to provide finance for infrastructure projects in Poland. The bonds have a maturity of from 1 to 30 years, have been admitted for public trading, and are being issued in several tranches. By the end of 2001, two issues had been performed, to a value of 200m zloty and 300m zloty, both maturing in 2011. The Bank is the sole arranger and underwriter for this facility.

At year end 2001, the Bank operated 222 vostro accounts in zloty and 34 in foreign currencies for foreign banks from a total of 34 countries, thereby continuing its longstanding traditions in settling foreign trade. The zloty accounts are also used to a significant extent by the largest international financial institutions investing in Polish securities. The Bank holds an individual foreign exchange licence from the National Bank of Poland allowing it to settle the zloty claims and liabilities of non-residents in a manner that fulfils their expectations.

Over and above its integration and close collaboration with the Citibank international network, the Bank has retained its own well-established position in handling and settling foreign trade transactions, cooperating with over 700 banks and their respective offices worldwide. In 2001, the geographical pattern of this cooperation corresponded to the structure of Poland’s foreign trade (primarily involving European countries), and in this respect the Bank utilised its long contacts with the largest banks in particular countries, concentrating on partners with strong and sound financial condition.

The Bank also maintained ongoing contacts with selected foreign financial institutions on the international money and capital markets, upholding its reputation in this area as one of the largest, most active and most innovative partners in Poland.

VII. CHANGES IN RANGE OF BANKING PRODUCTS AND LEVEL OF COMPUTERISATION

1. NEW PRODUCTS & DISTRIBUTION CHANNELS

The Bank has been systematically modernising the product delivery technologies it employs, and is also constantly expanding the product range offered to customers, introducing new instruments to support efficient funds management and modifying those instruments already available. Customers can access the Bank’s services via:

- Inter Centrum – a call centre that provides access to ongoing account and transaction information, allows the performance of payment instructions and opening of time deposits, and functions as an information bureau regarding the Bank's products and services;
- CitiDirect – an Internet banking system that offers direct 24-hr access to customer accounts (information on balances and account history, bill payment, other transfers);
- Telephone Sales – an integrated customer sales service.

In 2001, the Bank made available a number of new products for corporate customers, including:

- Banker's Acceptances – a financing facility whereby the Bank accepts bills drawn by customers and then offers the resulting acceptances to third-party investors in search of short-term instruments secured by a first-class bank;
- Channel Financing – a revolving finance facility for retail distribution outlets;
- Franchise Financing – a financing facility for franchisees under leasing arrangements or direct advances;
- Securitisation – a financing facility whereby a pool of earmarked assets generating regular cash flows are used to access immediate funds from investors in return for debt securities backed by those assets.

With respect to structured products, the Bank began offering customers exotic options and customised swaps.

To meet the constantly growing needs and expectations of smaller businesses (firms with annual sales of up to 4 million zloty), the Bank has developed a special Inter Biznes programme, which ensures quick and easy access to the Bank and to new products via the Inter Centrum call centre, 24-hr Internet banking, and a network of 62 offices staffed by qualified financial advisors; the extension of the Bank's opening hours thanks to telephone and Internet services; the provision of top-quality services; the use of simple, easily understandable banking procedures; and a safety and reliability that is guaranteed by the tradition and track record of the Bank on the Polish market and by the international experience of Citigroup on global markets.

The Inter Biznes programme for small businesses includes the Inter Konto package, comprising a current account and debit card together with call centre and Internet access.

The Inter Biznes programme was extended in 2001 to incorporate insurance products and overdraft facilities. In addition, the Bank introduced unsecured lines of credit for new customers, and business development loans for the development of small and medium enterprises, refinanced by Kreditanstalt fur Wiederaufbau and the European Union.

October 2001 saw the launch of the first "Universal Banking Kiosk", a self-service machine that accepts simple payments, such as for telephone or gas bills. In the near future, kiosks of this type, which currently only take cash, will also accept payment by bank card.

