REPORT ON OPERATIONS OF

BANK HANDLOWY W WARSZAWIE SA

IN 2002

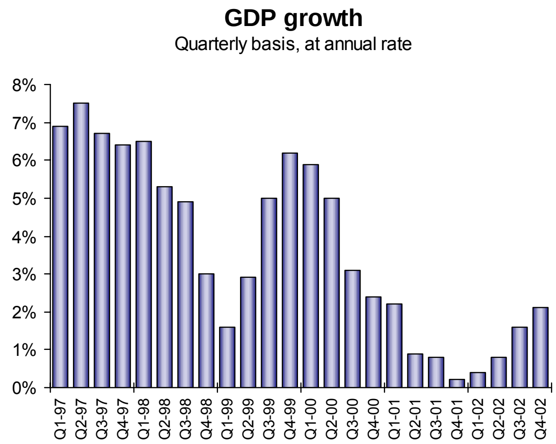
CONTENTS

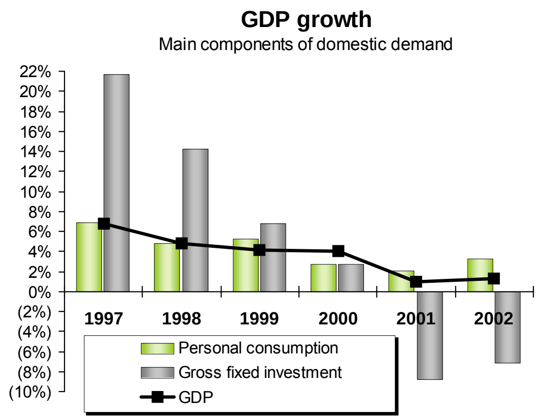
I. THE POLISH ECONOMY IN 2002 3
1. MAIN MACROECONOMIC TRENDS 3
2. THE MONEY AND FX MARKETS 5
3. THE EQUITY MARKET 6
4. THE BANKING SECTOR 7
II. FINANCIAL RESULTS OF BANK HANDLOWY W WARSZAWIE SA 9
1. SYNTHETIC FINANCIAL DATA FOR THE LAST YEARS 9
2. BANK'S FINANCIAL RESULTS IN 2002 9
3. SHAREHOLDERS HOLDING A MINIMUM 5% OF THE BANK'S AUTHORISED CAPITAL AND OF TOTAL VOTING RIGHTS AT THE GENERAL MEETING OF SHAREHOLDERS 19
III. OPERATIONS 20
1. LENDING AND OTHER RISK EXPOSURES 20
2. EXTERNAL FUNDING 25
3. CASH MANAGEMENT 26
4. TRADE FINANCE 27
5. FX AND MONEY MARKET ACTIVITY 28
6. COMMERCIAL PAPER ORIGINATION 29
7. SMALL ENTERPRISE BANKING 30
8. EQUITY INVESTMENTS 30
9. BROKERAGE AND CAPITAL MARKET ACTIVITY 31
10. CUSTODY SERVICES 32
11. AGENCY SERVICES 34
12. CO-OPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS 34
13. CONSUMER BANKING 35
14. ASSET MANAGEMENT AND INVESTMENT FUNDS 38
15. PENSION FUNDS 39
IV. OTHER INFORMATION 40
1. RATING 40
2. THE BANK'S SHARE PERFORMANCE ON THE WARSAW STOCK EXCHANGE 41
3. VISUAL IDENTIFICATION 41
V. EXPANSION OF THE BANK'S PRODUCT RANGE AND CHANGES IN IT TECHNOLOGY 41
1. PRODUCT RANGE 41
2. IT SYSTEMS 43
VI. MAJOR RISK FACTORS RELATING TO THE BANK'S ENVIRONMENT AND OPERATIONS 44
1. ENVIRONMENTAL RISK 44
2. OPERATIONAL RISK 46
VII. PROSPECTS FOR THE BANK'S BUSINESS DEVELOPMENT 48
1. GENERAL OBJECTIVES OF THE BANK'S DEVELOPMENT 48
2. BANKING SERVICES TO CORPORATE AND INSTITUTIONAL CUSTOMERS 49
3. RETAIL BANKING 50
4. DISTRIBUTION NETWORK 51
5. SYNERGIES 51

I. The Polish economy in 2002

1. Main macroeconomic trends

In 2002, the Polish economy was marred by stagnation resulting from very slow abating of recession symptoms in the country and abroad. As a result, the growth of the Polish economy was not much faster than in the previous year. The gross domestic product grew, in real terms, by 1.3% against 1.0% in 2001. In the second half of the year, the growth of economic activity accelerated significantly – in 3Q and 4Q the GDP grew by 1.6% and estimated 2.2% over the corresponding quarters of the previous year, as compared with 0.4% and 0.8% growth in 1Q and 2Q respectively – which can be viewed as a symptom of overcoming the stagnation tendencies.



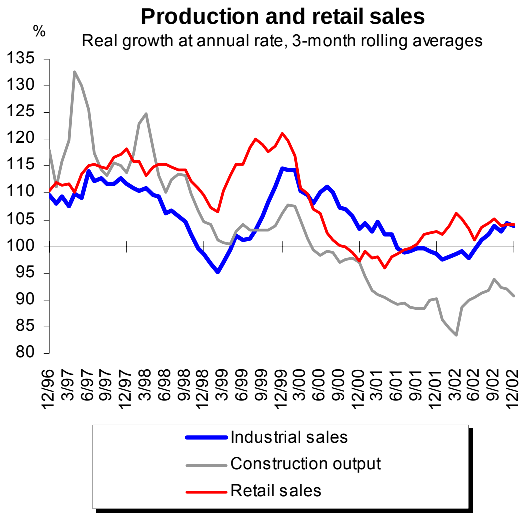


As in 2001, the slow growth resulted, first and foremost, from a contraction of investment spending. Gross accumulation decreased by 7.3% and gross fixed investment fell similarly. In view of the negative dynamics of investment spending, the main sources for maintenance of economic growth in 2002 were consumption and exports. Total consumption spending grew by 2.9%, while personal consumption rose by 3.3% against 1.7% and 2.0%, respectively, in 2001.

Recessionary tendencies in the industrial sector were counteracted only in the second half of 2002. In the first half of the year, the industrial output was still in red (-1.0%, y-o-y), whereas from the 3Q on, the production growth picked up, and due to the acceleration in the 4Q the growth of industrial output reached 1.5% in full year 2002. This was mainly due to strongly growing output of the manufacturing industry (growth by 2.1%). The construction sector continued to suffer as production fell by 10.5%, which was similar to last year's figures.

The slow economic growth connected with demographic changes did not allow any reduction of unemployment. However, the rate of registered unemployment grew slower than in 2001 – in December 2002 it reached 18.1%, 0.6% more than in the previous year. The number of registered unemployed grew by nearly 120 thousand to reach 3.2 million people. On the other hand, the unemployment rate calculated in accordance with the International Labour Organization and Eurostat methodology stood at 19,7% at the end of 2002 as against 18,5% at the end of 2001. The restructuring processes within the industries resulted in an accelerated decrease in employment in the corporate sector.

In spite of the economic stagnation in the EU countries, in particular in Germany, where GDP growth in 2002 was as little as 0.2%, the foreign trade volume grew in comparison with the previous year. Exports, on payment terms, grew by 9.0% (7.1% in 2001) and imports by 3.2% (1.3% in 2001), as expressed in USD. This resulted partially from favourable FX rate developments (strong depreciation of the dollar versus the euro in 2002), but also from the growth of competitiveness of Polish exports in consequence of restructuring of the Polish economy in the 90s.



The export growth outpacing that of imports helped to reduce the negative trade balance and consequently – the current account deficit by USD 432 million to USD 6.7 billion, i.e. down to 3.6% of the GDP from 3.9% in 2001. However, the structure of the current account deficit financing deteriorated; while in 2001 it was financed 97% with an influx of foreign direct investment, in 2002, due to slower influx of those investments resulting from week growth and a drastic curbing of privatisation – the share of direct investments financing went down to 55%.

Official reserves grew in 2002 by USD 3.2 billion in comparison to 2001, reaching at the end of the year USD 29.8 billion. The reserves were 7.4 times higher than the average monthly import volume in 2002, i.e. at a very safe level.

In 2002, the inflation pressure abated significantly. The consumer price index growth fell to 0.8% y-o-y in December 2002, from 3.6% in December 2001, i.e. much below the revised inflation target of the central bank (2-4%). The average growth of consumer prices was 1.9% in 2002 against 5.5% in 2001. The prices of industrial production (as measured by PPI) grew by 2.2% from December 2001 to December 2002, and by 1.0% on average, as against 1.6% and minus 0.3%, respectively, in 2001. The inflation drop resulted from positive supply shocks (fuels, food) and low demand pressure. The low pay rise pressure also contributed to the curbing of inflation. The average annual wage growth in the corporate sector was nominally 3.4% in 2002, i.e. approximately 1.5% in real terms. Changes in monetary aggregates in 2002 did not translate into inflation drivers. M3 money supply fell by 2.3% (M2 by 1.6%).

In 2002, the state budget was under control. The central government budget deficit reached PLN 39.4 billion, i.e. 98.8% of the plan. In relation to the GDP, the deficit grew to 5.1% from 4.3% in 2001. The deficit of the public finance sector grew to approximately 6.7% from 5.0% in 2001.

BASIC MACROECONOMIC INDICATORS

	2002	2001	2000	Change 2002/2001
	% change on the previous year			
GDP (real growth)	1.3	1.0	4.0	0.3
Personal consumption	3.3	2.0	2.7	1.3
Gross fixed investment	(7.2)	(8.8)	2.7	(1.6)
Industrial output (real growth)	1.5	(0.1)	6.7	1.6
Unemployment rate (%, as of December)	18.1	17.4	15.1	0.7
Inflation	**December/December**			
Consumer price index (CPI)	100.8	103.6	108.5	2.8
Producer price index (PPI)	102.2	101.6	105.7	0.6
	% of the GDP			
Budget deficit	5.1	4.3	2.2	0.8
Current account deficit	3.6	3.9	6.0	(0.3)
	in USD million			
Export of goods	32 998	30 275	28 255	9.0%
Import of goods	43 292	41 950	41 423	3.2%
Trade balance	(10 294)	(11 675)	(13 168)	(11.8)%
Current account balance	(6 734)	(7 166)	(9 952)	(6.0)%

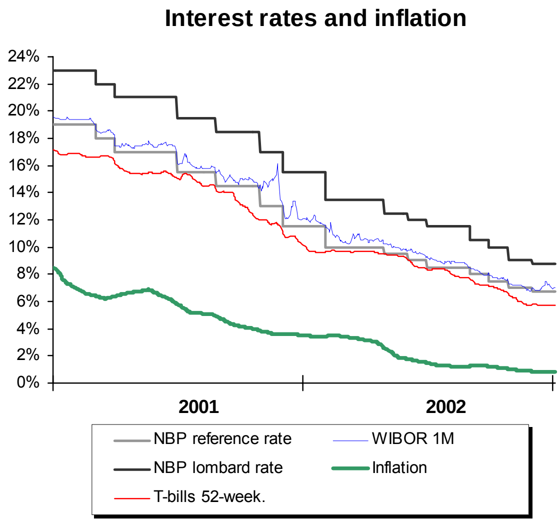
2. The money and FX markets

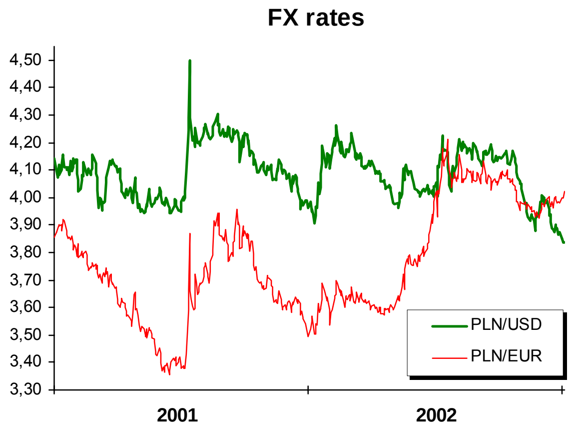
In view of the strong reduction of inflation pressures and the feeble economic growth, the National Bank of Poland ("NBP") continued the cycle of easing of the monetary policy. In 2002, the Monetary Policy Council cut the basic interest rates seven times; the total reduction was from 4.75 pp (in the case of the reference rate) to 6.75 pp. (for the lombard rate). At the end of 2002, the lombard rate was 8.75%, the rediscounting rate was 7.50%, and the rate for 28-day open market operation (the so-called reference rate) was 6.75%.

In spite of the significant reduction of nominal interest rates, their real level – due to the fall of inflation – was still high, especially in the 2nd half of the year, in comparison to other economies with similar investment risk, which in conjunction with successful completion of accession negotiations, bringing Poland closer to the European Union, contributed to a strong influx of foreign portfolio capital into Poland's financial market, especially to the debt securities market.

The consequence of the reduction of base rates and the sustained expectations of further cuts were rate reductions on the interbank market. The WIBOR declined by nearly 6 percentage points for the shortest rates (O/N, T/N) and by 4.5 percentage points for 1-year rates. The market rates were also under the influence of liquidity-absorbing open market operations carried out by the central bank. The main forms of said operations were basic operations, i.e. tenders for NBP's 28-day money bills performed regularly once a week. In 2002, the balance of those operations decreased significantly (the value of bills sold was PLN 140.5 billion against PLN 204.5 billion in 2001), which indicates reduction, in the operating scale, of the sector's excess liquidity. Apart from the basic operations, the NBP also performed structural operations, i.e. outright sale of converted treasury bills in order to regulate the liquidity of the banking sector in the long run. In 2002, the value of bonds offered to banks was PLN 14 billion against PLN 15.6 billion in 2001.

As in 2001, the relatively high level of real interest rates and expectations of reductions of basic rates were the main stimuli of the exceptionally keen interest in the debt securities market in 2002. In recent months that interest was additionally stimulated by expectations of convergence related to the ever-closer perspective of Poland's accession to the EU. In consequence, the demand for T-bills on the primary market reached the record-breaking level of PLN 145.8 billion and was, on average, 3 times higher than the value of the bills offered, which resulted in strengthened prices and a reduction of profitability. Profitability of the 52-week bills, dominant in supply, decreased in 2002 by over 5 percentage points. The strong downward trend in profitability remained also on the secondary T-bill and bond market.

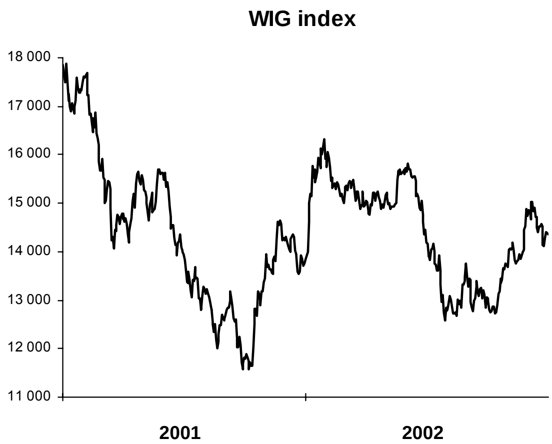


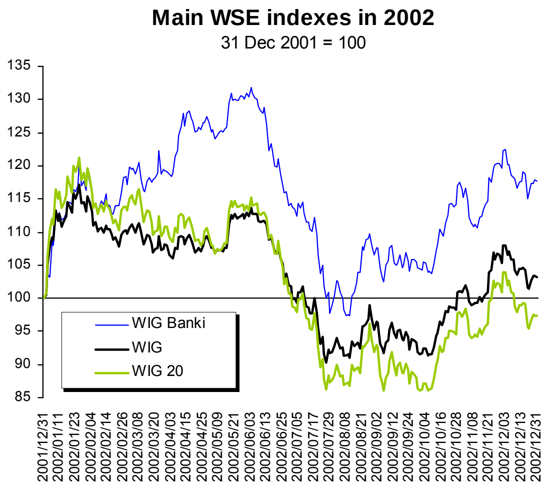


The situation on the Polish currency market was shaped in 2002 by flows of foreign capital, in particular by the influx of portfolio capital to the debt securities market. Consequently, the average nominal PLN to USD exchange rate – 4.0795 PLN/USD – was close to previous year's level (4.0939 PLN/USD). The average PLN/EUR exchange rate grew to 3.8557 PLN/EUR from 3.6685 PLN/EUR, the zloty thus weakened nominally against the euro by 5% under the influence of appreciation in 2002 of the euro against the dollar on foreign currency markets by nearly 6%. A more profound weakening of the zloty was seen at the beginning of July, resulting from an unexpected resignation of the minister of finance, Mr Marek Belka. The appreciation of the zloty was especially evident in the last quarter of 2002 as a result of a wave of foreign portfolio investments, discounting Poland's soon-to-be membership in the European Union.

3. The equity market

2002 was not a good year for stock investors. The promising growing trend in prices of shares quoted on the Warsaw Stock Exchange ("WGPW"), which was intensified in the 4Q2001 based on expectations of economic recovery, was stopped in the 1st half of 2002 and the market turned bearish in the 3Q. This resulted mainly from poor financial results of the quoted companies and a general weakening of the hope for quick improvement of the economic situation in both the country and abroad. Based on publication of optimistic macroeconomic data, in particular referring to growth of industrial output and retail sales, prices went up in the last months of the year.