During the year, the Bank also introduced the FakturyOnline.pl system to handle customers' commercial finance transactions. The standard functions of this system allow customers to issue and present invoices, and make payments. The system was expanded to include a module that handles invoice discounting under factoring facilities and the submission of applications for loan disbursements under finance facilities for the distribution trades.

Acting in conjunction with Polska Telefonia Cyfrowa, the operator of the Era mobile phone network, Bank Handlowy was the first institution in Poland to offer customers with these phones the opportunity to use them to carry out secure payments for purchases made over the Internet. To access this service, customers with a mobile phone that receives SMS messages and a credit card issued under the Visa or MasterCard systems simply have to log in at http://zakupy.eranet.pl.

2. IT SYSTEMS

The merger of the Bank and CPSA necessitated the establishment of a telecommunications platform ensuring access for all of the Bank's staff to the IT systems of the new institution. One of the tasks posed in this field was to integrate the telecommunications networks of the two banks. In order to separate the public address resources of the former Bank Handlowy within the structures of the Citicorp network, a firewall was installed at the interface of the two networks.

The central area of work in 2001 was the IT integration of the two systems. A month after the official merger, an interoffice settlement function was implemented within the IT systems in operation. Due to the withdrawal from operation of the Profile system in the Retail Banking Division, the remaining systems (Ibis and Promak) were adapted to run in conjunction with Sytematics.

Another important undertaking during the reporting period was the major overhaul of the WAN/LAN telecommunications infrastructure at the Settlement Centre in Olsztyn. This was made necessary by the continuing work on constructing an operational processing centre for interbank settlements, supporting all of the Bank's offices and units. The Bank's systems were adapted to correspond to the requirements of centralising the processing of domestic and international transfers by means of scanning customer transfer orders at branch offices and their subsequent processing at the Settlement Centre in Olsztyn.

During the year, the Bank finalised the conversion to the euro of accounts held in the national component currencies (the "IN" currencies). In the framework of the "Euro project", accounts in the single currency were opened automatically for those customers holding accounts in the IN currencies, yet not holding euro accounts. Software was developed to allow the successive and automatic conversion to the euro of these customer accounts (deposits).

A key task for the Bank was the implementation of the new Flexcube IT system, which replaced the IBBS system, operated at the former CPSA. In parallel with the work being conducted on implementation and on data conversion from IBBS to Flexcube, intensive efforts were made to carry out the conversion to Flexcube from the Bank's other accounting system, Ibis. Special software was written for this purpose, and appropriate procedures were developed for the conversion itself and for validation of the conversion process. The work involved here also included developing an interface to integrate the Goniec electronic banking system with Flexcube and to allow reports generated within Flexcube to be delivered under the COOL system, used to store report archives. As of December 1, the Flexcube system was brought on stream in the Bank's Wroclaw region, which had previously been running Ibis, the basic IT platform for the corporate banking area within Bank Handlowy prior to the merger. Completion of Flexcube implementation at all the Bank's branches and at Head Office, signifying the transition to a single IT platform throughout the entire Bank, is projected to take place in October 2002.

VIII. CHANGES IN MANAGEMENT FRAMEWORK

As of the beginning of February 2001, the Bank has been operating within a new organisational structure that has been adjusted to reflect the existing division of the Bank's activity into commercial and retail business, and which also provides for support functions related to the Bank in its entirety.
The new organisational structure of Bank Handlowy is based on three sectors:

- **Commercial and Investment Banking**
  comprising the divisions and departments involved in servicing business organisations and other institutional customers (customer service management, products, loans, operations and technology);
- **Retail Banking**
  comprising the divisions and departments involved in servicing personal customers (distribution, marketing, loans, operations and technology, financial control, direct sales and Citiphone);
- **Management and Support**
  responsible for providing both front office sectors with the uniform level of support necessary for them to function properly. This sector comprises personnel management, legal support, financial control, and other support departments (including internal audit, property management and compliance monitoring).