As a result, the main exchange index, the WIG, grew from 13,922 points at the end of 2001 to 14,367 points at the end of 2002, i.e. by 3.2%. This was possible due to increases in foodstuffs and bank shares, as reflected by growth of sector sub-indexes, WIG-SPOŻYW and WIG-BANKI, by 29.4% and 17.8%, respectively. On the other hand, shares of telecommunications companies suffered the largest price drops, by 33.4% on average.

2002 was the second year in a row when the exchange saw a significant drop in activity. The total value of transactions performed in 2002 on the stock market was PLN 67.5 billion against PLN 84.5 billion in 2001 (a drop by 20.1%). At the same time, shares turnover became more concentrated. The share of the 10 leading companies, in terms of liquidity, in the total turnover of the stock market grew from 73.2% in 2001 to 79.8% in 2002. The most liquid securities included the shares of TP S.A. (20.7%), Pekao S.A. (15.6%) and PKN Orlen S.A. (15.2% share in turnover). Turnover on the bonds market fell from PLN 5.2 billion in 2001 to PLN 4.1 billion in 2002.

During 2002, the number of listed companies fell from 230 to 216, 18 companies left and 4 were newly listed. In 2002, the total capitalisation of listed companies was PLN 110.6 billion and 7.0% higher than one year before. The largest shares were banks (47.7% as of end of 2002) and telecommunications companies (16.4%).

2002 was very difficult for brokerage houses that, due to diminishing stock turnover, felt a strong pressure to reduce operating income. The brokerage houses were forced to significantly cut costs, and several institutions were acquired by stronger players. As a result, the number of brokers fell from 30 to 24.

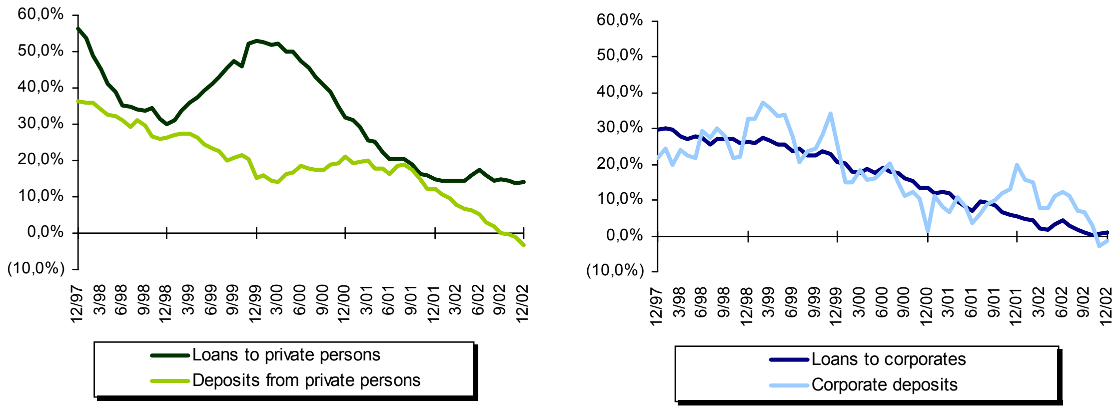
4. The banking sector

Year 2002 was an exceptionally difficult period for the banking sector. The net profit earned by banks amounted to a mere PLN 2.7 billion and was 36% lower than in 2001, and the three top-10 commercial banks in terms of assets announced net losses totalling PLN 1.0 billion. The decrease in profitability of the banking sector was mostly the effect of the growth of costs related to specific provisions connected with deterioration of assets quality, especially corporate loan portfolios. In this context, the collapse of Stocznia Szczecińska S.A. (the Szczecin shipyard), the leading company of the shipyard holding, had especially painful consequences for the sector for which credit exposure amounted to approximately PLN 1.4 billion. The total value of net write-offs for specific provisions and revaluation of financial assets in 2002 amounted to PLN 6.1 billion (an increase of 21% against 2001), of which PLN 0.8 billion were the provisioning costs related to the said exposure to Stocznia Szczecińska. At the end of 2002, the share of problem loans in the total gross loan portfolio of commercial banks was 21.4% (against 18.6% at the end of 2001), and the share of problem loans in the corporate portfolio and household portfolio was 24% and 15%, respectively.

The pressure on the interest margin, a consequence of the reduction of interest rates and the growth of the share of non-serviced receivables, as well as the insufficient growth of business volumes, made the profit on banking activity (PLN 29.0 billion) was not different from the 2001 figure. The income stagnation could not have been counteracted by adjustment of operating expenses, which grew by 3%.

Basic business volumes in the banking sector

(year-on-year growth)



In 2002, the propensity to save among individuals dropped significantly and was reflected in a decrease of deposits by 3.2% (against a growth of 12.1% in 2001). That was mainly an effect of the diminishing attractiveness of bank deposits – related to the interest rate cuts and introduction at the end of 2001 of a tax on interest income on bank deposits – as well as consumers' tendency to maintain the previous expenditure level in a situation of growing unemployment and a low wages growth rate. Additionally, those factors also sparked the growth of the share of demand deposits and a flow of part of the funds towards alternative saving or investment instruments (e.g. investment funds). The growth of loans to private persons in 2002 was at more or less the same level as in 2001 and amounted to 14.2%.

Reduction of investments, lack of profitability improvements (hence lack of credit capacity) and more restrictive credit policies of banks in response to the growing amount of bad debts contributed to a further slowdown of credits to business entities. Loans to this group of customers grew in 2002 by a mere 0.8% against 5.3% in 2001. Corporate deposits fell by 1.4% but that was rather the effect of a temporary growth of deposits in December 2001.

II. Financial results of Bank Handlowy w Warszawie SA

1. Synthetic financial data for the last years

PLN million	1997	1998	1999	2000	2001	2002
Assets	17,020.1	17,744.4	19,159.9	21,002.5	33,150.4	32,181.6
Own equity*	2,040.8	2,557.8	2,758.4	3,034.8	5,742.1	5,726.4
Loans**	8,546.9	9,292.7	10,208.8	10,054.1	14,200.0	13,540.4
Deposits**	5,460.9	7,084.0	8,733.9	10,166.3	17,370.1	16,699.3
Profit on banking activity	1,353.3	1,191.8	1,330.9	1,555.3	2,074.5	2,099,4
Net profit	577.5	301.5	472.5	204.7	163.6	242.7
Profit per one ordinary share or convertible bond (in PLN)	6.21	3.24	5.08	1.57	1.25	1.86
Dividend per one ordinary share or convertible bond (in PLN)	1.40	1.00	2.00	1.00	1.25	1,85
Dividend payment rate	22.51%	30.84%	39.37%	63.83%	99.81%	99,60%
Capital adequacy ratio	12.7%	13.7%	14.5%	15.6%	21.2%	18.5%

**Excluding net profit for the current period.*

*** Non-financial and public sector.*

2. Bank's financial results in 2002

2.1 Income statement

In 2002, Bank Handlowy w Warszawie SA („the Bank") generated a net profit of PLN 242.7 m, i.e. higher by PLN 79.1 or 48.3% than in 2001.[1] In terms of the amount of net profit for 2002, the Bank ranked fourth in the banking sector. The growth of the Bank's net financial result for 2002 was the combined effect of the following factors:

- increase in the profit on banking activity by PLN 24.9 m, i.e. by 1.2%;
- growth of operating expenses by PLN 36.7 m, i.e. 3.5%;
- fall in the net provisioning charges by PLN 59.8 m, i.e. by 11.9%;
- decrease in the income tax reported in the income statement by PLN 58.6 m, i.e. 31.8%.

[1] The Bank's income statement for 2001 does not include an income statement of Citibank (Poland) S.A. for the period January-February 2001, i.e. prior to the merger between Bank Handlowy w Warszawie SA and Citibank (Poland) S.A, which makes it impossible to directly compare financial results of the merged Bank in 2001 and 2002. The financial result of Citibank (Poland) S.A. for January and February 2001 was included into the settlement of the merger made under the purchase method.

INCOME STATEMENT

			Change	
PLN '000	**2002**	**2001**	**PLN '000**	**%**
Interest income	1 780 798	2 701 174	(920 376)	(34.1%)
Interest expense	(1 095 028)	(1 961 540)	866 512	(44.2%)
Net interest income	685 770	739 634	(53 864)	(7.3%)
Net fee and commission income	503 806	484 646	19 160	4.0%
Income on shares, other securities and other financial instruments with variable income securities	7 933	50 436	(42 503)	(84.3%)
Gains on financial operations	388 900	16 322	372 578	2282.7%
Foreign exchange profit	512 981	783 468	(270 487)	(34.5%)
Profit on banking activity	**2 099 390**	**2 074 506**	**24 884**	**1.2%**
Other operating income	68 043	80 192	(12 149)	(15.1%)
Other operating expenses	(39 048)	(30 321)	(8 727)	28.8%
General expenses	(1 088 173)	(1 051 475)	(36 698)	3.5%
Depreciation and amortisation	(162 770)	(160 903)	(1 867)	1.2%
Goodwill depreciation	(72 445)	(60 371)	(12 074)	20.0%
Net charges to provisions	**(444 021)**	**(503 811)**	**59 790**	**(11.9%)**
Operating profit	360 976	347 817	13 159	3.8%
Extraordinary items	1	13	(12)	(96.0%)
Profit before taxation	**360 977**	**347 830**	**13 147**	**3.8%**
Corporate income tax	(125 580)	(184 194)	58 614	(31.8%)
Participation in net profit/(loss) of subordinated entities accounted for under the equity method	7 292	-	7 292	---
Net profit	**242 689**	**163 636**	**79 053**	**48.3%**

2.1.1 Profit on banking activity

The main factor that contributed to the growth of the profit on banking activity in 2002 was the gains on financial operations, which amounted to PLN 388.9 million in comparison to PLN 16.2 million in 2001. The level of gains on financial operations should, however, be considered in connection with the FX profit and the net interest income which, unlike the gains on financial operations, decreased in comparison to 2001. Interdependence between these items of the income statement is the consequence of breakdown of the effective financial result on specific business transactions between various items of the income statement, as well as inclusion of a range of derivative transactions that hedge positions in basic instruments. Especially important here is the mechanism of hedging the balance sheet FX position, resulting from currency mismatch between assets and liabilities, by means of a portfolio of *swaps*. *Swaps* consist of currency exchange on the *spot* value date and a reverse exchange on the *forward* value date, both for the PLN/FCY relation and between individual foreign currencies. The result generated by the Bank on this portfolio neutralises the consumption of the interest profit related to a surplus of FCY receivables over FCY liabilities. Thus, the Bank's effective income from the granted FCY loan translates into the interest margin over the internal pool rate based on a relevant interbank interest rate (LIBOR), regardless of the difference in interest rates between the national currency and a foreign currency in which the loan was granted.

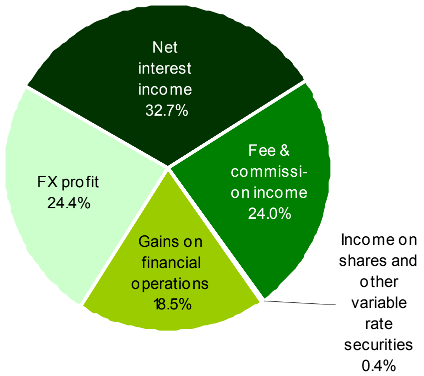
The 2002 gains on financial operations, amounting to PLN 388.9 m, consisted of the following factors:

- income on financial instruments in the amount of PLN 225.3 million (minus PLN 21.6 million in 2001), including income on swaps, FRA transactions, options and other derivatives.

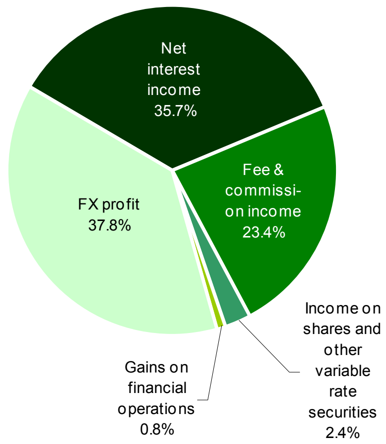
- income from sale or revaluation of debt securities in the amount of PLN 168.4 million (PLN 36.4 million in 2001); growth of this position reflects the growth of the Bank's activity on the treasury debt securities market and the increase of prices of those securities, resulting from the interest rate cuts in 2002.

- loss on minority holdings (dividends and sales result), as well as other financial operations, totalling PLN minus 4.7 m; this includes the result from the sale of share holdings of Mitteleuropäische Handelsbank AG, Hortex Holding S.A. and Bank Handlowy International S.A.

Profit on banking activity composition in 2002



Profit on banking activity composition in 2001



In 2002, the Bank saw a drop in net interest income by 7.3%, down to PLN 685.8 m, driven by the following phenomena:

- lower level of market interest rates, impacting the volume of interest income from the so-called free interest position, i.e. the interest-earning assets financed with non-interest bearing liabilities (including, in particular, capital funds); in the case of Bank Handlowy w Warszawie SA, this income is of importance due to the high level of the Bank's own capital; the average free interest position of the Bank in 2002 was approximately PLN 2.9 billion.

- reduction of the interest margin – the difference between interest rate for a given item of interest assets/liabilities and the Bank's internal reference rate based on a relevant interbank rate (WIBOR, LIBOR) - related to the interest rate cuts and growth of competitiveness in the banking sector; the largest drop was for funds maintained by customers on current accounts.

- drop in profitability of interest assets in relation to smaller exposure of the Bank to loan receivables from the non-financial sector in favour of investing funds into more secure, but nominally less profitable, instruments, i.e. interbank placements and debt securities issued by the government and the NBP.

- drop in interest revenue from customers from the non-financial sector (mainly companies) in relation to the deterioration of quality of the Bank's credit portfolio with concurrent stabilisation of the size of that portfolio.

In comparison to 2001, the fee and commission income grew by 4.0% to PLN 503.8 m, which was driven by:

- growth of commissions for issuance and use of credit and payment cards by PLN 11.2 million up to PLN 55.6 m,
- increase in fees earned from the *SpeedCollect* service provided by the Cash Management Division, by PLN 22.8 m, to PLN 42.6 m,
- growth of income from transfer fees by PLN 10.3 million to PLN 55.5 m,
- growth of commission on loans by PLN 9.6 million to PLN 123.4 m,
- reduction of costs related to fees and commissions by PLN 18.4 m.

2.1.2 Expenses

OPERATING EXPENSES

PLN '000	2002	2001	Change PLN '000	%
Salaries	399 473	386 691	12 782	3.3%
Social security and other benefits	80 155	91 879	(11 724)	(12.8%)
Total personnel expenses	**479 628**	**478 570**	**1 058**	**0.2%**
Administrative expenses	538 603	526 144	12 459	2.4%
Taxes and fees	8 845	5 593	3 252	58.1%
Contributions and payments to the Bank Guarantee Fund	8 638	16 168	(7 530)	(46.6%)
Total general expenses	**1 035 714**	**1 026 475**	**9 239**	**0.9%**
Depreciation	162 770	160 903	1 867	1.2%
Total operating expenses	**1 198 484**	**1 187 378**	**11 106**	**0.9%**
Restructuring charge – for personal costs	29 332	-	29 332	---
Restructuring charge – for material costs	23 127	-	23 127	---
Reserve for retirement severance pay and jubilee bonuses	-	25 000	(25 000)	(100.0%)
Total expenses	**1 250 943**	**1 212 378**	**38 565**	**3.2%**

In 2002, the Bank continued execution of the programme of intensive cost restructuring, adopted after the merger with Citibank (Poland) S.A.[2] The programme consisted of the following projects:

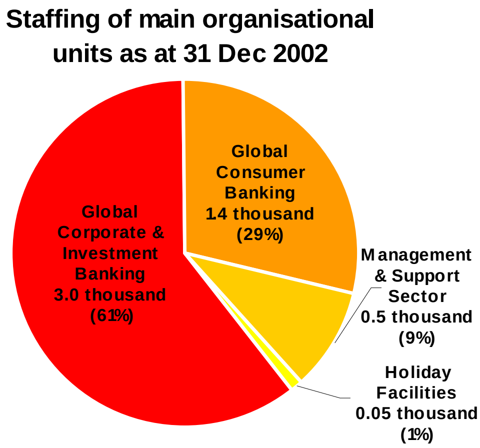
- staff reductions, due to the centralisation of operations, unification of IT systems and elimination of overlapping positions after the merger with Citibank (Poland) S.A.,
- limitation of growth of wages by reducing the average wage raise rate in comparison to 2001 and postponing of introduction of the raises by a quarter,
- renegotiating of the Company Collective Work Agreement and restructuring of employee benefits,
- restructuring of the branch network and the Bank's head office in order to optimise the use of real property and office space,

[2] See footnote No 1 on page 9.

- restructuring of use of movable fixed assets and equipment (e.g. the fleet of company cars, telecommunications equipment),
- outsourcing,
- day-to-day cost discipline.