The changes made to the Bank's organisational structure are designed to promote the Bank's future development and ensure the performance of the business strategy adopted. In addition, these changes are intended to assist the Bank's operations on new segments of the market, increase the efficiency of customer service, and enable the Bank to offer its customers a modern and comprehensive range of products.

IX. INFORMATION ON MEMBERS OF MANAGEMENT AND THE SUPERVISORY BOARD

1. Changes in the composition of management and the Supervisory Board in 2001

At December 31, 2001, the Supervisory Board of Bank Handlowy w Warszawie SA comprised:

Mr Stanisław Sołtysiński	Chairman
Mr Jean Paul Votron	Deputy Chairman
Mr Goran Coolert	Member
Mr Heinrich Focke	Member
Mr Krzysztof Grabowski	Member
Mr Mirosław Gryszka	Member
Mr Allan Hirst	Member
Mr Krzysztof Opawski	Member
Mr Ryszard Pessel	Member
Mr Carlos Urrutia	Member
Mr Edward Walsh	Member
Mr Ryszard Wierzba	Member

Pursuant to resolutions adopted by the Ordinary General Meeting of Shareholders on June 25, 2001, the following changes had previously been made to the composition of the Bank's Supervisory Board:

- the following members were recalled: Mr Dinyar Devitre,
Mr Jacek Michalski,
Mr Dipak Rastogi,
Mr Aamir Zahidi,

- the following members were appointed: Mr Allan Hirst,
Mr Carlos Urrutia,
Mr Jean Paul Votron,
Mr Edward Walsh.

At December 31, 2001, the Management Board of Bank Handlowy w Warszawie SA comprised:

Mr Cezary Stypułkowski	President
Mr Shirish Apte	Vice President
Mr Wiesław Kalinowski	Vice President
Mr Philip King	Vice President
Mr Witold Walkowiak	Vice President
Mr Edward Ward	Vice President

Pursuant to resolutions adopted by the Supervisory Board, the following changes had previously been made to the composition of the Bank's Management Board:

- on March 29, 2001:
  - Mr Shirish Apte was appointed Vice President of the Bank as of March 29, 2001,
  - Mr Antoni Sala was recalled as Vice President of the Bank as of June 25, 2001,
  - Mr Marek Oleś was recalled as Vice President of the Bank as of June 30, 2001,
- on June 25, 2001:
  - Mr Richard Jackson was recalled as Vice President of the Bank as of June 25, 2001,
- on September 25, 2001:
  - Mr Witold Walkowiak was appointed Vice President and Chief Financial Officer of the Bank as of September 25, 2001,
  - Mr Artur Nieradko was recalled as Vice President of the Bank as of September 25, 2001,
- on December 4, 2001:
  - Mr Raymond Lim was recalled as Vice President of the Bank as of December 4, 2001,
  - Mr Philip King was appointed Vice President of the Bank as of December 4, 2001.

Mr Sarwar Iqbal holds the post of Executive Director at the Bank responsible for the IT and Operations Division, whiel Mr Artur Nieradko holds the post of Executive Director repsonsible for the equity investment portfolio.

2. Total salaries and bonuses of members of management and the Supervisory Board, and salaries and bonuses received for posts held in the directing bodies of subsidiary and associated undertakings

In 2001, the total compensation paid to members of the Bank's Management Board and Executive Directors, and to members of the Supervisory Board, as consideration for posts held in the Bank's directing bodies and in those of the Bank's subsidiary and associated undertakings, was as follows:

- compensation to members of management 6,862.0 thousand zloty
- compensation to members of the Supervisory Board 476.4 thousand zloty.

3. Outstanding advance payments, loans, advances, guarantees and endorsements provided by the Bank to members of management and the Supervisory Board

At December 31, 2001, the total amounts outstanding under guarantees and endorsements extended by the Bank referred solely to members of management, i.e., members of the Management Board and Executive Directors, and amounted to 519 thousand zloty. The advance payments made by the Bank to members of management stood at 2 thousand zloty.