Implementation in 2002 of a savings programme allowed the Bank to adapt the operating costs growth to that of the revenues, as measured by income on banking activity, and so to maintain the cost efficiency ratios at constant level in comparison to the previous year. In 2002, the growth of operating costs defined as the sum of general expenses and the depreciation of fixed assets and intangible assets was 0.5%, whereas the income on banking activity increased by 1.2%.

As a result of continuation of the employment restructuring process, the staff was reduced from 5,200 at the end of 2001 to 4,902 at the end of 2002, which included lay-offs in the Bank's head office, a reduction by 544 positions down to 1,808 at the end of 2002, and growth of employment in the branch network, by 246 positions to 3,094 at the end of 2002. In 2002, the President of the Bank's Management Board signed on behalf of the Bank the Company Collective Work Agreement negotiated with the trade unions, thanks to which the staff hiring and compensation principles as well as principles for other work-related benefits have been unified. The new collective agreement has been in force effective August 1, 2002.



In December 2002, the Bank created an additional reserve for the costs of restructuring in the amount of PLN 52,5 m, including PLN 29.3 million for the costs of the last stage of the employment restructuring in the process of integration of the Bank with Citibank (Poland) S.A., scheduled for the 1Q2003, as well as PLN 23.1 million for costs of further restructuring of the Bank's branch network.

In 2002, the Bank amortised goodwill as a result of the settlement of the merger with Citibank (Poland) S.A. using the purchase method, in the amount of PLN 72.4 m. The increase of PLN 12.0 million against 2001 resulted from extension of the amortisation period in 2002 by 2 months. According to the decision of the Bank's Management Board, the goodwill is to be amortised using the straight-line method over 20 years effective March 1, 2001.

2.1.3 Provisioning charges

Even though the sum of net charges for specific provisions and valuation allowances for financial assets decreased in 2002 by PLN 59.8 million in comparison to 2001, this item still had a significant impact on reduction of the Bank's financial profit. The total net movement in provisions in 2002 was PLN 444.0 million and the major part of this item were net costs of specific provisions for loans to non-financial entities in the amount of PLN 316,3 m, which increased by PLN 37,7 million in comparison to 2001. The growth was the result of the increase in problem loans resulting from a further drop of profitability and liquidity of the Bank's loan customers, in particular corporate entities.

NET CHARGES TO PROVISIONS

PLN '000	2002	2001	Change: PLN '000	Change: %
Specific provisions	359 703	363 459	(3 756)	(1.0%)
- financial institutions	17 994	(14 441)	32 435	(224.6%)
- non-financial sector	316 251	278 541	37 710	13.5%
- subordinated loans	10 410	29 447	(19 037)	(64.6%)
- off-balance sheet liabilities	15 048	69 911	(54 863)	(78.5%)
Provisions for general risk	-	50 000	(50 000)	(100.0%)
Valuation allowances for permanent diminution in value of financial assets	84 318	90 352	(6 034)	(6.7%)
Total net charges to provisions	**444 021**	**503 811**	**(59 789)**	**(11.9%)**

Another significant item under provision costs were valuation allowances for permanent diminution in value of financial assets amounting to PLN 84.3 m. This was mainly the result of write-offs revaluating the Bank's shares in three affiliate companies in the construction services sector totalling PLN 84.4 m.

2.1.4 Accounting for of subordinated entities

In 2002, the Bank's net profit increased by PLN 7.3 million by virtue of valuation of long-term major shares in subsidiaries, using the equity method. This amount was reflected in the income statement under „Participation in net profit/(loss) of subsidiaries accounted for under the equity method" item and comprised of valuations of the following entities: Dom Maklerski Banku Handlowego SA, Handlowy Leasing S.A., Citileasing Sp. z o.o., Handlowy Zarządzanie Aktywami S.A., Towarzystwo Funduszy Inwestycyjnych BH S.A., Handlowy Inwestycje Sp. z o.o., Handlowy Inwestycje II Sp. z o.o., Handlowy Investments S.A., Handlowy Investments II S.a.r.l., Bank Rozwoju Cukrownictwa S.A., Polskie Pracownicze Towarzystwo Emerytalne DIAMENT S.A., PKO/ Handlowy PTE S.A., Handlowy-Heller S.A., KP Konsorcjum Sp. z o.o. The largest was that of Dom Maklerski Banku Handlowego SA, totalling PLN 5.0 m.

2.1.5 Ratio analysis

The significant growth of the Bank's net profit in 2002 impacted capital and assets profitability ratios. Reduction of the net interest margin, which corresponded to the reduction of the interest income resulted mostly from the effect of the interest rate cuts that followed the cuts of NBP's interest rates. The costs/revenue ratio increased slightly, caused by creation of an additional provision for the restructuring.

PROFITABILITY AND COST EFFICIENCY RATIOS

PLN 000	2002	2001
Return on owners' equity (ROE)*	4.1%	3.1%
Return on assets (ROA)*	0.8%	0.5%
Net interest margin (NIM)**	2.2%	2.5%
Net profit per 1 share or convertible bond (EPS), in PLN	1.86	1.25
Cost/Income Ratio****	58.8%	57.1%

** Net profit divided by average equity (including the net profit of the current period) calculated on a monthly basis.*

*** Net profit divided by average assets calculated on a monthly basis.*

**** Net interest income divided by average assets calculated on a monthly basis.*

***** Relation of the sum of total operating costs and depreciation to the sum of the profit on banking activity and net other operating income (excluding goodwill amortisation).*

2.2 Balance sheet

As of December 31, 2002, the Bank's balance sheet total was PLN 32,185 million and was lower by 2.9% than at the end of 2001.

BALANCE SHEET

PLN '000	31/12/2002	As of 31/12/2001	Change PLN '000	%
Cash, operations with the central bank	979 308	2 322 443	(1 343 135)	(57,8%)
Due form the financial sector*	5 408 047	7 003 200	(1 595 153)	(22,8%)
Due form the non-financial sector	13 535 347	14 168 464	(633 117)	(4,5%)
Due form the public sector	5 096	31 583	(26 487)	(83,9%)
Debt securities*	4 296 398	2 410 113	1 886 285	78,3%
Equity investments*	598 164	877 386	(279 222)	(31,8%)
Other securities and financial assets*	4 523 450	3 380 623	1 142 827	33,8%
Intangible assets	1 377 477	1 453 876	(76 399)	(5,3%)
- including: goodwill	1 316 091	1 388 536	(72 445)	(5,2%)
Tangible fixed assets	816 655	914 676	(98 021)	(10,7%)
Other assets	641 665	588 076	53 589	9,1%
TOTAL ASSETS	**32 181 607**	**33 150 440**	**(968 833)**	**(2,9%)**
Due to the Central Bank	121 940	212 486	(90 546)	(42,6%)
Due to the financial sector	3 448 194	4 905 451	(1 457 257)	(29,7%)
Due to the non-financial sector	16 062 959	16 487 181	(424 222)	(2,6%)
Due to the public sector	636 294	882 937	(246 643)	(27,9%)
Other liabilities arising from financial instruments	4 182 578	3 221 513	961 065	29,8%
Other liabilities	1 315 138	1 109 269	205 869	18,6%
Provisions	445 395	425 913	19 482	4,6%
Equity and retained earnings	5 726 420	5 742 054	(15 634)	(0,3%)
Net profit	242 689	163 636	79 053	48,3%
TOTAL LIABILITIES	**32 181 607**	**33 150 440**	**(968 833)**	**(2,9%)**

** Subordinated loans funding investment vehicles, convertible bonds issued by Handlowy Investments and investment fund units have been reclassified and are shown as equity investments.*

At the end of 2002 the Bank ranked fourth in the banking sector in terms of assets value and accounted for 6.9% of the total sector assets.

2.2.1 Assets

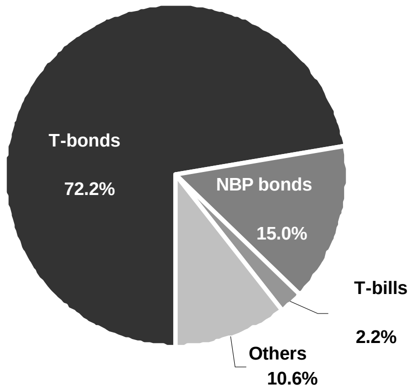
The main components were receivables from the non-financial sector, which at the end of 2002 amounted to PLN 13,535 m. The following factors contributed to decrease those receivables by PLN 633.1 m, i.e. by 4.5% in comparison to the end of 2001:

- reduction of gross loans to the non-financial sector by PLN 542.2 m, i.e. by 3.6%, mainly as a result of lower demand for loans from corporate entities and a more restrictive credit policy of the Bank,
- growth of provisions for receivables from the financial sector by PLN 265.5 m, i.e. by 24.1%, related to a deterioration of quality of the loan portfolio,

- growth of interest due by PLN 174.6 m, i.e. by 48.8%, mainly as a result of the growth of interest due on problem loans.

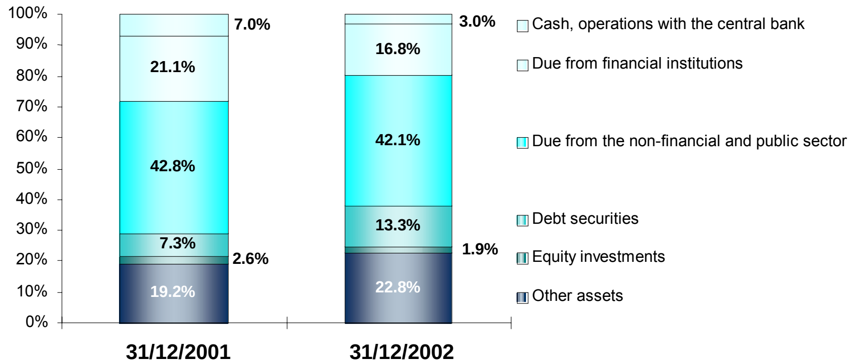
Given the overall limited credit activity, the significance of debt securities grew. Although these instruments were characterised by a nominal interest rate lower, on average, than that of loans, they were more attractive due to a much better profile of the credit risk. Additionally, the profitability of the debt securities was under the beneficial influence of market interest rate cuts, which stimulated the growth of prices of those securities and allowed the Bank to earn relatively high revenue on sale or valuation of such securities. Aiming to reap the benefits of the opportunities on the debt securities market, the Bank increased its debt securities portfolio from PLN 2,436 million at the end of 2001 to PLN 4,296 million at the end of 2002. The treasury bonds portfolio grew over 9 times, from PLN 339,0 million to PLN 3,101 m, which was related to higher attractiveness of debt securities with longer terms.

Structure of the debt securities portfolio as of December 31, 2002



The growth of the Bank's exposure to the debt security market in 2002 was at the expense of deposits in financial institutions which were reduced from PLN 7,003 million to PLN 5,408 m, i.e. by 22.8%, including the amounts due from banks which fell from PLN 6,149 million to PLN 4,287 m, i.e. by 30.3%.

Share of main asset items in the Bank's balance sheet total



Implementation of the strategy of reduction of the Bank's capital exposure, as well as the necessity to make significant valuation charges, were reflected in the decrease of the balance sheet value of capital investments in 2002 by PLN 279.2 m.

2.2.2 Liabilities

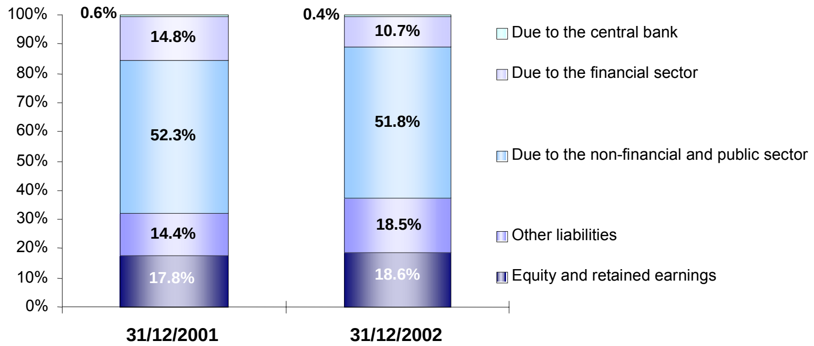
Traditionally, the largest item that finances the Bank's assets are customers' deposits, including liabilities to the non-financial sector and the public sector. As of the end of 2002, the total value of these items was PLN 16,699 million and was lower than in the previous year by 3.9%. That largest fall was noted in liabilities to the public sector, which decreased by 27.9%.

Effective 2001, the share of the financial sector deposits in the Bank's liabilities has been decreasing. A sufficient base of customers' deposits and limitation of credit activity allowed the Bank to limit financing with relatively expensive deposits from the financial sector, in particular from banks. As of the end of 2002, the balance of receivables form the financial sector amounted to PLN 3,448 m, including banks' deposits in the amount of PLN 1,953 m, in comparison to PLN 4,905 million and PLN 3,367 m, respectively, at the end of 2001. The surplus of receivables from banks over liabilities to banks has been stable since the end of 2000. Bank Handlowy w Warszawie SA which until 2002 was a net recipient of funds from the inter-bank market, is now providing liquidity to the market.

In comparison to the end of 2002, the share of own capital in the Bank's balance sheet has grown slightly. Thus it remained at the highest level in the group of 20 largest Polish banks in terms of assets. The large share of own capital in the Bank's balance sheet total is to a large extent the result of the merger with Citibank (Poland) S.A.

An important phenomenon on both sides of the Bank's balance sheet is the growth of unrealised profits/losses from operations involving derivative instruments, which reflects the significant growth of off-balance sheet purchase/sale operations. According to the current accounting regulations, balance sheet valuations of those instruments are presented under item "Other securities and other financial assets" under assets and under "Other liabilities arising from financial instruments" under liabilities.

Share of main liabilities items in the Bank's balance sheet total



2.3 Capital and capital adequacy

CAPITAL

PLN '000	As of 31/12/2002	31/12/2001	Change PLN '000	%
Authorised capital	500 902	430 308	70 594	16.4%
Capital surplus	3 044 585	3 044 585	-	0.0%
Reserve capital	1 754 547	1 707 873	46 674	2.8%
Revaluation reserve	45 968	76 958	(30 990)	(40.7%)
General risk fund	390 000	390 000	-	-
Other supplementary capital*	21 736	92 330	(70 594)	(76.5%)
Profit (loss) from previous years	(31 318)	-	(31 318)	---
Total capital	**5 726 420**	**5 742 054**	**(15 634)**	**(0.0%)**
Core capital	5 658 716	5 572 766	85 950	1.8%
Supplementary capital	67 704	169 288	(101 584)	(60.1%)

** Special Participating Convertible Bonds*

citibank handlowy
Bank Handlowy w Warszawie SA

In 2002, the total capital decreased by PLN 15,634 thousand. Among the major factors that contributed to the change of value of own equity are:

- the revaluation, as of December 31, 2001, of shares and holdings in subsidiaries accounted for under the equity method, the negative result of that revaluation in the amount of PLN 31,318 thousand was reflected as an adjustment to the opening balance of previous years' results,
- a reduction of the revaluation reserve by PLN 3,286 thousand in respect of revaluation of debt securities available for sale,
- an increase of reserve capital by PLN 312 thousand as a result of distribution of the net earnings for 2001. The other part of earnings, amounting to PLN 163,324 thousand, was paid out in form of a dividend to shareholders and bondholders.

During the period, changes took place in capital, including:

- increasing the authorised capital equity by PLN 70,594 thousand through a share conversion of 17,648,500 Special Participating Convertible Bonds owned by the Bank's majority shareholder, Citibank Overseas Investment Corporation ("COIC"). The increase of the authorised capital was registered on May 24, 2002.
- transfer of the amount of PLN 46,362 thousand from the revaluation reserve to reserve capital in relation to the sale of fixed assets.

As of December 31, 2002, the share of the Bank's capital funds in the equity of the banking sector amounted to 13.7% against 14.2% at the end of 2001. In terms of size of own capital, the Bank ranked second in the banking sector. The level of capital was sufficient to guarantee financial security to the institution and the deposits it accepts.

CAPITAL ADEQUACY RATIO

PLN '000	31/12/2002	31/12/2001
Total capital funds*	**5 726 420**	**5 742 054**
Deductions, of which:	780 686	498 320
- goodwill	394 827	138 854
- other intangible fixed assets	18 416	7 657
- investments in subordinated financial institutions	352 070	351 809
- financial assets revaluation reserve fund	15 373	-
Capital eligible for calculation of the capital adequacy ratio	**4 945 734**	**5 243 734**
Risk-weighted assets and contingent liabilities	**21 525 850**	**24 715 504**
Total capital requirement, of which:	**2 134 678**	
- capital requirement for credit risk	1 722 068	
- total capital requirement for market risks	412 610	
Capital adequacy ration*	**18,53%**	**21,22%**

** Excluding net profit of the current year.*

** The value of the ratio as of December 31, 2001, was calculated using the then-binding method. Risk-weighed assets and contingent liabilities as of December 31, 2002 cover the banking portfolio only.*

In 2002, the capital adequacy ratio decreased from 21.22% to 18.53%. The decrease was mainly due to:

- introduction by the Commission for Banking Supervision of a new formula for calculation of the capital adequacy ratio based on the concept of capital requirement for credit risk and individual types of market risk (the minimum level of the ratio was maintained at 8%);

- decrease of capital funds eligible for calculation of the capital adequacy ratio as a result of increasing the deductions for intangible assets (including, in particular, goodwill); when calculating the capital eligible for the capital adequacy ratio for 2002, the Bank reduced the basic funds by 30% of intangible assets, whereas in 2001 the reduction rate was 10%. In 2003 and 2004 said rate will increase to 60% and 100%, respectively.

3. Shareholders holding a minimum 5% of the Bank's authorised capital and of total voting rights at the General Meeting of Shareholders

At December 31, 2002, the only shareholder holding a minimum 5% of the Bank's authorised capital and of total voting rights at the General Meeting of Shareholders was Citibank Overseas Investment Corporation, New Castle, USA ("COIC"), a subsidiary of Citibank N.A., which then held 116,717,574 shares of the Bank, i.e. 93.21% interest in the Bank's authorised capital entitling it to exercise 93.21% votes at the General Meeting of Shareholders. In the first half of 2002 the holding of COIC increased as a result of the following transactions:

- the purchase of 376,650 ordinary series C bearer shares from Centaur Investment Corporation and 376,650 ordinary series C bearer shares from Foremost Investment Corporation. Both these companies were members of Citigroup.

- the conversion of 17,648,500 Special Participating Convertible Bonds into ordinary series B bearer shares.

III. Operations

1. Lending and other risk exposures

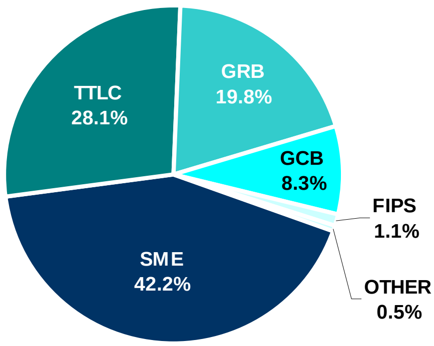
1.1 Lending

Lending to non-bank customers (gross)

	As at:		Change:	
PLN '000	**31/12/2002**	**31/12/2001**	**PLN '000**	**%**
Loans in PLN	10 604 932	10 802 085	(197 153)	(1.8%)
Loans in foreign currencies	4 900 307	5 022 046	(121 739)	(2.4%)
Total	**15 505 239**	**15 824 132**	**(318 893)**	**(2.0%)**
Loans to non-financial customers	14 344 867	14 903 849	(558 982)	(3.8%)
Loans to financial institutions	1 155 708	891 297	264 411	29.7%
Loans to public sector	4 664	28 986	(24 322)	(83.9%)
Total	**15 505 239**	**15 824 132**	**(318 893)**	**(2.0%)**
Non-financial corporate customers	12 874 634	13 382 300	(507 666)	(3.8%)
Non-bank financial institutions	1 155 708	891 297	264 411	29.7%
Individual customers	1 365 152	1 385 737	(20 585)	(1.5%)
Other non-financial entities	105 081	135 813	(30 732)	(22.6%)
Public sector	4 664	28 986	(24 322)	(83.9%)
Total	**15 505 239**	**15 824 132**	**(318 893)**	**(2.0%)**

Gross loans excluding accrued interest.

Gross loan portfolio by customer segments
31/12/2002



SME - Small and Medium Enterpises
TTLC - Top Tier Local Companies
GRB - Global Relationship Banking
GCB - Global Consumer Banking
FIPS - Financial Institutions and Public Sector
OTHER - Other non-segmented customer receivables

In 2002 the Bank's total loan portfolio decreased by PLN 318,9 million, or 2.0%, which means that with the increase in the loan portfolio of other Polish banks, mainly due to consumer loans, the Bank's market share dropped from 7.1% to 6.7%. The size of the Bank's portfolio placed it fifth among all Polish banks.

The drop in loans to non-financial corporate customers, the largest component of the total loan portfolio, was most striking. The halting of loan growth to the corporate of customers may be attributed to the following factors:

- the general fall in demand for loans on the part of corporate customers as a result of the economic slowdown, low profitability of operations and postponement of large investments pending the expected economic recovery;
- the lowering of the Bank's appetite for credit risk, which was primarily a result of its aim to improve the quality of the loan portfolio;

- the active reduction by the Bank of its credit exposure to certain customers whose financial situation of which signalled the possibility of a loan default.

The contraction of the portfolio of loans granted to non-financial corporate customers was to a certain degree offset by the 29.7% growth of loans extended to non-bank financial institutions, mainly on account of the increase in loans extended to leasing companies, in particular to those belonging to the Bank's Capital Group.

In 2002, the Bank remained an active player in the syndicated loan market, which unfortunately experienced a decline due to a drop in investments. Overall, the volume of large syndicated loans taken by Polish corporate entities in 2002 amounted to PLN 9.4 billion (of which PLN 5.6 billion came from domestic banks) compared to over 13 billion in 2001. The Bank's exposure to new contracts dropped from PLN 586.2 million in 2001 to PLN 348.3 million in 2002. The largest syndicated transactions in which the Bank participated over the reported period included:

- the EUR 170 million facility refinancing loans taken by Polskie Sieci Elektroenergetyczne S.A. (Polish Power Grid Co.) to finance its operations in the energy sector and the telecommunication sector; the Bank acted as co-arranger with own participation of EUR 35 million;

- the EUR 202.5 million facility for Polskie Koleje Państwowe S.A. (Polish Railroads Co.); the Bank acted as co-arranger with own participation of EUR 18.2 million;

- the PLN 79 million facility for Telbank S.A. (telecom company) to finance the construction of a fibre optic telecom line network; the Bank was the sole arranger with own participation of PLN 49 million;

- the facility equivalent to PLN 1,423 million (CHF 268 million and EUR 174.5 million) for Telefonika KFK SA (wire manufacturer) to finance the consolidation of the company's capital group and for investments in a cable factory; the Bank participated in the consortium with a share of CHF 31.5 million.

In 2002 the Bank's portfolio of loans to individual customers diminished by 1.5% on account of:

- stricter credit procedures being applied to potential new borrowers, especially self-employed individual customers; the aim was to improve the quality of the loan portfolio and this had an indirect influence over contraction of consumer and discounted loan portfolio;

- the Bank's relatively weak position in the mortgage loan market, which is now experiencing the highest growth.

At the same time, indebtedness on *Citibank* credit cards used by individual customers increased in 2002 by PLN 155 million (25.9%) achieving PLN 752.6 million.

Overall, the Bank's share in the consumer loan market dropped from 2.5% at the end of 2001 to 2.2% at the end of 2002.

In 2002 the share of loans denominated in foreign currencies or indexed to foreign currencies in the Bank's total loan portfolio stabilised at 32%. The Bank is monitoring the possible effects of currency risk on credit risk of the foreign currency loan portfolio on an ongoing basis by conducting sensitivity analysis of the effects of exchange rate fluctuations on the financial situation of borrowers to which the Bank has such an FX exposure (*stress-testing*).

1.2 Quality of loan portfolio

In 2002 the Bank experienced a further deterioration of the quality of its loan portfolio as measured by the share of classified loans in total loans (gross). This share rose from 25.7% to 29.4%, leading to the increase in the specific provisions by 24.9%. The increase in the share of classified loans was a result of deteriorating financial performance of a major group of the Bank's customers, and their liquidity problems. The underlying factors include:

- the continued overall economic slowdown,
- the recession trends observed in the heavy industry and construction sectors and the corresponding low profitability of companies active in these areas,
- the Bank's continued conservative approach to classification of exposures and provisioning.

The 51.8% increase in the watch loans was a consequence of more detailed and strict risk classification criteria introduced by the new Credit Manual for the Commercial and Investment Banking Sector in June 2002.

Quality of loan portfolio

	As at:				Change:	
PLN '000	**31/12/2002**		**31/12/2001**		**PLN '000**	**%**
Loans to non-bank customers						
by classification:						
Normal	9 245 925	59.6%	10 640 930	25.7%	(1 395 004)	(13.1%)
Watch	1 694 536	10.9%	1 116 542	7.0%	577 994	51.8%
Problem	4 564 778	29.4%	4 066 660	25.7%	498 118	12.2%
- substandard	1 096 069	7.1%	1 149 105	7.2%	(53 037)	(4.6%)
- doubtful	1 889 792	12.2%	1 622 261	10.2%	267 530	16.5%
- loss	1 578 917	10.2%	1 295 293	8.2%	283 624	21.9%
Total	**15 505 239**	**100.0%**	**15 824 132**	**100.0%**	**(318 892)**	**(2.0%)**

Gross loans excluding accrued interest.

The coverage provided for watch and problem loans by specific provisions created by the Bank in the total amount of PLN 1,470 million, is fully compliant with the regulations of the National Bank of Poland. Additionally, the Bank was covered by a general risk provision at PLN 300 million created in past years.

Specific provisions for loans to non-bank customers

	As at:		Change:	
PLN '000	**31/12/2002**	**31/12/2001**	**PLN '000**	**%**
Specific provisions for:	1 470 434	1 177 080	293 354	24.9%
- watch loans	-	1 245	(1 245)	(100.0%)
- problem loans	1 470 434	1 175 835	294 599	25.1%
General provision	300 000	300 000	-	---
Provision coverage of the total loan portfolio	11,4%	9,3%		
Provision coverage of problem loans	38,8%	36,3%		

The increase in specific provision coverage of the whole loan portfolio to 11.4% was primarily a consequence of the increase of problem loans in the Bank's portfolio combined with a simultaneous flattening of its growth. Also, an increase in the specific provision coverage of problem loans was observed, which was mainly due to the provision coverage of loss loans growing from 64.4% to 70.8%.

As at the end of 2002, loans to Polish subsidiaries of multinational companies, the majority of which is secured with parent guarantees, made up roughly 24% of the Bank's total problem loans (33% in case of loans classified doubtful). The classification of these loans to the problem loan category was the Bank's reaction to the deteriorating financial situation of the Polish borrowers – as required by the NBP regulations – regardless whether the loan had been serviced or collateralised by the parent company.

In 2002 the Bank's Credit Risk Management Division modified twice the Bank's internal credit system by introducing even more stringent requirements for the classification of loans and provisioning. Otherwise the basic framework for managing credit risk has remained unchanged since its introduction in March 2001. The cornerstone of this framework is the principle of conducting analyses on an ongoing basis of the Bank's exposure to the different sectors of the economy with the aim of identifying areas in which this exposure should grow or contract based on expectations concerning growth and performance prospects. The result of using such a framework for monitoring credit risk, in a situation where recessionary tendencies were evident in a number of major economic sectors, especially heavy industry, was the decision to actively reduce the Bank's exposure to several sectors and large customers taken in 2002 (shipyard sector, construction and heavy industry). Furthermore, the Bank strengthened the internal unit responsible for large bad debt workout, as a result of which it achieved good results in constraining potential credit losses. This unit has also managed to secure additional collateral and to renegotiate loan repayment schedules, which further strengthened the Bank's position vis-á-vis its large customers currently experiencing financial difficulties.

Overall, the headcount in the Corporate Bank Restructuring Department as well as a similar unit responsible for managing problem loans in SME portfolio, totalled to 26 people at the end of 2002 and managed the problem portfolio of PLN 1.1 billion. In 2002 the Bank issued 4,364 warrants of execution valued at PLN 135.3 million, secured with collateral amounting to PLN 69,6 million. During 2002 the Bank wrote-off loss loans against previously created provisions amounting to PLN 30,0 million.

1.3 Off-balance sheet exposures

Contingent liabilities extended

	As at:		**Change:**	
PLN '000	**31/12/2002**	**31/12/2001**	**PLN '000**	**%**
Guarantees	2 738 719	2 737 591	1 128	0.0%
Letters of credit issued	187 117	184 874	2 242	1.2%
Confirmed letters of credit	12 013	63 155	(51 142)	(81.0%)
Undrawn credit lines	6 662 409	6 779 275	(116 865)	(1.7%)
Forward placements	-	714 868	(714 868)	(100.0%)
Total contingent liabilities	**9 600 258**	**10 479 763**	**(879 505)**	**(8.4%)**
Provisions for contingent liabilities	145 308	125 913	19 395	15.4%
Provision coverage	1,51%	1,20%		

The portfolio of contingent liabilities extended by the Bank decreased in 2002 by 8.4% to PLN 9,600 million. Such a drop was primarily the result of the elimination of the forward placements item, comprising temporary bookings of placements waiting for the preparation of the respective fund transfer. The portfolios of the main off-balance sheet liabilities, covering guarantees, L/Cs issued and undrawn credit lines, remained at a relatively stable level.

1.4 Leasing

Leasing services are provided by two subsidiary companies of the Bank: Handlowy-Leasing S.A. and Citileasing S.A. The merger of the two companies is planned to take place in the nearest future and the combined institution is to operate under the name of Handlowy-Leasing S.A. To this end, both subsidiaries worked on unification of the internal procedures as well as on improvement of the rules of co-operation with branches of Bank Handlowy w Warszawie SA. Apart from the capital injection, Handlowy Leasing S.A. and Citileasing Sp. z o.o. are funded by means of credit lines drawn from Bank Handlowy w Warszawie SA.

In 2002 the range of products included financial and operating leases as well as lease-back in PLN, USD, EUR and CHF. This facilitated the leasing of machinery and equipment (including complete manufacturing and processing lines), passenger cars, delivery vans and trucks, as well as printing, construction and agriculture machines. Work was conducted on launching real estate leasing. The offering of Handlowy-Leasing S.A. and Citileasing Sp. z o.o. was primarily aimed at corporate customers serviced by Bank Handlowy w Warszawie SA., while other corporate customers were offered four product programmes and a simplified application acceptance procedure. The programmes covered leasing of transport vehicles, construction machinery, printing equipment and John Deere agricultural machines. The main channel for acquisition of new business was the network of relationship managers of Bank Handlowy Warszawie SA, supported by leasing salesmen of Handlowy-Leasing S.A., and a network of dealers and financial brokers. At the end of 2002 both leasing companies employed 63 staff overall.

The value of assets leased by the leasing companies in 2002 stood at PLN 415.9 million, a 1.5% increase from PLN 409.8 million in the previous year. As many as 1,228 leasing contracts were signed, including 1,097 operating and 131 financial leasing contracts. At the end of the year the combined net value of assets under lease of the two companies stood at PLN 946.8 million (this translates to a total market share of ca. 5%), compared to PLN 733 million at the end of 2001. On a combined basis, in terms of the value of assets under lease Handlowy-Leasing and Citileasing ranked sixth.

In June 2002 the Bank extended the agreement signed with the German bank Kreditanstalt für Wiederaufbau („KfW") on refinancing of loans for the development of small and medium enterprises to include refinancing of lease finance transactions concluded with such companies by Handlowy Leasing S.A. using funding provided from aid programmes of the European Union. The size of one-time refinancing is limited to EUR 250 thousand. The funding provided by KfW should help the Bank's new leasing company grow its operation in the future.

1.5 Factoring

Factoring services are provided by the specialised company of Handlowy-Heller S.A., in which the Bank has a 50% interest (25% indirectly through Handlowy Inwestycje Sp. z o.o.). The remaining shares are held by the Dutch NMB Heller Holding N.V.(50% interest).

The financial results of the company in 2002 were largely determined by the adverse macroeconomic factors, especially the low turnover resulting from poor demand. The lower demand affected especially the businesses of particular importance for the Bank's factoring activities, i.e. electronics, IT, clothing, toys and stationery. As a consequence in 2002 the company suffered a 29% decline in income on its activities, which was offset by reducing costs of operation by 7% and financial costs by 36%. In addition the company had to establish specific provisions for uncollectable factoring receivables in the amount of PLN 3.9 million.

In total receivables acquired by Handlowy Heller in 2002 were PLN 949.2 million as compared to PLN 973.4 million acquired in 2001. The number of customers fell slightly from 117 at the end of 2001 to 116. In spite of this a record number of new agreements was signed in 2002 (53 compared to 38 in 2001). The company's market share remained unchanged at 12%.

Faced with a drop in business volumes and deterioration in the quality of its portfolio the company undertook remedial actions to counter these tendencies. A regional representative office was opened in Poznań, a new product was introduced (factoring on a non-recourse basis) and credit risk management enhanced, *inter alia* through the introduction of internal limits for customers. The company began working on the establishment of a call centre and the introduction of a new product for companies with annual sales below PLN 5 million. As a result, the second half of 2002 brought about an improvement manifested through an increase in the monthly purchase of invoices from PLN 49 million in January to a record PLN 111 million in October.

2. External funding

At the end of 2002 the Bank's external funding totalled PLN 20,171 million and was lower than at the end of 2001 by 9.8%. The decline affected deposits from all customer groups. In terms of value, the most dramatic fall was observed in the liabilities due to financial institutions as a consequence of the Bank's scaling down its interbank funding caused by lower liquidity demands. 2002 was also marked by a substantial fall in term deposits from all sectors, reflecting a general drop in saving trends caused by a reduction in the rates of interest paid to depositors. Moreover, some of the customers started seeking alternative ways to optimise earnings on their funds, more and more often resolving to buy Treasury bonds or investment fund units.