4. Total number and par value of all shares in the Bank and in other undertakings belonging to the Bank's group of companies held by members of management and the Supervisory Board

The total number of shares in Bank Handlowy w Warszawie SA stands at 107,577,100, each with a par value of 4 zloty. The par value of all shares in the Bank thus amounts to 430,308,400 zloty.

At December 31, 2001, shares in Bank Handlowy w Warszawie SA were held solely by Mr Cezary Stypułkowski, the President of the Bank, these comprising 5,259 shares with a par value of 21.04 thousand zloty.

X. SIGNIFICANT RISK FACTORS RELATED TO THE BANK'S ENVIRONMENT AND OPERATIONS

1. RISK FACTORS RELATED TO THE ENVIRONMENT

The economy

The Bank's forecasts for the Polish economy project a gradual improvement from the third quarter of 2002 onwards, and a return to 4% GDP growth in subsequent years. GDP growth should be fuelled by an increase in domestic demand and in exports. At the same time, inflation should come down on a lasting basis, and annualised average price growth should not exceed 5%. With inflation running low, official interest rates can be expected to be cut, thereby giving additional impetus to business activity and loan demand. The stabilisation of the economy should trigger a further inflow of foreign investment, primarily direct investment. The years ahead should see the further development of investment and pension funds, which will act as a powerful stimulus to the development and stabilisation of the capital and money markets. These processes should be accompanied by rising demand for financial services.

The situation of the banking industry in Poland, and thus also the financial condition of the Bank, is integrally linked to the overall state of the national economy, and also to the conditions prevailing on local and regional markets within the country. Poland's economic situation is a function of numerous factors, such as GDP growth, inflation, wage levels, unemployment, interest rates, performance in foreign trade and the current balance, the size of the government deficit and movements in exchange rates, and also demographic conditions. Any unfavourable changes in these macroeconomic factors, particularly any rise in inflation (implying heightening investment uncertainty) or in the current account deficit, or any significantly negative movements in interest or exchange rates, or a substantial fall in foreign direct investment, could have an adverse effect on the earnings and overall financial condition of the Bank's group of companies. It should also be noted in this regard that lower interest rates, in both nominal and real terms, will promote customer interest in savings vehicles that function as alternatives to bank deposits.

Macroeconomic policies and the measures taken by government institutions exert a major impact on the national economy, and also – directly or indirectly – on the Bank's financial performance. In this connection, it cannot be excluded that future political decisions could have an adverse effect on the Bank's financial situation.

Regulatory risks

Any changes in economic policies or in the legal system could have a considerable effect on the Bank's financial condition. In terms of banking sector regulation, a particularly important role is played by statute law, and also by the implementing regulations issued by the Minister of Finance, the resolutions of the NBP Management Board and the regulations issued by the President of the NBP, and by the resolutions of the Commission for Banking Supervision.

In terms of the regulations mentioned above, those of key significance include provisions concerning large exposure limits (included in the Banking Act), the ceiling on capital holdings, measured by reference to the capital base (the Banking Act), liquidity and credit risk standards (resolutions of the Commission for Banking Supervision), calculating and meeting reserve requirements (the Act on the NBP, and resolutions of both the Monetary Policy Council and the NBP Management Board), and specific provisioning against irregular assets (the Accounting Act and ordinances issued by the Minister of Finance), and also regulations on taxation and similar charges.

The reforms associated with Poland's accession to the European Union that will most probably be carried out in the coming years are expected to bring about serious changes in the domestic economy that could affect the Bank's operations, financial condition, earnings and growth prospects. Poland is currently bringing its legal regulations into line with those in force in the European Union. As of October 2002, Polish citizens are to gain full access to financial services provided by EU financial institutions. This could cause a certain decrease in the interest shown in services offered by domestic banks, including Bank Handlowy.