External funding

	As at:		Change:	
PLN '000	**31/12/2002**	**31/12/2001**	**PLN '000**	**%**
Due to the central bank	**121 344**	**208 128**	**(86 784)**	**(41.7%)**
Due to financial institutions	**3 430 715**	**4 862 810**	**(1 432 095)**	**(29.4%)**
At call	1 886 237	2 029 014	(142 777)	(7.0%)
Term deposits	1 544 478	2 833 796	(1 289 318)	(45.5%)
- Interbank deposits	472 923	734 543	(261 620)	(35.6%)
- Interbank loans	522 103	1 658 303	(1 136 200)	(68.5%)
- Term deposits of non-bank financial institutions	549 452	440 950	108 502	24.6%
Due to non-financial sector	**15 984 177**	**16 409 182**	**(425 005)**	**(2.6%)**
At call	7 548 770	6 645 739	903 031	13.6%
Term deposits	8 435 407	9 763 443	(1 328 036)	(13.6%)
Due to the public sector	**634 793**	**879 611**	**(244 818)**	**(27.8%)**
At call	410 686	284 093	126 593	44.6%
Term deposits	224 107	595 518	(371 411)	(62.4%)
Total external funding	**20 171 029**	**22 359 731**	**(2 188 702)**	**(9.8%)**

Excluding accrued interest.

The 3.2% fall in deposits from non-financial corporate customers translated into a slight decrease of the Bank's share in the corporate deposit market from 13.6% to 13.3% (this refers to liabilities to enterprises, private companies, co-operatives and sole entrepreneurs). Despite that, the Bank remained a leader in the corporate deposit market, and its strong position is to a large extent a result of the competitive product offering in cash management and trade finance, which will be described in more detail in point 3 below.

Deposits of non-bank customers

	As at:		Change:	
PLN '000	**31/12/2002**	**31/12/2001**	**PLN '000**	**%**
Due to:				
Individual customers	6 013 546	6 085 893	(72 347)	(1.2%)
Non-financial corporate customers	9 066 496	9 365 919	(299 423)	(3.2%)
Non-profit organisations	890 373	947 710	(57 337)	(6.1%)
Non-bank financial institutions	1 363 253	1 408 116	(44 863)	(3.2%)
Public sector	634 793	879 611	(244 818)	(27.8%)
Suspense account liabilities	13 762	9 660	4 102	42.5%
Total	**17 982 223**	**18 696 909**	**(714 686)**	**(3.8%)**
PLN	12 988 460	13 087 011	(98 551)	(0.8%)
Foreign currency	4 993 763	5 609 898	(616 135)	(11.0%)
Total	**17 982 223**	**18 696 909**	**(714 686)**	**(3.8%)**

Excluding accrued interest

Balances on current accounts of individual customers and deposits placed by such customers decreased by 1.2%, but due to the general fall of deposits from individual customers in the banking sector the Bank slightly increased its market share from 2.8% to 2.9%. Growth trends were most suppressed in the area of deposits from the public sector, which to some extent resulted from increasing competition on the part of banks controlled by the State Treasury.

In 2002 the Bank has experienced a steady increase of surplus funding, which is illustrated by the widening gap between amounts due to and due from financial institutions. The strong deposit and liquidity base allows the Bank to react to new opportunities on credit market in a flexible way and provides a funding potential that may be utilised when the expected economic recovery materialises.

3. Cash management

In terms of cash management and trade finance the Bank is able to offer a broad range of modern and comprehensive products. In parallel with offering traditional banking services – such as current accounts, domestic and foreign money transfers, term deposits, overdrafts etc. – the Bank continued its efforts to add new products to the more refined cash management product range, especially electronic and Internet banking products, and intensified its efforts to acquire customers seeking such services. The fast changes taking place in this area were facilitated by the Bank's access to the state-of-the-art technology used by Citigroup. In 2002 the Bank offered the following cash management product groups:

- receivables management
- electronic and Internet banking
- liquidity management

- payments
- trade finance
- trade servicing

In the area of electronic banking the Bank experienced a very fast increase in the use of *CitiDirect*, a key component of the Internet cash management services for corporate customers. In total, at the end 2002 the Bank had 3,170 *CitiDirect* terminals installed compared to 860 at the beginning of the year. The most important feature of *CitiDirect* is the on-line access to accounts by customers and the possibility to initiate a number of transactions using an Internet-connected computer, without the need to leave the office. Additionally, *CitiDirect* has an expanded reporting as well as data import/export functionality. Security is maintained by the latest data encoding techniques. It is planned that within some time all corporate customers using earlier electronic banking products (such as *Goniec* and *MTMS32,* offered before the merger by Bank Handlowy w Warszawie SA and Citibank (Poland) S.A., respectively) will be serviced by *CitiDirect*. The total number of installations of all types of Internet banking platforms increased from 11.5 thousand at the end of 2001 to 12.6 thousand at the end of 2002.

Excellent quality and technological features of the Bank's Internet banking offer for corporate customers was appreciated by experts of prestigious "Global Finance" magazine, who nominated the Bank as "Best Corporate/Institutional Internet Bank in Poland 2002".

In 2002 the use of *SpeedCollect* for mass-payment handling significantly increased, resulting in growth of commission income. *SpeedCollect* enables corporate customers to automatically allocate payments made by their clients to appropriate accounts and reconcile account balance. The system is offered to such customers as telecom operators, cable TV providers, distributors of gas and power supply, or insurance companies. The number of transactions processed monthly by the Bank as part of *SpeedCollect* services increased from 5.5 million in December 2001 to 9.3 million in December 2002.

Year 2002 was marked by intense activities of the Card Products Management Department, offering *Citibank Business* cards for covering business expenses by employees of corporate customers. The Bank launched new products, namely *Visa Business Electron* (*Gold*, *Silver*, *Commercial and CitiBusiness*) with the Safety Package, which replaced the old Citibusiness Mastercard, and the pre-paid Visa Electron card as the first Bank in Poland. The pre-paid card may be used only to make payments in Poland and serves as a loyalty card for making money transfers and for promotions. A special advantage of the pre-paid card is the card personalisation, which means that the specific customer's logo will appear wherever he or she uses the card. In total, by the end 2002 the Department serviced over 3.8 thousand corporate customers, which overall used 16.3 thousand Citibank Business and pre-paid cards.

On May 28, 2002, in co-operation with Citibank Card Acceptance (CCA), Bank Handlowy added to its product offering the service of full payment settlement of transaction made using cards. This product is addressed to companies accepting credit cards as a form of payment.

Starting from June 2002 *CitiConnect* functionality was expanded to authorise payments made in the Wirtualna Polska Internet portal, which ultimately will give customers access to several dozen Internet shops. In general, since *CitiConnect* was launched in 2001, as many as 105 agreements were signed with companies operating Internet shops, of which 58 were signed in 2002. In mid 2002, the *CitiConnect* functionality was substantially enhanced by being implemented on the mobile platform, namely WAP and text messaging (SMS).

4. Trade finance

As a result of the merger with Citibank (Poland) ("CPSA") on March 1, 2001 the Bank gained a dominant position in the trade finance market. The already strong position of Bank Handlowy – dating back to the days when it enjoyed the monopoly for servicing Polish foreign trade transactions – was strengthened further through the acquisition of corporate customers serviced earlier by CPSA. An especially valuable addition was the group of Polish subsidiaries of multinational companies, which were very active in the area of foreign trade.

The total value of the foreign trading handled by Bank Handlowy w Warszawie S.A. in 2002 amounted to USD 19.4 billion, of which USD 8.3 billion referred to export and USD 11.1 billion referred to import transactions. As a result the Bank's share in the trade finance market increased from 23.5% in 2001 to 25.4% at the end of 2002, strengthening the Bank's position as the market leader. This was accounted for by the rise of the Bank's share in import transactions from 22.0% to 25.5%, while its share in export transactions fell slightly from 25.7% to 25.1%.

Apart from the large customer base and the long experience in providing financial services to Polish importers and exporters, the Bank's strong competitive advantage is the extensive range of products offered, which includes a number of types of letters of credit, documentary collections, guarantees, sureties, avals, bankers' acceptances, bill discounting and discounting of invoiced receivables. The steady growth of creditworthiness of Polish companies active in foreign trade coupled with the greater trust in the Polish economy as a whole, which to a large extent is linked to the progress of Poland's negotiations for full EU membership, results in a gradual shift by Poland's Western trading partners from the more complex types of trade finance instruments to much simpler methods like money transfers and invoice discounting. However, letters of credit remain the main form of payment in trade with the Eastern Europe.

On April 18, 2002 the Bank signed an agreement with Korporacja Ubezpieczeń Kredytów Eksportowych S.A. („KUKE"; Poland's export credit insurance corporation) on the insurance of amounts due to factors from debtors domiciled in OECD countries. Both institutions agreed to prepare jointly an insured credit product, which will give Polish exporters dealing with counterparties from OECD countries access to sources of external funding of export transactions, in the form of factoring secured with KUKE's policy. The Structured Trade Sales also implemented a pre-trade finance programme offering the clients a 180-day financing secured by assignment of the letter of credit or contract, or by a guarantee assigned or issued to the Bank. In 2002 2.8 thousand customers used the trade finance products of the Bank.

5. FX and money market activity

The Treasury Department is one of the key profit centres of Bank Handlowy w Warszawie SA, as manifested by the growing contribution of income on exchange position and profit on financial operations in the Bank's income on operations.

Bank Handlowy is the leading participant in the Polish FX and money market, acting as a market-maker in the segment of standard FX and interest rate dealings. As before, also in 2002 the Bank acted as the Money Market Dealer. This position enables access to open market operations conducted by the central bank. This privilege was granted by the NBP to 15 banks (out of 23 candidates), which were marked by an above-the-average activity in the Treasury bills and bonds market, interest derivatives, and custody services, and maintained good relations with the central bank. The relevant agreement was signed with the National Bank of Poland on December 10, 2001. Moreover, at the end of 2002 together with 12 other banks Bank Handlowy w Warszawie SA was selected by the Ministry of Finance to act as the Treasury Securities Dealer in 2003, which facilitates access to the primary T-bill and T-bond market.

The strong position of the Bank in the FX and money market is a result of:

- the large and steadily growing number of the Bank's major customers for FX transactions (5,000 companies) and derivative products (500 companies),

- the large number and volume of operations on the Bank's own account as a result of increasing liquidity management needs,
- the wide, flexible and innovative product offering,
- the Bank's leading position in the area of trade finance,
- its dynamic and experienced team responsible for these transactions,
- Bank Handlowy's excellent reputation on the Polish FX market and the esteem shown both by domestic and foreign counterparties,
- the support and assistance of the Bank's strategic investor, Citigroup, in accessing international financial markets, implementing new products and managing market risk.

Based on estimates of the Treasury Department, the Bank's market share in transactions initiated by customers is 25% in the case of FX transactions (first place), and 25% in derivatives (first place). Also the Bank was the single largest dealer on the primary Treasury debt securities market, which involved, among other things, a substantial development of the relevant portfolio. The Bank's share in the secondary market of securities was somewhat lower – 4% in bonds and 9% in treasury bills. Its share on the interbank market was also lower – 9% in the case of FX transactions and 8% in FRA and IRS. This was due to a large number of these transactions being settled in London through foreign banks.

6. Commercial paper origination

For several years Bank Handlowy has been among the largest participants of the primary market for debt securities issued by corporations and financial institutions. In 2002 the Investment Banking, Securities and Capital Markets Department took part in launching new issue programmes for the following entities:

- a 5-year bond and CD issue programme for FCE Bank Polska S.A. and FCE Credit Polska S.A. with a combined value not greater than PLN 1,000 million; the Bank acted as the lead arranger, issue and payment agent, dealer and depository for the issue; the issue is to be used for funding credit, leasing and factoring programmes of Ford Motor Company with the aim of boosting its car sales in Poland,
- a 3-year bond programme for Polkomtel S.A. to an amount of PLN 500 million with the aim of providing working capital for the company, expansion of its network and development of a new product range; the Bank acted as a co-arranger, dealer, payment agent and depository for the issue,
- a 4-year debt securities programme for Volkswagen Bank Polska S.A., Volkswagen Leasing Polska S.A., Volkswagen Motor Polska Sp. z o.o., Volkswagen Poznań Sp. z o.o. and Co-ordination Centre Volkswagen N.V./S.A. to a total amount of PLN 1,000 million; the Bank was the lead arranger, payment agent, depository and dealer for the issue,
- a public bond issue program for Telekomunikacja Polska S.A. (Poland's largest telecom operator) to a total amount of PLN 1,000 million with redemption terms extending from 1 to 7 years; the bonds will be traded in the over-the-counter CeTO market; the Bank was the lead arranger and programme agent, while Dom Maklerski Banku Handlowego SA (Bank Handlowy's Brokerage House) will act as dealer of the issue in the public trading,
- a 5-year bond programme for Can Pack S.A. to an amount of PLN 100 million; Bank was the lead arranger, programme agent, payment agent, depository and dealer for the issue,

- bond programme for Echo Investment S.A. to an amount of PLN 100 million,
- bond programme for Ecco-Papier Sp. z o.o. to an amount of PLN 50 million,
- bond programme for SCA Packaging Poland Sp. z o.o. and SCA Hygiene Products Sp. z o.o. to an amount of PLN 200 million,
- debt securities programme for Jedynka Skanska S.A. (PLN 100 million),
- debt securities programme for PGF Urtica Sp. z o.o. (PLN 16 million),
- bond programme for MITEX S.A. to an amount of PLN 40 million .

At the end of 2002 the market share measured by size of debt resulting from securities placed by the Bank amounted to 22.0% compared to 18.9% at the end of 2001, giving the Bank a leading position in the market. Overall in 2002 the Bank placed securities of the total value of PLN 13,272 million, translated into a 17.1% market share.

7. Small enterprise banking

The Bank continues to pursue the strategy of strengthening its position in the market for services provided to small companies, defined as those having annual sales below PLN 4 million (so called Tier 0 subsegment). In 2002 the Small Enterprise Department increased the number of customers from 7.3 thousand to 9.5 thousand as a total. The overall number of SME handled by Small and Medium Enterprises Division (including Tier 0) increased from 16.5 thousand to 18.6 thousand in 2002.

The product offer addressed to this group of companies called *Inter Biznes*, built around the *Inter Konto* range of services, was in 2002 provided with full product functionality, including addition of the *CitiBusiness VISA Electron* charge card and a new credit programme, which makes it possible to offer unsecured overdrafts to new customers.

Year 2002 was also the time of intense development of service channels for Tier 0 customers. In May 2002 Inter Bankier service (Interactive Voice Response) was introduced as part of Inter Centrum, i.e. call centre for customers of the Small Enterprises Tier 0 Department. In the same month, the Bank decided to develop appropriate functionality for the Systematics retail banking system in order to enable future transfer of Tier 0 customers to the Retail Banking Sector transaction platform. Starting from 2Q2002, the direct sales network was expanded, amounting to over 200 trained sales agents at the end of the year.

8. Equity investments

This element of the Bank's strategy, which was pursued consistently in 2002, was the scaling down of the equity investments portfolio coupled with a rationalisation of those investments considered of strategic importance.

Among all the developments and factors, which affected the value of the Bank's equity investments in 2002 the following deserve special mention:

- revaluation charge totalling PLN 31.3 million as at January 1, 2002 for investments in subordinated entities accounted for under the equity method, due to amendment of the accounting principles; the introduction of equity method accounting especially affected the 'Investments in joint-ventures' item which decreased significantly following the revaluation of the Bank's interest in PKO/Handlowy PTE S.A.

- purchase of additional shares in Bank Rozwoju Cukrownictwa S.A. („BRC"), as a result of which the Bank's share in BRC increased from 95.77% to 100.00% of the capital and from 86.49% to 100.00% of the votes in the General Meeting of Shareholders; increase in the shares in BRC was connected with the planned sale (liquidation) of the company,

- disposal on March 26, 2002 of all shares in the subordinated company Cuprum Bank S.A. to Dominet S.A. owned by Merrill Lynch Global Emerging Markets Partners L.P. Prior to the transaction the Bank had a 55.26% interest in the capital of Cuprum Bank S.A., which gave it the right to 50.20% votes at the General Meeting of Shareholders,

- disposal of the whole shareholding, i.e. 50.30% share in Tower Service Sp. z o.o,

- disposal on April 26, 2002 of 87,741 shares in the subordinated company Bank Handlowy International S.A. in Luxembourg („BHI"). The transfer of rights to the shares took place on May 6, 2002. The shares subject to the transaction represented 73.12% of share capital and gave the holder the right to exercise 73.12% votes at the General Meeting of Shareholders of BHI,

- taking possession by the Bank on June 3, 2002 of 6,000 shares in Bytom Collection Spółka z o.o. with a seat in Radzionków. The nominal value of the shares was PLN 3 million. The Bank took possession of the shares in lieu of a part of a matured and unpaid loan taken by ZO Bytom SA, on the basis of an agreement signed by the Bank with ZO Bytom SA in 2001 establishing a registered pledge on these shares. As a result of the Bank becoming on June 3, 2002 the sole shareholder of Bytom Collection Spółka z o.o., now holding 6,008 shares of the company, it became a subsidiary of the Bank,

- disposal on September 19, 2002 of all shares (i.e. 31.09%) in Hortex Holding S.A., held together with Handlowy Investments SA, to BankAmerica International Investment Corporation,

- disposal on September 30, 2002 of all shares (i.e. 19.99%) in Mitteleuropäische Handelsbank AG to Nordeutsche Landesbank Girozentrale with the registered seat in Hanover,

- establishment of specific provisions in the total amount of PLN 84.4 million for the shares held by the Bank in the associated companies operating in the construction sector.

Equity investments

	As at:		Change:	
PLN '000	**31/12/2002**	**31/12/2001**	**PLN '000**	**%**
Investments in subsidiaries	371 271	404 916	(33 645)	(8.3%)
Investments in joint-ventures	20 072	101 829	(81 757)	(80.3%)
Investments in associated companies	19 942	116 890	(96 948)	(82.9%)
Other direct equity investments	23 512	57 770	(34 258)	(59.3%)
Investment fund units	4 000	20 119	(16 119)	(80.1%)
Subordinated loans	99 572	123 478	(23 906)	(19.4%)
Convertible bonds of Handlowy Investments SA	59 795	52 384	7 411	14.1%
Total equity investments	**598 164**	**877 386**	**(279 222)**	**(31.8%)**

9. Brokerage and capital market activity

The Bank operates in the capital market through its fully owned brokerage subsidiary - Dom Maklerski Banku Handlowego S.A. („DMBH"). DMBH was established on April 1, 2001 as a result of the transfer of all assets of Centrum Operacji Kapitałowych Banku Handlowego (Capital Markets Centre, previously a unit within Bank Handlowy) to Citibrokerage S.A., which as of that day changed its name to that used currently. DMBH provides a full range of brokerage services available in the market; additionally, it offers a unique product called Investor Package. This offering combines an investment account in DMBH with a current account handled by the Bank's Retail Banking Sector, and is addressed to those who want to invest in the capital market.

The Investor Package includes such services as:

- handling instructions related to brokerage activities (e.g. purchase of shares or bonds) with the use of funds deposited in the account with the Bank,
- automatic and free-of-charge funds transfer between DMBH and the Bank,
- sending all instructions via single telephone access number.

Additionally, the Investor Package allows for a simple and convenient use of a full range of services related to investment account with DMBH as well as current account with Citibank. As at the end of December 2002 DMBH held 18,693 investment accounts, which was 5,310 more than at the end of 2001.

In 2002 DMBH provided brokerage services through its 6 own offices as well as the branch network of Retail Banking Sector of Bank Handlowy w Warszawie SA and the *CitiPhone* call centre. At the end of 2002 the brokerage house had 89 employees.

Operating under deteriorating market condition in the share market and dramatically low trading on the Warsaw Stock Exchange in 2002, DMBH managed to remain second among all brokerage houses in terms of turnover of securities by value (11.1% market share compared to 11.4% in 2001). The combined value of share and bond trades settled via DMBH in 2002 amounted to PLN 5,753 million, compared to PLN 7,494 million in 2001 (total turnover of Centrum Operacji Kapitałowych, Citibrokerage and DMBH in 2001). The amount included share trading at PLN 5,267 million (third place with 11.0% market share) and bond trades at PLN 485 million (second place with 12.2% market share). At the same time DMBH was the twelfth largest broker in futures contracts on the WIG 20 index accounting for 3.5% of turnover by volume (221,800 contracts).

In 2002 DMBH continued to be the leading market maker for shares listed on the Warsaw Stock Exchange. DMBH was the market maker for 44 stocks listed on the WSE (1/5 of the total listed), futures contracts on the WIG 20 index and index units, as well as for two stocks traded on the over-the-counter CeTO market. In 2002 DMBH's share in total market-maker trading turnover on the Warsaw Stock Exchange reached 32.4%. DMBH was also most the active arranger of trading on the CeTO market. The total value of turnover in 2002 reached PLN 257 million, with a market share of 41%.

At the same time DMBH successfully organised trading in shares of non-listed companies. A major development, which should drive volume growth in the coming months, was the commencement by DMBH of trading in employee shares of Polskie Linie Lotnicze LOT S.A. (the Polish national air carrier) on May 27, 2002 as well as of Elektrociepłownie Warszawskie S.A.

10. Custody services

The Bank's Custody Department in providing custody services to its customers complies with Polish as well as international standards set in respect to these services. This enables it to meet requirements of the largest and most demanding corporate clients. The Custody Department forms an integral part of the global custody network of Citibank N.A. known as Global Securities Services.

Bank Handlowy is one of the leading banks offering custody services in Poland. It offers its services both to foreign institutional investors and to domestic financial institutions, especially investment and pension funds.

The services provided by the Custody Department include operating securities and cash accounts, settling securities transactions, handling dividend and interest payments, portfolio valuation, individual reports, execution of customer proxies, and arranges customer representation at general meetings of shareholders of listed companies. It also maintains registers of foreign securities, which also involves intermediation in the settlement of transactions for domestic customers and safekeeping of securities abroad.

The Bank is also active in its efforts to assist in the further improvement of the broadly understood Polish securities law, taking part, through its representatives, in the workings of the Depository Council organised under the *aegis* of the Association of Polish Banks (Związek Banków Polskich). The strong position of the Bank in this market allows it to present its own drafts of amendments to the different regulations in question as well as to help establish practices bringing the Polish market even closer to international standards. Using their resources, experience and competencies employees of the Bank work closely with the Polish SEC (Komisja Papierów Wartościowych i Giełd), the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych S.A.), the WSE and the insurance and pension fund regulator - Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych – in introducing new systemic solutions.

In 4Q2002 the Bank commenced implementation of a new method of servicing foreign financial brokers, by simplifying its existing structure of securities and investment accounts used for booking transactions handled by foreign brokers on behalf of international investors. The aim of the modification of the account structure is taking advantage of possibilities provided for under Art. 34a of the current Act on Public Trading in Securities as well as secondary provisions effective from January 1, 2003. The new transaction settlement process will be fully compliant with the standards of advanced capital markets.

In the latest ranking held by an international branch periodical – Global Custodian Magazine – the Bank was ranked as first in terms of its custody services provided in Poland, achieving the highest score (Top Rated). The aim of the annual ranking for the Global Custodian Agent Bank category is to evaluate the quality of custody services offered to foreign customers by depositories operating in developing markets. The ranking is based on the results of meetings and questionnaires sent to global custodian banks, brokers, insurance companies and other financial institutions. Scoring depends on achievements in particular areas, such as settling securities transactions, customer representation at general meetings of shareholders of listed companies, reports on issuers and securities transactions, technologies and operating systems, communications on amendment of legal regulations. Especially important is the quality of customer service.

As at December 31, 2002 Bank held 4,155 securities and investment accounts.

The Bank acted as a depository for 5 open-ended pension funds: AIG OFE, SAMPO OFE, OFE Pocztylion, Pekao OFE and Zurich OFE as well as for Pracowniczy Fundusz Emerytalny Telekomunikacji Polskiej S.A. – the employee pension fund of Poland's largest telecom operator.

In addition the Bank acted as depository for 19 investment funds managed by the following investment fund societies: SKARBIEC TFI S.A., BZ WBK AIB TFI S.A., SEB TFI S.A., PIONEER PEKAO TFI S.A. and DWS Poland TFI S.A.

11. Agency services

Under an agreement concluded with the Ministry of Finance, entrusting Bank Handlowy with servicing the foreign receivables and payables of the Polish State Treasury, the Bank's Agency Services Department:

- handled over 400 agreements concerning loans, refinancing, debt reduction, compensatory settlements, debt-for-nature swaps and the State Treasury eurobond issues, and also operated 12 clearing, countertrade and special accounts,

- made payments on behalf of the Ministry of Finance in respect of liabilities of the State Treasury and credited the accounts of the Ministry of Finance with repayments made on the State Treasury's receivables; in the first half of 2002 the volume of transactions settled by the Bank through the Ministry of Finance accounts opened with the Regional Branch of the NBP reached PLN 13.9 billion,

- maintained in the State Debt subledger of the IBIS/AS system records of the State Treasury payables for the total amount of USD 27 billion and of receivables for the amount of USD 1 billion,

- prepared statistical and management information on Poland's receivables and payables for the Ministry of Finance and the National Bank of Poland.

It was the decision of the Ministry of Finance not to extend the agreement with Bank Handlowy on the servicing of State's foreign receivables and payables. On May 27, 2002 another agreement was signed by the Ministry of Finance, Bank Handlowy w Warszawie SA and Bank Gospodarstwa Krajowego ("BGK") on the transfer of bank services relating to State Treasury's foreign receivables and payables from Bank Handlowy to BGK.

The Agency Services Department commenced work relating to the transfer, as defined in the above mentioned agreement, of the agency function from Bank Handlowy to BGK in June 2002. On October 3, 2002, the Bank's Management Board decided to close down the Agency Services Department of Bank Handlowy w Warszawie SA effective from December 1, 2002.

12. Co-operation with international financial institutions

In 2002 the bank finally developed its strategy and policy for co-operation with international financial institutions having completed the merger of Bank Handlowy w Warszawie SA and Citibank (Poland) S.A.

The main element of that strategy is continued integration and closer co-operation with the global Citigroup branch network, as well as 750 correspondent banks and their branches world-wide. Owing to its existing contacts, the Bank was able to provide a broad range of innovative products and services for its corporate and individual clients and support them in their international business. Thus the Bank played a key role in providing financial services in the area of Polish foreign trade, foreign payment and foreign exchange. For that reasons, the Bank held 19 nostro accounts in 12 countries, with 10 such accounts kept by institutions belonging to Citigroup. Due to a bilateral nature of such co-operation, resulting from a number of foreign investments made in the Polish capital and money market, Bank Handlowy operated 201 vostro accounts in Polish zloty and foreign currencies, thereby settling interbank transactions and customer payments, as well as foreign trade and purchases of Polish Treasury securities by foreign financial institutions.

Bank Handlowy continued to distribute funds obtained from the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau to a total value of EUR 75 million. The loans relate to the provision of funding (also by means of leasing) for capital projects of small and medium enterprises in Poland in the areas of energy efficiency, environmental protection, investment in industry, services and tourism, and the development of infrastructure.

On February 14 and July 12, 2002 the Bank purchased on the primary market 10-year zero coupon bonds issued by EIB to a total face value of PLN 300 million and PLN 100 million, respectively. The Bank placed a part of this issue on the Warsaw Stock Exchange so that they could be available to institutional and individual investors. This was the third and fourth tranche of EIB bonds issued under debt securities programme arranged in Autumn 2001 for a combined value of PLN 3 billion, for which the Bank acted as sole arranger and underwriter.

13. Consumer banking

13.1 Retail Banking Sector

The Bank provides consumer banking services through a separate unit called the Retail Banking Sector. The range of products and services within that area comprises:

- personal current accounts such as:
    - CitiKonto for individual customers,
    - CitiOne for individual customers of above-average incomes,
    - CitiGold for Private Banking customers with highest incomes, declaring an account balance of more than PLN 200 million.
- term deposits
- ATM cards
- *Visa* and *Mastercard* credit cards
- personal instalment loans, cash advances and overdraft facilities on current account
- Internet banking services via *Citibank Online*, call centre *CitiPhone (0 801 322 484)* and text messaging information (SMS) - *CitiGSM*
- investment banking services
- insurance.

In 2002 the total number of current accounts serviced by Citibank increased from 301.5 thousand to 305.6 thousand. To a large extent the relatively low growth rate was the effect of the review undertaken in February, which resulted in a number of unused accounts being closed. Apart from this, on February 28, 2002 the process initialised at the end of 2001 of transferring the Bank's Private Banking customers, previously serviced in the *IBIS/AS* system (used by the Bank's corporate banking network) to *Systematics* (used by Retail Banking Sector) was completed. In total 41 thousand accounts were transferred. Some of the Bank's customers, who previously had accounts opened both in corporate banking arm of the Bank and in Citibank as a result of the transfer had one of the accounts closed. Those former Bank Handlowy's Private Banking customers served through the corporate network, which met the criteria set for this product group, were offered the *CitiGold* account.

Major product innovations launched in 2002 included long-term investment deposits linked to selected New York Stock Exchange indexes and the share prices of the largest multinational companies, and life insurance products offered jointly with CitiInsurance Polska Towarzystwo Ubezpieczeń na Życie SA, a subsidiary of CitiInsurance International Holdings, Inc. Sales of insurance products commenced on August 8, 2002 with the savings and life insurance programme; until the year end the offering was extended to include 6 products, now used by 15,000 of the Bank's retail customers. CitiInsurance started operating in Poland on May 16, 2002.

In 2002 the Bank experienced further dynamic growth of its business in the area of investment products for retail customers. Units in investment funds of Towarzystwo Funduszy Inwestycyjnych BH S.A. and portfolio management by Handlowy Zarządzanie Aktywami S.A., which were added to the *CitiGold* range in August 2001, was in 2002 expanded to 70 branches of the Retail Banking Sector. The Bank also started distribution of units of the new *DWS Top 50 Europa* investment fund.

As at the end of 2002 the Bank's share in the market of deposits and loans to individual customers was 2.9%, and 2.2%, respectively (9th and 11th place in the market), while its share in the income generated by the banking sector on individual customers in 2002 was estimated at 4.2%. The higher share in the income compared to the deposit and loan market is explained by high profitability of credit cards.

The Retail Banking Sector continued efforts aimed at optimising the use of the different distribution channels by its customers. The objective is to increase the use of remote, electronic channels, improve efficiency in the use of branches and strengthen the links with the Commercial and Investment Banking Sector with the aim to increase sales of products through its branch network (*cross-selling*). Thanks to the rapid increase in the number of customers using the electronic channel *Citibank Online* („*CBOL*") a very significant increase in the number of transaction initiated through this channel was achieved. In April 2002 for the first time ever the number of transactions initiated through *CBOL* was higher than the number of those initiated through the Bank's call centre - *CitiPhone*. Overall shares of the Internet platform in initiating transactions grew from 28% in December 2001 to 40% in December 2002, and *CBOL* strengthened its position as the main channel for retail customer service. Growing popularity of the Internet channel brings substantial savings for the Bank, resulting from the transfer of customer relations to a more economical platform. It is the ambition of the Retail Banking Sector to make *CBOL* the leading Internet banking platform in Poland. At the end of 2002 *CBOL* had 86.3 thousand Internet customers compared to 41.3 thousand in December 2001. The number of Internet customers of the Bank placed it second among all traditional banks offering Internet as an additional channel. In 2002 the functionality of *Citibank Online* was expanded by term deposits, forward-dated external transfers, outgoing transfers in IBAN format and free-of-charge confirmation of an external transfer. In August 2002, a new *CBOL* Internet portal was launched, combining transaction and information functionalities. High quality of the *CBOL* services was also acknowledged by specialists: "Global Finance" awarded *CBOL* with the title of Best Consumer Internet Bank in Poland 2002.

Year 2002 was also the time of a dynamic development of *CitiGSM* messaging service based on the short messaging system (SMS) though text messages sent to customers. The overall number of customers signed on to *CitiGSM* reached 21 thousand.

As at the end of 2002 the Retail Banking Sector had a network of 104 branches (11 *Citigold* branches and 93 standard branches), 18 service points for retail customers in commercial banking outlets and 211 ATMs. Owners of Citibank ATM cards were also able to make free-of-charge withdrawals from Poland-wide network of Euronet ATMs. Also in 2002 the branch in Bydgoszcz was added to the exclusive Private Banking *Citigold* network, which was opened on May 16. Due to a reorganisation of the retail branch network, on March 30, 2002 6 branches were closed and 2 joined the new CitiFinancial network. A vital initiative that supported the development of retail sales channels was the *Bank@Work* project originated in 2001, consisting in offering consumer products to employees of corporate customers already handled by the Commercial and Investment Banking Sector.

In the loan market the Retail Banking Sector concentrated its efforts on expanding its activities on the credit card market, in which it anyway enjoyed a dominant position measured by the customers' credit card debt, which reached 46.5%. As at the end of 2002 the number of credit cards issued by Citibank stood at 425.7 thousand as compared to 377.5 thousand at the end of 2001, which translated into a 12.8% increase. The fast increase of the number of credit cards issued was in a large part a result of the introduction of a *MasterCard* product to the Banks offering, and especially the success of a limited edition of *Citibank MasterCard FIFA 2002*, related to the World Football Championship held in Japan and South Korea. Between April 15 and August 1, 2002, 31.5 thousand such cards were issued.

From August 19 the retroactive cover of Citibank cards was extended from 48 to 72 hours (for cards with a photo). If losses resulting from the card with a photo being lost or stolen are incurred by a customer within 72 hours before restricting the card and exceed PLN 100, the Bank covers the damage in the part exceeding PLN 100. Moreover, from October 15 the repayment time of credit cards was extended from 15 to 21 days from the date of the account statement, due to which the maximum period of interest-free credit increased to 51 days. Another attractive feature of Citibank cards was a shopping discount programme developed in cooperation with around 700 shops and available for each cardholder.