Polish legislation contains provisions that govern capital flows and transfers to and from Poland. While these provisions do not at present restrict the possibility of transferring dividends and other income, such restrictions could be introduced in the event of major economic problems.

Taxation

Poland's tax system is subject to frequent change, many regulations have not been drawn up with sufficient precision, and clear interpretative rulings on those regulations are lacking. The interpretation of tax regulations alters frequently, and there is no uniformity in the practice of the tax authorities or in the rulings of the courts on matters of taxation. Compared to a more stable tax regime, this divergence of interpretation with respect to tax regulations generates greater risk that the operations of a Polish bank and the manner in which these are reported in tax declarations and returns could be judged to be in breach of those regulations.

One aspect of the inadequate precision that marks Polish tax regulations is that there is no provision for formal procedures constituting final verification of the accuracy with which tax liabilities have been calculated for a given period. Tax declarations and the amount of tax actually paid may be reviewed by the tax authorities for a period of five years subsequent to the event. Were the tax authorities to adopt an interpretation of tax regulations differing from that assumed by Bank Handlowy, this could have a material adverse effect on the operations of Bank Handlowy, its financial condition, earnings and growth prospects.

The taxation of certain capital gains introduced in November 2001, which in particular includes bank deposit interest, could lead to a reduction in the household propensity to save in the form of bank deposits. Should this happen, this will have an adverse effect on the operations of the Bank and its financial performance.

Competition within the banking sector

Mounting competition is observable on the Polish banking market between banks active in particular segments of that market. Competition is set to sharpen for the accounts of large corporate customers and municipal authorities. As the banks develop organisationally and technologically, competition will also step up in the retail and small business sectors.

Many international financial institutions have been investing in the Polish banking industry. In addition, corporates are making use of financing alternatives to bank loans, such as commercial paper, bonds, equity issues or lease finance. There is a strong likelihood that the increase in foreign investment in the banking sector, coupled with the consolidations taking place in that sector, will result in fiercer competition on the banking market.

The progressive integration of Poland with the European Union will strongly expose the Polish banking industry to competition from foreign institutions, particularly in such segments of the market as foreign exchange operations, foreign trade settlement and investment banking.

The growing level of competition within the banking sector could have an adverse effect on the Bank's operations.

2. RISK FACTORS RELATED TO OPERATIONS

Liquidity risk

Maturity mismatches between loans and the deposits that fund them are a typical aspect of banking activity, and these occur at the Bank as well. They could give rise to potential problems for current liquidity were there to be a buildup of large payments to customers. The management of the Bank's assets and liabilities, including the regulation and control of liquidity risk, is the responsibility of the ALCO Committee, which maps out a strategy then implemented by the Treasury Department. There is no certainty, however, that the persistence of maturity mismatches will not have an adverse effect on the Bank's financial condition in the future.

The Bank's deposit base is stable, diversified and trending upwards. In addition, the Bank has good access to interbank funding and adequate capital. The level of liquidity risk is thus low.

Foreign exchange risk

The Bank performs foreign exchange operations both on behalf of its customers and for its own account, and holds open FX positions within established limits. As a result, the Bank is exposed to exchange rate risk, and there is no certainty that future movements in exchange rates will not have an adverse effect on the Bank's financial condition. The control of foreign exchange risk is the responsibility of the Market Risk Department, which cooperates in this area with the Treasury Department. The level of foreign exchange risk is moderate, mainly due to the large scale of operations transacted, particularly in derivatives. Open FX positions do not generally exceed 10% of the capital base.

Interest rate risk

As is the case with other Polish banks, the Bank is exposed to mismatch risk regarding the repricing of its assets and the liabilities that support them. Interest rate risk can arise where it proves impossible to offset the fall in income caused by lower rates of interest on loans through a corresponding reduction in the rates of interest paid to depositors. This risk also applies to situations where a rise in deposit rates cannot be offset by a corresponding rise in lending rates. The management of interest rate risk is one of the functions of the Bank's ALCO Committee, which – among other things – determines principles for provisioning against various financial risks being incurred and develops the Bank's pricing policies in terms of interest rate risk. There is no certainty that future interest rate movements will not have an adverse effect on the Bank's financial condition. The present level of interest rate risk is low.

Equity investment risk

Decisions concerning the Bank' equity investments are taken by the Management Board and the Capital Investments Committee. The Bank's equity interests are divided into three categories: active investments, strategic investments and restructured investments. Active investments are intended to ensure a high rate of return. The strategic investment portfolio is composed of the Bank's equity holdings in subsidiary and associated financial institutions that are of strategic significance to the Bank in terms of the operations it conducts. Finally, restructured investments are those derived from debt-for equity swaps. Investments in equity are carried out either directly by the Bank or by the Bank's investment companies (which are wholly-owned subsidiaries). In the case of some of these equity holdings, their valuation is based on the assumption that a strategic investor can be found for the company concerned. For this reason, the maintenance of a high level of foreign investment in Poland may be crucial to the valuation of those holdings. In addition, due to various macroeconomic developments, the situation on the capital market and other factors impacting the operations of the companies in which the Bank has an equity interest, the realisable value of the holdings in question may prove lower than expected, or even lower than their carrying value in the Bank's accounts, which could have an unfavourable effect on the pricing of the Bank's own shares. The level of equity investment risk is moderate.

Risk elements in lending

The conduct of business involving the extension of loans and guarantees is inextricably connected with the risk of payment delinquency (in terms of both loan principal and interest), and also with the risk that the asset represented by an outstanding loan or funded guarantee will prove impossible to recover. The Bank monitors its risk assets on an ongoing basis, classifies them in accordance with the relevant regulations laid down by the NBP, and establishes all the requisite specific provisions against loans classified irregular. Nevertheless, given the possibility of changes in the external environment, such as a deterioration in the overall economy or the emergence of other factors that could have a negative impact on the Bank's customers, there is no certainty that in the future the need to provision adequately against the existing asset portfolio will not have an adverse effect on the Bank's financial condition, or that the provisions and collateral in place will prove sufficient to absorb the losses possibly arising on lending activity. The present level of credit risk is moderate.

Legal risk

The Bank is a subsidiary undertaking of Citibank N.A., which belongs to the Citigroup group of companies. In order for the Bank's majority shareholder to be able to control the risk inherent in its operations properly, on a global scale, and also to maintain compliance with the American regulations which it is governed by, the Bank must ensure the compliance of its own regulations and activity with the standards set by Citibank and with the relevant regulations applicable to Citibank and Citigroup. One issue in particular is that the technical support centre for retail banking is located in Singapore. Certain operational questions that arise in the context of relations with strategic investors and the outsourcing of data processing are not always addressed with sufficient clarity in Polish law. This gives rise to legal risk, which the Bank mitigates by conducting detailed legal analyses.

Contributions to the Bank Guarantee Fund

Pursuant to the Act on the Bank Guarantee Fund, the Bank is included in a mandatory deposit protection scheme for personal deposits. Banks included in this scheme are required to make specified payments to the Fund.

Due to the generally worsening situation within the banking sector, or the failure or financial distress of one of the participating institutions, it might prove necessary for the Bank and other participants in the Bank Guarantee Fund to make large payments to the Fund, in proportion to the sums held within the individual deposit protection funds established at given institutions. This could have negative repercussions for the Bank's earnings.

XI. PROSPECTS FOR BUSINESS DEVELOPMENT

General development objectives

The Bank's objective is to increase shareholder value by ensuring an appropriate return on equity and maximising the value of the institution and its business relationships. Thanks to the merger of Bank Handlowy w Warszawie SA and Citibank (Poland) SA, the coming years offer an opportunity to achieve substantial economies in the Bank's operations, particularly in the area of corporate banking. At the same time, the Bank's involvement in Citigroup, the largest financial institution internationally, will allow the Bank to compete effectively in all market segments and to gain new groups of customers.