Number of active credit cards (in thousands)

		As at	
Name	**System**	**31/12/2002**	**31/12/2001**
Citibank Silver	Visa	284,9	269,4
Citibank Gold	Visa	42,8	39,0
Citibank-Elle	Visa	35,1	43,1
Citibank Silver	Mastercard	34,1	-
Citibank-Era Silver	Visa	24,9	24,8
Citibank Gold	Mastercard	2,1	-
Citibank-Era Gold	Visa	1,7	1,2
Total		**425,7**	**377,5**

The marketing activities in 2002 were enlivened by a series of events referring to the fifth anniversary of the Citibank cards' presence on the Polish market. The peak events took place on November 16 to 17, 2002 in the largest Polish shopping centre – Galeria Mokotów in Warsaw.

The high quality of Citibank card products offered by the Retail Banking Sector brought the Bank several distinguishing titles in 2002:

- 1st place in credit card rating of the Rzeczpospolita daily in the Safest Card category,
- the Trusted Brand 2002 title, awarded in a poll of the Reader's Digest magazine readers, taking part in the European consumer survey organised by the magazine,
- 1st place in the credit card rating of the Gazeta Bankowa daily in the Most Effective Offering category.

However, the greatest distinction awarded to the Retail Banking Sector personnel in 2002 was the leap of the retail customer satisfaction ratio to 86% from 67% in 2001. Such a considerable improvement of the ratio, measured within the annual Survey on the Customer Satisfaction and Loyalty, confirms the success of the retail banking model offered by Bank Handlowy w Warszawie SA and creates strong foundations for the development of the business in the future.

13.2 CitiFinancial

In September 2002 a new business line was launched, focused on lending services to low-income customers under the CitiFinancial brand. On October 14 in Warsaw the opening ceremony of the first CitiFinancial branch was held, and until the end of 2002 the number of active outlets rose to 4. There are plans to expand the network throughout the country, until it reaches 60 outlets in year 2006. The CitiFinancial offering includes unsecured cash loans for an unspecified purpose and "Blue Instalments" loans for private individuals, as well as insurance policies of CitiInsurance Polska Towarzystwo Ubezpieczeń na Życie S.A. In total in 2002 1.0 thousand cash loans and 4.5 thousand instalment credits were granted, and the total value of the CitiFinancial credit portfolio at the end of the year amounted to PLN 13.1 million.

Komentarz [L1]: c

14. Asset management and investment funds

In 2002 the Group experienced further dynamic growth of its asset management business. Assets entrusted to Handlowy Zarządzanie Aktywami SA ("HanZA") increased from PLN 767.4 million at the end of December 2001 to PLN 1,438.4 million as at December 31, 2002, which represented a 87.4% growth and an increase in HanZA's asset management market share from 2.7% to 3.0% placing the company in eighth position. Of this amount, PLN 782.7 million came from *CitiFundusze*, PLN 204.6 million from individual customers, PLN 434.5 million from insurance companies and other financial institutions, and the remaining PLN 16.6 million from other corporate customers. If advisory services also offered by HanZA are included, total assets under asset management and advisory services rose in 2002 from PLN 1.2 billion to PLN 2.4 billion, i.e. by 100.2%. Particularly fast growth was observed in assets entrusted by financial institutions (growth by 188%) and individual customers (growth by as much as 1433%). In the case of individual customers, the large number of new customers acquired and the resultant high growth of asset volumes was the combined effect of HanZA introducing a new debt securities portfolio – the optimisation portfolio – and the closer and more effective co-operation with *CitiGold* branches in the distribution of investment products offered by HanZA. A great achievement of HanZa in 2002 was overcoming benchmarks by all investment strategies, pursuant to which the company managed the customers' portfolios.

Year 2002 was particularly good for the Bank's investment fund society Towarzystwo Funduszy Inwestycyjnych Banku Handlowego SA ("TFI BH"). Assets entrusted to TFI BH rose from PLN 404 million at the end of December 2001 to PLN 783 million at the end of 2002. Over last year the assets increased by approx. 94 %. The value of the assets under management as at December 31, 2002 placed TFI BH at 8th position with a 3.4% market share.

An important development in the area of asset management was the change of name of the Bank's investment funds from *Kapitał Handlowy* to *CitiFundusze* (*CitiFunds*), effected on March 26, 2002. This move was to underscore the links of TFI BH with Citigroup and unify the branding used for TFI BH products with names of products offered by Citibank. It also improved brand awareness among potential customers of the Bank's funds.

The fastest growth was experienced by the CitiObligacji FIO fund. Investment in the fund was more attractive than a bank deposit – the unit value rose over 2002 by 12.46%. The assets of CitiObligacji FIO increased over the year by PLN 303 million and on December 31, 2002 amounted to PLN 594 million, which placed the fund in ninth position in the market in respect of the value of assets. The considerable growth of assets in 2002 was, among other things, influenced by the increased availability of *CitiFundusze*. The number of retail branches of Bank Handlowy w Warszawie SA adapted to sell *CitiFundusze* units grew to 70, which made the Retail Banking Sector the principal and most effective channel of *CitiFundusze* distribution.

The year of 2002 was also successful in respect of management results. The value of a CitiZrównoważony FIO unit grew by 9.50% over 2002 while CitiAkcja FIO grew by 7.54%. The results achieved by both funds place them as second in respect of profitability gained over the last year among the funds of a given category. In respect of the unit value growth, the CitiSenior SFIO Fund placed fourth among the stable growth funds – the unit value rose by 10.48%.

In 2002 the number of investment funds managed by TFI BH increased from 5 to 8. In October 2002 a new fund targeted at retail customers was launched – CitiObligacji USD Fundusz Inwestycyjny Mieszany nominated in US dollars. CitiObligacji USD FIM is an offer addressed to customers looking for a product that would be potentially more attractive than a USD bank deposit. During the first subscription, which closed on December 6, 2002, customers signed up for the Investment Certificates totalling USD 9.467 million. Certificate subscription will be repeated periodically – next issue is scheduled for the 1Q 2003. In October a fund exclusively targeted at corporate entities – CitiPłynnościowy Specjalistyczny Fundusz Inwestycyjny Otwarty – was introduced to the TFI BH offering. This is a unique fund on the Polish market and an alternative solution to overnight and short-term deposits. Characterised by high liquidity, attractive profitability and low investment risk, CitiPłynnościowy SFIO is modelled on liquidity funds offered in many countries by Citigroup Asset Management. First assets in the amount of PLN 10 million flowed to the funds at the end of 2002.

Another significant event for TFI BH was the launch of Fundusz Własności Pracowniczej PKP SFIO (Employee Ownership Fund of the Polish State Railroads) in October last year. For the first time employees of a privatised institution may participate in the privatisation through an investment fund established especially for this purpose. 15% of all proceeds from the sale of assets belonging to the Polish State Railroads, including real estate and shares in subsidiary companies, will be placed in the fund, which at present has 380,000 participants. In the coming years FWP PKP SFIO may considerably influence the growth of assets managed by TFI BH - it is estimated that ultimately assets of the fund may reach PLN 1.3 billion. FWP PKP SFIO is a stable-growth fund – up to 60% of the assets will be invested in debt securities issued by the Treasury and other issuers of high credibility.

TFI BH also continues to be the clear leader on the Employee Pension Programme market. By the end of 2002, 24 Employee Pension Programmes were registered in the form of an agreement with the CitiSenior SFIO. As a result of the regular inflow of fees, assets of this fund rose in 2002 by over 138% and amounted to PLN 70.6 million as at the end of 2002.

In 2003 TFI BH is planning to expand the distribution network of *CitiFundusze*, by acquiring new external distributors. A considerable growth in the number of new customers, both individual and institutional, is anticipated. TFI BH expects a growth in the popularity of balanced and share funds.

Independent experts appreciated excellent performance of CitiFundusze in 2002. TFI BH won second place in the ranking of investment societies prepared by “Rzeczpospolita” daily. “Puls Biznesu” picked up CitiAkcji FIO as the best share fund in the country, based on the poll conducted among 150 financial analysts and professionals.

15. Pension funds

The bank has a 50% interest in the pension fund company PKO/Handlowy Powszechne Towarzystwo Emerytalne S.A., which manages the Bankowy open-ended pension fund (“OFE Bankowy”).

In 2002 OFE Bankowy experienced a net outflow of customers, with their number dropping from 389.1 thousand to 383.6 thousand (3.6% market share). By the end of 2002 assets under management rose to PLN 967.9 million (an increase of 56.3% as compared to the end of 2001), making OFE Bankowy the sixth largest pension fund with a market share of 3.1%. In April, as a result of the fund not meeting the minimum 24-month rate of return published quarterly by KNUiFE, PKO/Handlowy PTE was forced to make a cash contribution to the fund in the amount of PLN 16.4 million. The contribution resulted in a 21.936% rate of return (6^{th} place among 17 OFE) in a 24-month period ending on December 31, 2002 with weighted average rate of return for all OFE at 21.965% and the minimum required rate of return at 10.983%. At the end of 2002 the investment portfolio of OFE Bankowy was consisted of debt securities (bonds and Treasury bills) 64%, and investment in shares 31%, compared to 74% and 22%, respectively, at the end of 2001.

In March 2002 Bank Handlowy together with the other shareholder of the PKO/Handlowy pension fund company – PKO BP S.A. made the choice of the financial advisor to prepare an analysis of strategic options available to both shareholders of the PKO/Handlowy fund.

IV. Other information

1. Rating

After the withdrawal of the full rating of Fitch Ratings upon the Bank’s request on October 2, 2001, which was related to the change of the Bank’s strategy of co-operation with rating agencies after the merger, the only rating conducted upon the Bank’s request was that of Moody’s Investors Service. In 2002 the Bank’s financial credibility as evaluated by the Moody’s agency remained unchanged at the following levels:

- Baa1 – rating for long-term deposits
- Prime-2 – rating for short-term deposits
- D+ – rating for financial standing

Rating scale at Moody’s Investors Service

Long-term bank deposits	
Aaa	Investment rating
Aa1	
Aa2	
Aa3	
A1	
A2	
A3	
Baa1	
Baa2	
Baa3	
Ba1	Speculative rating
Ba2	
Ba3	
B1	
B2	
B3	
Caa1	
Caa2	
Caa3	
Ca	
C	

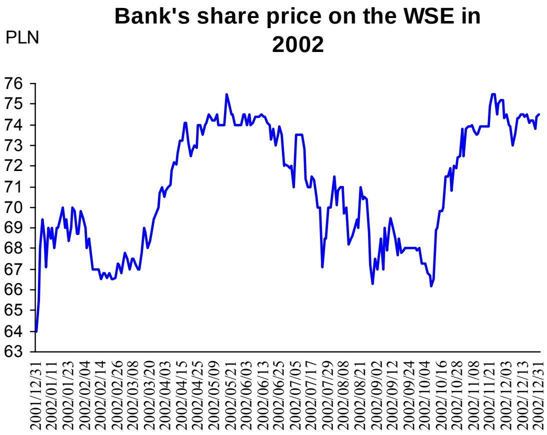
Short-term bank deposits
Prime - 1
Prime - 2
Prime - 3
Not prime (NP)

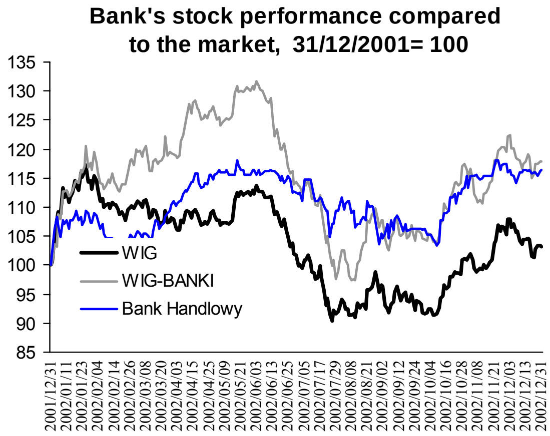
Financial standing
A
A-
B+
B
B-
C+
C
C-
D+
D
D-
E+
E

On 12 November 2002 the Moody’s Agency upgraded the ratings of Poland (so called “sovereign rating”) from Baa1 to A2 for long-term bonds and bank deposits, and from Prime-2 to Prime-1 for short-term debt securities and bank deposits. The decision was made due to the advanced process of Poland’s integration with the EU. On the same day Moody’s placed the Bank on the watch list with the option of upgrading the Bank’s rating in relation to the increased sovereign rating.[3]

[3] Eventually, on 14 January 2003Moody’s upgraded the Bank’s rating to A2/Prime-1.

2. The Bank's share performance on the Warsaw Stock Exchange





In 2002 the share price of the Bank on the Warsaw Stock Exchange (WSE) went up from PLN 64.0 (December 31, 2001) to PLN 74.5 (December 31, 2002), i.e. by 16.4%. As a comparison, the main index of the WSE – WIG – gained 3.2%. However, Bank Handlowy's share price growth was in line with the boom seen on all bank stocks traded on the WSE (the WIG – BANKI bank index rose 17.8% over the same period).

3. Visual identification

On November 12, 2002 a new trademark of the Bank was introduced – citibank handlowy. It will be implemented for the whole Bank, which so far operated under the brand of Bank Handlowy w Warszawie SA, and in retail banking under the Citibank brand. The replacement of the signage of the Bank outlets will be carried out gradually in 2003. Coupling of the two brands reflects the Bank's strategy as an institution that offers a comprehensive range of financial products for both corporate and individual customers within the same establishment. This will result in uniform visual identification of the Bank, as a result of which the awareness of the whole institution among the customers will increase (so far it was perceived as two separate entities), and so will the savings on marketing expenses.

V. Expansion of the Bank's product range and changes in IT technology

1. Product range

In January 2002 the range of business cards offered by the Bank's Commercial and Investment Banking Sector was extended by the addition of the *Visa Business Electron* card. It is addressed to corporate customers, which may give them to employees for making business-related payments and for withdrawing cash.

In May the Bank, together with Citibank Card Acceptance (CCA), introduced a service of full settlement of transactions paid for with the use of cards. As part of this service the Bank provides its customers with POS terminals, a 24-hour access to the technical Help Desk and authorisation service, and allows customers to view transactions in the Internet and generate electronic statements on a daily basis. This service is a significant supplement to the Bank's product offer targeted at retailers and companies providing services to individuals.

In June Bank Handlowy, as the first bank in Poland, issued pre-paid cards (*VISA Electron)*, which may be used by customers as a loyalty card, for making money transfers and for promotion (in the last case the card is not personalised, i.e. does not have the name of the user embossed). After the original pre-paid limit is used, it may be again replenished by the user. In addition the Card Products Management Department implemented the so called *Kartowe Zlecenia Stałe* (*Standard Card Payment*) service, which allows customers to make payments on regularly issued invoices or make purchases charged to a card issued within the Visa, Europay or MasterCard systems, and indicated by the customer in an authorisation issued by the owner of the card.

In June the Bank, together with the mobile operator Idea Centertel, launched two new services available to customers of Idea. They allow customers using the Idea mobile network to make parking payments in Warsaw by phone, and to replenish the pre-paid POP cards through text messages (SMS). Two months earlier similar services accessible through the Internet were introduced by the Bank.

The implementation of the *CitiConnect* system was another novelty in the Bank's offer. The system facilitates payments in Internet shops on a mobile platform; now two new channels were added: WAP and SMS.

In December 2002 the Bank introduced the Unikasa Payment Servicing Network (Sieć Obsługi Płatności Unikasa), which enables customers to make regular payments in the most often visited places, e.g. supermarkets, petrol stations etc. The Payment Servicing Network is a system of combined points (Unikasa), where payments are made through an automatic readout of information from the account (e.g. electricity and gas payments, phone bills, cable TV and press subscriptions, insurance premium payments). The Bank signed an agreement with the Casino Group, on the basis of which the new system will be implemented in Geant chain of hypermarkets (15 stores) and in all Leader Price supermarkets (100 stores).

In 2002 the following new products were added to the Retail Banking Sector (Citibank) range:

- a 3-year investment deposit denominated in PLN linked to the Dow Jones Global Titans stock index,

- a 2-year investment deposit denominated in USD linked to a group of 15 major multinational companies (Siemens, Procter&Gamble, Cisco, Exxon Mobil, IBM, Walt Disney, General Electric, Philip Morris, Morgan Stanley, Bank of America, AOL Time Warner, Pfizer, Nokia, Ford, Toyota Motor),

- a 3-year investment deposit denominated in USD or EUR linked to the Dow Jones Industrial Average stock index,

- a special edition of the *Citibank MasterCard FIFA 2002* credit card issued to celebrate the Korea/Japan 2002 World Football Championship, making Citibank the first institution in Poland to issue a *MasterCard* credit card,

- distribution of units of the new *DWS Top 50 Europa* investment fund offered by DWS TFI.

2. IT systems

The year of 2002 witnessed finalisation of significant IT projects related to the Bank's integration with Citibank (Poland) S.A., and also to the Bank's incorporation into the Citigroup IT system.

The most important achievement was completion in December 2002 of the implementation of the *FlexCube* IT system, the main IT system for Commercial and Investment Banking. FlexCube is a modern, state-of-art real-time processing IT system The system supplier is I-Flex, belonging to Citigroup. I-Flex is a provider of banking systems for over 280 financial institutions in 74 countries. *FlexCube* has been implemented in the Citigroup branches in the Western Europe, Asia and the Middle East.