Following the merger with CPSA, the Bank has customers in all segments of the market. The Bank's intention is to preserve the customer base "inherited" through the merger and to be active in seeking new customers. The Bank's size, know-how and technology give it a competitive edge in all parts of the banking market.

In the medium term, the Bank will be striving for a market share in double figures, as measured by its share in the net income from banking activity generated by the whole banking industry. In 2001, this share stood at 8%. This increase in market share is to be attained by maintaining the Bank's leading position in servicing international corporations and large domestic companies, and also in Treasury operations, by strengthening its position in servicing financial institutions and government, by developing services for small and medium enterprises, by securing a dominant position among the highest income personal customers (private banking), by gaining a strong position among medium-to-high income customers, and by putting in place loan facilities for customers with below-average incomes.

Services to corporate and institutional customers

The Bank is one of the leaders in corporate banking. It is the bank of first choice for international corporations and for the very largest Polish companies. It is also the preferred partner for large domestic firms and financial institutions. Moreover, it is the foremost institution in handling money market and foreign exchange transactions. The Bank's goal is to retain its present market share in these areas and to achieve a double-digit share of the remaining segments of the corporate and institutional market within a time frame of three years. The Bank is servicing its corporate customers under the name of Bank Handlowy.

In developing relationships with the largest customers, the Bank has the powerful advantage of being part of Citigroup. The Bank will be able to accommodate the financial needs of these customers by offering unique services that blend its own knowledge of the domestic business environment with the international experience and global reach of Citigroup.

A key product in maintaining customer relations will be loan facilities, although the greater part of the income streams generated here will come from funds management, servicing foreign trade and Treasury products. The solutions and innovations applied in these product categories will constitute the core of the Bank's competitive advantage, especially in the business it conducts with the most demanding international customers, leading domestic corporates and financial institutions. The Bank will also strive to further improve its already strong position in the medium and small companies segment through intensifying its use of such innovative products.

The Bank has also commenced active marketing of its services to the small business sector. These customers are serviced through the branch network and via remote delivery channels.

Investment banking services are to be made available through close cooperation between Bank Handlowy and Citigroup Investment Banking (currently "SSSB"). This will allow the performance of large-scale international transactions to be combined with services to smaller domestic companies.

The year 2002 is to see the completion of the implementation of the Flexcube IT system and of the centralisation of operations. This will permit the quality of operations to be upgraded and ongoing overheads to be reduced.

Retail banking

At year end 2001, the Bank was a medium-sized player in retail banking, yet with a particularly strong position in credit cards and in servicing customers with the highest net worth (private banking). The retail banking market is considered to possess high growth potential. Over the next three years, the Bank plans to double its market share here. The Bank's target aim is to capture a double-digit share of the market. In retail, the Bank is operating under the Citibank brand.
The Bank's goal is to strengthen its position among the highest income customers. Its CitiGold product line, in addition to traditional deposit and loan products, will include comprehensive asset management and financial consultancy services that also encompass individual Treasury products, standardised and customised asset management strategies, term investment vehicles, brokerage services, and both personal and investment-linked insurance.

The basic product offered to personal customers (outside the CitiGold line) will be the CitiKonto interest-bearing current account. The key benefits of this account will be low interest overdraft lines and easy-to-use, fully functional direct debits. In addition, an Internet banking facility will be available free of charge. The Bank will also be developing sales of units in investment funds and brokerage services based on an "Investor Package". The product range will be expanded in 2002 to include sales of insurance products.

The Bank will be seeking to maintain its strong position in credit cards, where it is currently the unquestioned leader. New types of card will be made available and affinity programmes introduced. A new programme of instalment loans and cash advances will be launched in 2002 for personal customers.