On November 1, 2002 migration of the Bank's Regions to the new system, which began on November 30, 2001 was completed, and on December 15, 2002 the Bank's Head Office was converted to *FlexCube*. The *IBIS/AS* system became an archive system. Parallel to the process of the Bank's conversion to *FlexCube*, the implementation of the new release of *FlexCube* (3.9) enhanced by new functionalities and the new *Securities* module, was undertaken.

In 2002 *eDealer* for the Treasury Department was implemented. The system is used for quoting of FX deals carried out in the Bank's branches. *eDealer* replaced the *Autodealing* application. Simultaneously with the conversion of the Commercial and Investment Banking to *FlexCube,* other systems were disabled, such as: the already mentioned *Autodealing*, *Fastwire* and *Nostro Reconciliation*. As a result, the *AS/400* and *VAX* platforms ceased to be production platforms in the Bank. Additionally, due to withdrawing the *IBIS/AS* system from DMBH, it was necessary to enhance functionality of the *Promak* system by teller operations as well as incoming and outgoing transfers.

The security standards and control procedures on NT servers were unified. Further centralisation of the NT platform servicing the Computer Centre in Olsztyn facilitated achieving comprehensive and centralised handling of the operating system, and therefore an increased reliability and reduced costs through the economies of scale.

Another important IT project was the implementation of a new system for archiving and storing financial data and accounting reports. The previously used system *COOL* was replaced with *AXSPoint*. In parallel with the system change, a UNIX platform (Sun Solaris) was implemented replacing WinNT platform and the data conversion to AXSPoint was performed for the whole Bank.

Parallel to implementation of specific IT systems, the Bank introduced corporate policies for IT technology management. This included implementation of corporate standards in respect of system security, problem and modification management, as well as technological projects management. The system security was also upgraded in preparation for the *Continuity of Business* environment („COB"), destined for maintaining the Bank's activities in case of failures, and carrying out tests for systems and applications administered by the Applications Development and Maintenance Department and the Bank's IT Integration Department.

In the area of Internet banking, centralisation of processing of orders channelled to the Bank by *Goniec* system was made and the obsolete IT equipment was removed from the Bank's branches.

Intensive research was also conducted concerning the expansion and adjustment of the Bank's IT network infrastructure to the Citigroup standards, with particular emphasis placed on the network security requirements. In June 2002 the project on data encoding in Bank Handlowy's Wide Area Network, which began in November 2001, came to an end. Execution of this project, which consisted of implementation of modern data encoding techniques and adjustment of personnel's computer workstations to the standards of Citigroup Information Security Office, assured safe data transmission within the network and was a cornerstone to full network integration of the merged Bank. Carried out from June to September 2002, the new e-mail system project enabled unification of the e-mail platform installed in Warsaw. Another project aimed at creation of an integrated network environment was installation of the *FireWall* technology for the purpose of isolating external services (such as Reuters, KIR, Sorbnet etc.) from the Bank's network while ensuring safe access to these services from the Bank's network. The project ran from September to December 2002. In September 2002 the final project of network integration began, the purpose of which was to create a single IT and telecommunication network in the Bank. The ultimate network will be an integral part of the Citigroup corporate Wide Area Network, and migration to the new network structures will be performed gradually for each Region of the Bank. Additionally, in October 2002 the project of reconstruction of the telephone exchange network commenced with the aim to introduce security mechanisms and create billing and telephone exchange management systems.

In April a new version of the main treasury front-office system, *Kondor+ 2.0*, was installed. The most important new features available now include the *Credit Net* module for tracking credit limits and multi-currency bookings of securities transactions.

The Risk Management Division implemented the *CAPS* application, which supports management of credit exposure to corporate customers. The application combines features of a data warehouse for the Bank's loan portfolio (a range of data from credit agreements, classification of borrowers and collateral) with those of a system for calculating required provisioning levels. *CAPS* also allows the Bank to automatically generate reports based on NBP requirements.

The Finance Division obtained a new tool for profitability analysis of particular clients and client segments, products and product groups, and also for monitoring implementation of financial plans. The *eMIS* system is based on intranet technology, so that authorised employees will be able to use the system directly from their workstations. A special management accounts application was implemented in the Treasury Section under the name of *MIS/Treasury*.

VI. Major risk factors relating to the Bank's environment and operations

1. Environmental risk

1.1 The economy

The situation of the banking industry in Poland, and thus 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. First of all, the prolonging period of low GDP growth in Poland may result in more customers of the Bank being unable to pay their liabilities to the Bank on time, which will have an adverse effect on the Bank's financial results.

Similarly, the Bank's results can be influenced by such factors as inflation, wage levels, unemployment, interest rates, performance in foreign trade and the current account balance, the size of the government deficit, exchange rate fluctuations, and demographic trends. Any unfavourable changes in these macroeconomic factors, particularly a protraction of the economic slowdown (implying uncertain growth associated with investment spending) or 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. It should also be noted in this regard that lower interest rates, both in nominal and real terms, will promote customer interest in savings vehicles that are alternative to bank deposits.

Macroeconomic policies and the measures taken by government institutions exert a major impact on the national economy, and – 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.

1.2 Regulatory risk

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 by the secondary provisions issued by the Minister of Finance, resolutions of the Management Board of NBP, regulations issued by the President of the NBP, and resolutions of the Commission for Banking Supervision ("KNB").

In terms of the regulations mentioned above, those of key significance include:

- permissible concentration of exposure limits (Banking Act),
- the ceiling on equity investments, measured in relation 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, Banking Act, resolutions of the Commission for Banking Supervision and the NBP Management Board),
- obligation to create specific provisions against irregular assets (the Accounting Act and the Banking Act), and
- 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.

1.3 Taxation

Poland's tax system is subject to frequent changes, many regulations have not been drawn up with sufficient precision, and there are no clear interpretative rulings on those regulations. 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 the Bank, this could have a material adverse effect on the operations of the Bank, its financial condition, earnings and growth prospects.

1.4 Competition within the banking sector

The competition between the banks in different segments of the Polish banking market seems to be getting even fiercer, following organisational and technological development of the banks. In the Bank's opinion, competition on the market of banking services provided to large corporate customers and municipalities will be growing. Moreover, numerous banks declared their expansion plans for 2003 to the sector of small businesses and in the area of retail services, which will have a direct impact on increased competition in these areas of banking services.

Many international financial institutions are investing in the Polish banking sector and still new entities appear. Additionally, corporate entities are using financial alternatives to bank loans, such as issues of short-term debt securities, bonds, equity issues or lease finance. It is possible that due to a growth in foreign investment in the banking sector, and to the sector's consolidation process, competition will increase.

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. Operational risk

2.1 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 build-up 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 Assets and Liabilities 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.

2.2 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 co-operates 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.

2.3 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 Assets and Liabilities 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.

2.4 Risks 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 Ministry of Finance, and establishes all the requisite specific provisions against loans classified irregular. The Bank's Management Board is of the opinion that the current level of provisions is adequate. Additionally, in respect of a part of loans, their risk-related classification is based on assessment of the possibility of acquiring a strategic investor for a given debtor. Therefore, maintaining high level of foreign investment may be crucial to evaluation of certain loans. 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 financial situation of 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.

2.5 Equity investment risk

Decisions concerning investment activities undertaken by the Bank are made by the Management Board and the Equity Investment Committee. Equity investment can be divided into three categories: active, strategic and restructured. Active investment aims at ensuring high rate of return. Strategic investment portfolio includes the Bank's shares in financial institutions, being of a strategic significance to the Bank due to its operations. Restructured exposure results from operations consisting of receivables conversion into equity shares. Investments are executed directly by the Bank or indirectly via the Bank's investment companies (with 100% Bank's share). The net value of equity investment together with subordinate loans and interchangeable bonds for the Bank's special purpose investment companies amounted at the end of 2002 to PLN 598.2 million. For some equity investments, the assessment is based on the assumption of finding a strategic investor for the company, in which the Bank holds shares. Therefore, maintaining a high level of foreign investment may be crucial to evaluation of such investment. Moreover, due to a number of macroeconomic effects, the situation on equity market and other factors having an impact on activities of the companies, in which the Bank is a shareholder, the selling price of owned shares may turn out lower than expected, or even lower than their value in the Bank's books, which may have a negative impact on assessment of the Bank's shares. In 2002 the Bank already created considerable provisions related to its equity investment; hence the risk level connected with further drop in the value of the Bank's investment portfolio is low.

2.6 Operating risk

In 2002 the Bank completed projects connected with integration of the IT systems resulting from the merger with Citibank (Poland) S.A. As a result, the Bank operations are based on two systems –

corporate and retail operations. The Bank is not planning to carry out further changes in these systems, except for current modifications aiming at increased system functionality or introducing new products.

Data processing for Retail Banking is performed in the data centre located in Singapore. This allows the Bank to achieve cost efficiencies, gives it easy access to technical support and allows it to adopt the most modern solutions developed by that centre. However, this increases the risk associated with the transmission of data over large distances, the potential exposure of the Bank to natural disasters that may happen in the region of South-East Asia. The Bank has security procedures (*COB – Continuity of Business*) in case of the occurrence of such threats – e.g. it has reserve capacities at its disposal in the Computer Centre in Olsztyn and in other locations, which guarantee maintenance of the institution's functioning.

The overall level of operating risk is low.

2.7 Legal risk

The Bank is a subsidiary undertaking of Citibank N.A., which belongs to the Citigroup. 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. The Bank uses IT systems developed and used by other members of 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.

2.8 Contribution 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.

VII. Prospects for the Bank's business development

1. General objectives of the Bank's development

The Bank's objective is to increase systematically shareholder value by ensuring an appropriate return on equity and maximising the value of the institution and its business relationships. The Bank's involvement in Citigroup, the largest financial institution internationally, will allow it to compete effectively in all market segments and to gain new groups of customers. Last year the Bank increased its customer base, among other things, due to the expansion of services rendered to small businesses and private individuals with low income. In the years to come, the Bank's intention will be to continue active acquisition of new customers from all market segments.

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 2002, this share stood at 7.3%. This increase in market share is to be attained by maintaining the Bank's leading position in servicing corporate clients, Treasury operations, private individuals with the highest income (*CitiGold*), and also by developing services for small and medium enterprises, financial institutions and retail banking for medium-income customers. The Bank is planning to grow the newest areas of its activities, i.e. services for small businesses (the *Inter Biznes* package), cash loans for private individuals of low income (CitiFinancial) and life insurance (CitiInsurance).

Simultaneously, the Bank will place special emphasis on efficient cost management policy. The Bank's share in the total expenses of the banking sector is systematically decreasing – in 2002 the average was 6.7%. In the years to come, the Bank is planning to maintain high discipline of costs management, so that cost/income ratio remains constantly at the level below 50%. This will result in an increase of profitability of the Bank's activity. In 2002 the Bank's share in the sector's net profit amounted to 8.7% as compared to 4.5% in 2001.

2. Banking services to corporate and institutional customers

Bank Handlowy w Warszawie SA is a leader on the corporate banking market in Poland. Its loan share in corporate market (private and state-owned companies as well as co-operatives), as at the end of 2002, reached 9.7% (third place in the sector) as compared to 10.8% at the end of 2001, whereas the share of corporate deposits amounted to 15.5% (first place) as compared to 16.5%. The Bank's share in exposure to short-term corporate debt security issues amounted to 22.0% at the end of 2002 (first place) as compared to 18.9% at the end of 2001.

The Bank's potential customer base in the area of corporate banking includes all companies operating in Poland (except for those belonging to sectors lying outside the Bank's target market due to the policy of Citigroup or included on restrictive lists as a result of sanctions imposed either by the US government or international organisations), however, active acquisition will be undertaken only in the case of customers with annual sales exceeding USD 100 thousand.

The Bank's position is particularly strong in handling international corporations and the very largest Polish companies. 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. 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. Simultaneously, the Bank will expand its financial consulting services.

The Bank also holds a strong position in the market of handling other segments of corporate and institutional clients, as well as financial institutions. The Bank's goal is to achieve a double-digit share of the remaining segments of the corporate and institutional market within a time frame of three years.

Loans will remain the key product group sustaining the Bank's relationships with customers, although a majority of revenues will be generated from cash management, trade finance and treasury products. The specific solutions and innovations present in these product groups will be the key factors behind the Bank's competitive advantage, especially in relation to the most demanding international customers, leading local corporations and financial institutions. The Bank will also aim to utilise to a greater extent the potential for sale of these products in the SME segment.

The Bank will also continue to market its services actively to the small business sector (companies with revenues on sales below PLN 4 million). The Bank's intends to be one of the top five institutions servicing this market segment in the next three years. These customers will be serviced through the consumer and corporate banking branch networks and via remote distribution channels.

Investment banking services are to be made available through close co-operation between Bank Handlowy and Citigroup Investment Banking (Salomon Smith Barney). This will allow the execution of large-scale international transactions to be combined with services to smaller domestic companies.

3. Retail banking

Bank Handlowy w Warszawie SA is a medium-sized player in consumer banking. The Bank's participation in private individual lending totalled 2.2% at the end of 2002 as compared to 2.5% at the end of 2001, whereas in deposits were 2.9% and 2.8% respectively, which places the Bank at the bottom of the first ten in the sector. The decline in the loan market share was connected with the Bank's cautious approach to lending activity, due to the prolonged difficult economic situation.

Parallel to the wide product range for private individuals, the Bank specialises in credit cards. The Bank's market share in this segment remained stable throughout last year, maintaining at the level of approx. 50% in respect of the exposure. Another area of the Bank's specialisation, in which it has a leading position, is rendering services to high-income private individuals (*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 consumer banking Bank Handlowy will concentrate its efforts on the acquisition of customers with above-average incomes (over PLN 1,500 monthly), living in cities with over 100,000 inhabitants. The Bank's product offering has been tailored to suit the expectations/requirements of this customer profile.

In 2002 the Bank began to grant cash loans to low-income customers, but this activity has been separated from other business areas, and is conducted under the CitiFinancial brand, the part of Citigroup specialising in lending activity to this group of the Bank's customers. The Bank anticipates growth of this activity.

The Bank's goal is to further strengthen its position among the highest income customers. Its *CitiGold* product line is systematically expanded by, e.g. comprehensive wealth 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.

Moreover, the offer directed to medium-income clients holding *CitiOne* or *CitiKonto* accounts will be expanded. Except for developing traditional deposit services and increasing transactional functionality of the accounts, the emphasis will be placed on extending investment and insurance offering. The Bank will expand systematically its investment fund offering (*CitiFundusze*) together with the increasing customers' demand for new ways of depositing their savings. Sales of life insurance in co-operation with CitiInsurance will be actively pursued.

Apart from saving products, the Bank will place special emphasis on the sale of credit cards. The Bank will be seeking to maintain its dominant position in this market. New types of card will be made available and affinity programmes introduced. The target group, to which the Bank will offer its cards, will be expanded.

2002 was characterised by an essential improvement of quality of services offered by the Bank's Retail Section. In the coming years, emphasis will still be placed on ensuring the highest quality of the services rendered to the Bank's clients.

4. Distribution network

The Bank's present distribution network consists of outlets, banking consultants for corporate banking, direct sales agents for retail banking and remotely operated distribution channels, such as Internet banking, direct banking, the call service centre, IVR (interactive automatic telephone service) and multi-functional ATMs.

Evolution of the Bank's distribution network will consider plans of increasing the scope of activities in retail banking and the synergies achieved with the corporate bank. The priority will be to increase functionality and accessibility of remotely-operated distribution channels and further enhance the capabilities of banking consultants, in particular these handling large entities that report their demand for more sophisticated financial products.

In the coming years the Bank will slightly reduce the network of its outlets. The closed ones will include retail banking branches that cannot be efficiently adapted to sales of the increasing range of saving, lending and insurance products. The Citibank clients will have at their disposal around 100 branches in convenient locations, including 11 *CitiGold* branches. Private individuals will be also handled in selected corporate branches, whereas corporate clients will have 60 outlets at their disposal. 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.

Extending functionality and high quality service are essential for call centre operations. 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.

5. 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.

In the current year the Bank will place strong emphasis on providing a package of deposit and loan products to the staff of its 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 is also marketing corporate products to its retail customers. This especially applies to *CitiGold* customers, who are offered specialist Treasury products, brokerage services and asset management facilities. All Citibank customers have access to investment products, in particular including units in *CitiFundusze* investment. The product range of *CitiFundusze* will be systematically expanded, adequately to new demands of the customers.

Synergy will be also enhanced by introduction of the unified logo for the whole institution. Promotional campaigns run for one part of the Bank will automatically have a strengthening effect on the image of the Bank's other parts. The new logo will be coherent, both in terms of its visual effect and sounding, with the names of other companies and business lines belonging to the Citigroup holding operating in Poland, as well as with CitiInsurance and CitiFinancial.

Signatures of all Management Board Members

12.03.2003	Cezary Stypułkowski	President	
....	....	....	....
Date	Name	Position	Signature
12.03.2003	Shirish Apte	Vice President	
....	....	....	....
Date	Name	Position	Signature
12.03.2003	Wiesław Kalinowski	Vice President	
....	....	....	....
Date	Name	Position	Signature
12.03.2003	Philip King	Vice President	
....	....	....	....
Date	Name	Position	Signature
12.03.2003	Witold Walkowiak	Vice President	
....	....	....	....
Date	Name	Position	Signature