The key to successfully winning new customers will be for the Bank to offer services of the highest standard. With a view to occupying a front-rank position in terms of customer satisfaction, comprehensive quality controls are being performed of customer service and changes to existing processes. The process of implementing high quality assurance standards is to be completed in the first half of 2002.

Distribution network

The development of the Bank's distribution network will factor in the need to increase the scale of activity on the retail banking market and the synergies available with its corporate banking services. In all, the Bank will have its disposal 170 offices and customer service outlets, an extensive staff of corporate relationship managers and a network of retail direct sales agents, coupled with remote delivery channels such as Internet banking, direct banking, call centres, automatic response telephone services (IVR) and multipurpose ATMs.

Aside from cases where their sites overlap, the existing Citibank offices will be maintained and adapted for sales of a wider product range and for services to small businesses. Citibank customers will be able to use some 100 well-located branch offices and 10 CitiGold branches. Facilities for personal customers will also be in place at selected corporate banking offices. The corporate banking function will based on 30 branches and 34 sub-branch offices. Small businesses will be serviced at all Citibank and corporate banking branches. In the case of corporate and CitiGold customers, the mainstay of the distribution network will be relationship managers.

Internet access to Citibank will continue to be upgraded. The implementation of a new solution in this area, Citibank Online, will enhance the functionality of Internet banking. In the longer time frame, Internet access will also be provided to brokerage accounts operated under the "Investor Package". Corporates and institutional customers will be able to use the CitiDirect electronic banking platform. The Bank's goal over the next two years is for electronic transactions to account for 90% of all transactions within this group of customers.

High functionality and high quality parameters are to be ensured for call centre access. For personal customers and small businesses, these services will be integrated at one call centre, with a single access number. This centre will handle personal CitiKonto customers, small businesses, CitiConnect, and the brokerage services of DM BH, and will provide a general helpline. Telephone services to large and medium companies and institutional customers will remain partly decentralised, at the level of branches and sub-branch offices.

Synergies

Wide-ranging experience and diverse operations provide Bank Handlowy with strong competitive leverage and allow it to offer customers comprehensive solutions by taking advantage of the opportunities afforded by synergies between corporate and retail banking, between banking services and asset management, and between banking products and insurance.

Packages of deposit and loan products for company staff will be available to the largest corporate customers. A typical package of this kind will include personal current accounts together with payroll support facilities, credit cards, mortgage loans and cash advances. In addition to pricing incentives, in justified cases the Bank will be prepared to install an ATM on site at the company or open an office there.

The Bank will also be marketing corporate products to its retail customers. This especially applies to CitiGold customers, who will be offered specialist Treasury products, brokerage services and asset management facilities. All Citibank customers will have access to investment products, in particular including units in investment funds operated by TFI

Kapital Handlowy. In the framework of collaboration between the Treasury Department and the Handlowy Zarzadzanie Aktywami asset management company, there are plans to launch an investment fund for retail customers focussing on units in investment funds of corporate debt securities.

A special product line is to be developed in 2002 for self-employed professionals, to be provided within the services offered to small businesses. These customers will be offered a product package that includes two interconnected accounts, a business account and a Citibank personal account. Thanks to this, the customers in question will gain access to the full product range of both Bank Handlowy and Citibank, while all transactions between the two accounts will be simplified and cheaper.

Completing the process of merging Bank Handlowy w Warszawie SA and Citibank (Poland) SA will make it possible to obtain a number of synergies at the level of support and service functions. This in particular refers to such areas as financial control, strategy, legal support, public relations and human resource management.

Signatures of all members of the Management Board

Date	name	post held	signature
25.03.2002	Cezary Stypułkowski	President	
25.03.2002	Shirish Apte	Vice President	
25.03.2002	Wiesław Kalinowski	Vice President	
25.03.2002	Philip King	Vice President	
25.03.2002	Witold Walkowiak	Vice President	
25.03.2002	Edward Brendan Ward	Vice President	